Report No. DODIG-2017-050

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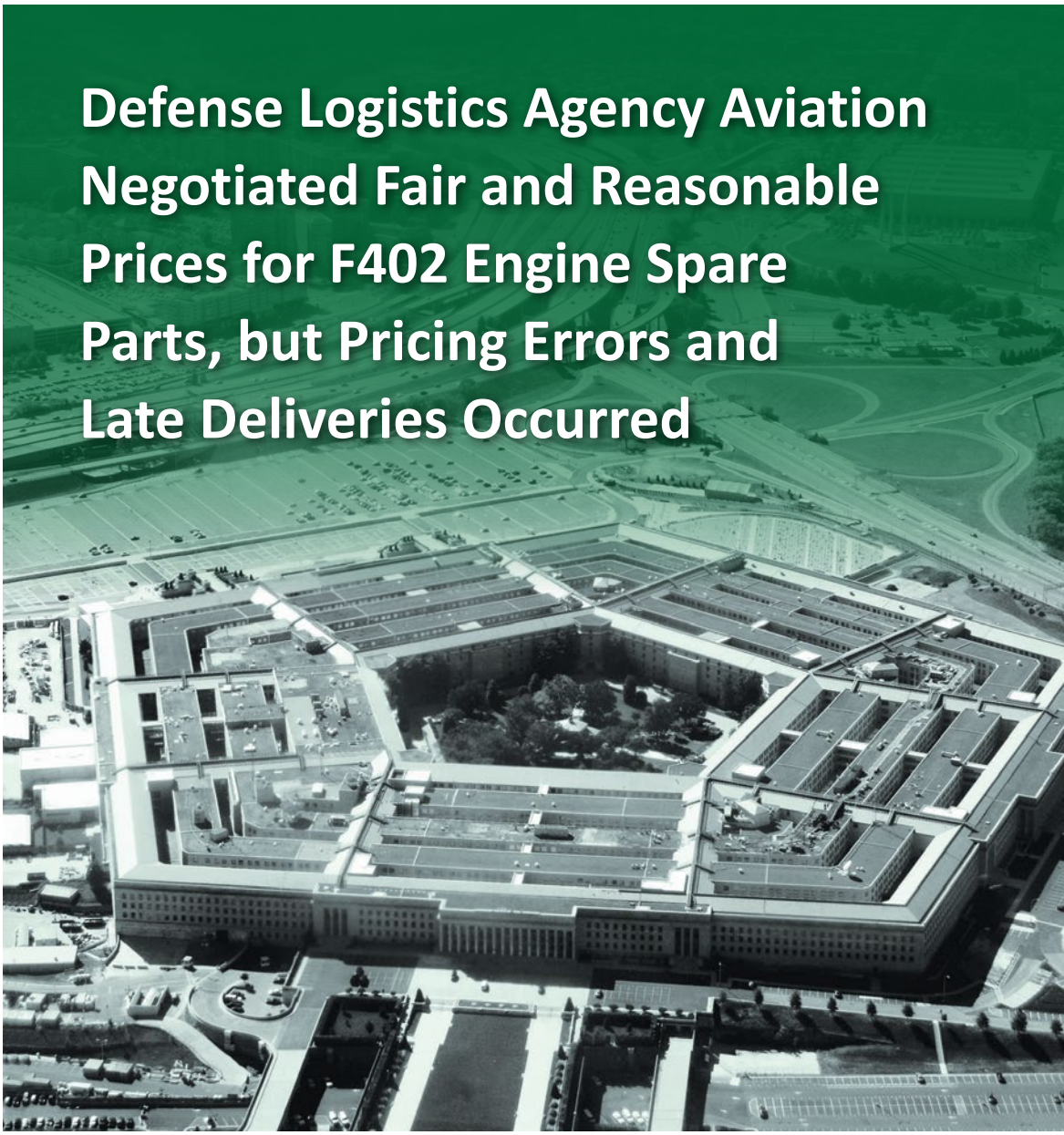
INSPECTOR GENERAL

U.S. Department of Defense

JANUARY 31, 2017

Defense Logistics Agency Aviation Negotiated Fair and Reasonable Prices for F402 Engine Spare Parts, but Pricing Errors and Late Deliveries Occurred



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Results in Brief

Defense Logistics Agency Aviation Negotiated Fair and Reasonable Prices for F402 Engine Spare Parts, but Pricing Errors and Late Deliveries Occurred

January 31, 2017

Objective

We determined whether the Defense Logistics Agency (DLA) was purchasing sole-source spare parts at fair and reasonable prices for F402 engines in support of the AV-8B Harrier II aircraft. The Marine Corps uses the Harrier to perform missions, including close air support of ground troops and armed reconnaissance. We nonstatistically selected 17 of 408 spare parts for review, valued at $55.3 million of $85.1 million, to determine whether F402 engine spare parts prices were fair and reasonable.

Findings

DLA Aviation contracting officials negotiated fair and reasonable prices for 17 noncommercial, sole-source F402 engine spare parts we reviewed, valued at $55.3 million.

However, after DLA Aviation awarded the contract to Rolls-Royce in January 2014, Rolls-Royce identified an error in the contract's unit prices for 49 F402 engine spare parts and notified DLA Aviation contracting officials in March 2014. DLA Aviation contracting officials modified the contract in April 2014 to correct the unit prices for the 49 spare parts; however, contracting officials did not modify 45 of 82 delivery orders that were placed from February 2014 through December 2015 for F402 engine spare parts with incorrect unit prices. This occurred because DLA Aviation contracting officials did not accurately modify unit prices for the 49 F402 engine spare parts

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Findings (cont'd)

in DLA Aviation's new ordering system; therefore, the ordering system did not contain accurate pricing data. In addition, DLA Aviation lacked standard operating procedures and internal controls to ensure that the unit prices were accurately entered into the ordering system. If not corrected, DLA Aviation will pay $407,317 more than necessary for 45 delivery orders with incorrect prices for F402 engine spare parts.

In addition, DLA Aviation contracting officials did not require Rolls-Royce to comply with on-time delivery requirements, as agreed to in the contract, even though DLA Aviation paid Rolls-Royce a service fee for on-time delivery improvements, such as decreasing production lead times, which is the time that occurs between the placement of an order for supplies and receipt of the supplies. This occurred because DLA Aviation contracting officials did not require Rolls-Royce to establish accurate delivery schedules; accepted Rolls-Royce's explanations for delivery delays, although we concluded that the delays do not appear to have been excusable; and established a late-delivery disincentive that did not persuade Rolls-Royce to comply with the contract's delivery schedule. As a result, DLA Aviation paid Rolls-Royce $2.1 million in service fees for on-time delivery improvements for 328 deliveries that were supplied late. Also, according to Navy officials, the Navy had to remove serviceable parts from F402 engines and install them on other F402 engines because there was an inadequate supply of F402 engine spare parts.

Management Actions Taken

On November 3, 2016, in response to the discussion draft of this report, DLA Aviation modified 24 delivery orders to correct the unit prices; the corrections total $362,644. In addition, on July 21, 2016, DLA Aviation modified one delivery order to correct the unit price; the correction totaled $7,350. DLA officials stated that Rolls-Royce would issue refunds for 20 delivery orders with incorrect prices. However, as of January 6, 2017, DLA Aviation has not requested the refund from Rolls-Royce for 20 delivery orders totaling $37,323.

Results in Brief

Defense Logistics Agency Aviation Negotiated Fair and Reasonable Prices for F402 Engine Spare Parts, but Pricing Errors and Late Deliveries Occurred

Recommendations

We recommend that the Director, DLA:

- establish standard operating procedures and internal controls to ensure that contracting officials enter and maintain accurate unit prices in the ordering system, verify that delivery order unit prices are correct, and proactively determine whether additional delivery orders require correction after a pricing error is identified;
- direct the contracting officer to determine whether DLA Aviation is entitled to any credits or refunds for payments already made to Rolls-Royce;
- require Rolls-Royce to establish accurate delivery schedules, and modify the delivery orders, as appropriate, and assess Rolls-Royce's explanations for future late deliveries to determine whether they are excusable delays; and
- re-negotiate the contract's late delivery disincentive to be comparable to the service fees for delivery improvements and revise the process for applying the disincentive to ensure it is not administratively burdensome.

Management Comments and Our Response

Comments from the Director, DLA Acquisition, responding for the Director, DLA, addressed all specifics of the recommendations to establish standard operating procedures and internal controls, determine whether DLA Aviation is entitled to any credits or refunds for payments, and require Rolls-Royce to establish accurate delivery schedules and modify the delivery orders, and no further comments are required. However, the Director did not address all the specifics of the recommendation to re-negotiate the contract's late delivery disincentive; therefore, we request additional comments to the final report by March 2, 2017. Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Defense Logistics Agency	B.1.b	A.1.a, A.1.b, B.1.a

Please provide Management Comments by March 2, 2017.

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

January 31, 2017

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Defense Logistics Agency Aviation Negotiated Fair and Reasonable Prices for F402 Engine Spare Parts, but Pricing Errors and Late Deliveries Occurred (Report No. DODIG-2017-050)

We are providing this report for review and comment. Defense Logistics Agency (DLA) Aviation contracting officials placed 82 delivery orders with incorrect unit prices; as a result, if not corrected, DLA Aviation will pay too much for F402 engine spare parts. In addition, DLA Aviation paid Rolls-Royce $2.1 million in service fees for on-time delivery improvements for 328 deliveries that were supplied late. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. DoD Instruction 7650.03 requires that all recommendations be resolved promptly. Comments from the Director, DLA Acquisition, responding for the Director, DLA, addressed Recommendations A.1.a, A.1.b, and B.1.a. However, we request additional comments from the Director for Recommendation B.1.b by March 2, 2017.

Please send a PDF file containing your comments to audasm@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to Susan Lippolis at (703) 604-9081 (DSN 664-9081).

Troy M. Meyer
Principal Assistant Inspector General
for Audit

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Introduction

Objective

Our objective was to determine whether the Defense Logistics Agency (DLA) was purchasing sole-source spare parts at fair and reasonable prices for F402 engines in support of the AV-8B Harrier II aircraft (Harrier). See Appendix A for a discussion of the scope and methodology and Appendix B for prior audit coverage related to the objective.

Background

AV-8B Harrier and F402 Engine

The Harrier (Figure 1) is a single-engine aircraft powered by a F402 engine (Figure 2). The F402 engine allows the Harrier to take off and land vertically and in short distances, which eliminates the need for conventional runways, enabling the aircraft to deploy and operate from remote locations.

Figure 1. Harrier Taking Off From a Flight Deck.
Source: Naval Air Systems Command.

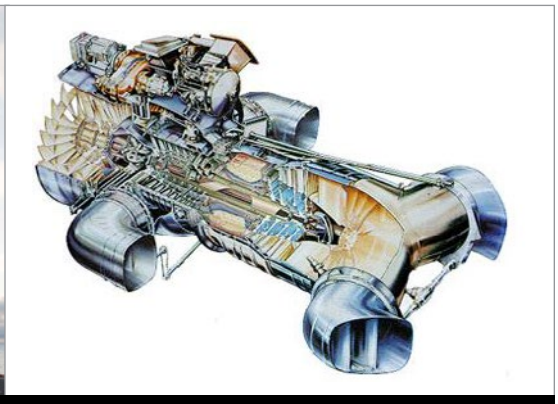


Figure 2. F402 Engine.
Source: Rolls-Royce PLC.

The Marine Corps uses the Harrier to perform missions, including close air support of ground troops and armed reconnaissance. The Marine Corps plans to fully transition from the Harrier to the F-35B Lightning Joint Strike Fighter by 2026.

Defense Logistics Agency

The DLA, headquartered in Fort Belvoir, Virginia, provides the Military Services, Federal agencies, and U.S. allies with logistic, acquisition, and technical services. The DLA is responsible for nearly all consumable items and spare parts required by the Military Services.

DLA Aviation, headquartered in Richmond, Virginia, provides support for engines and airframes; instrumentation, gauges, and electrical hardware; and industrial plant equipment services.

Naval Air Systems Command

The Naval Air Systems Command, headquartered in Patuxent River, Maryland, provides full life-cycle support of naval aviation aircraft, weapons, and systems. Naval Air Systems Command's Program Management Activity (PMA) 257 is responsible for life-cycle sustainment of the Harrier for the U.S. Marine Corps.

Rolls-Royce Military Aero Engines

According to Rolls-Royce PLC, headquartered in London, England, it is the world's second largest provider of defense aircraft engine products and services. It provides integrated power and propulsion solutions used in aerospace, marine, energy and off-road applications. Rolls-Royce Military Aero Engines (Rolls-Royce), located in Bristol, England, focuses on the aircraft industry, including engines. Rolls-Royce manufactures F402 engines.

F402 Engine Spare Parts Contract

On January 1, 2014, DLA Aviation awarded Rolls-Royce a sole-source requirements contract (contract number SPE4A5-14-D-0015) to procure noncommercial spare parts for F402 engines.[1] The contract included a 5-year base period and one 5-year option period. In addition, the contract included the use of fixed-price delivery orders.[2] As of May 5, 2016, DLA Aviation placed 621 delivery orders, valued at $85.1 million, for multiple quantities of 408 spare parts for the F402 engine.[3]

Spare Parts Reviewed

We nonstatistically selected 17 of 408 spare parts for review to determine whether F402 engine spare parts prices were fair and reasonable. We determined that prices for the 17 parts, valued at $55.3 million, were fair and reasonable. Please see Appendix A for more information on the nonstatistical sample. In addition, we reviewed pricing errors affecting 49 spare parts. The pricing errors did not affect price reasonableness (Finding A). Also, we identified late deliveries affecting 230 spare parts. We reviewed all 230 spare parts that had delivery delays (Finding B).

[1] A sole-source acquisition is entered into after soliciting and negotiating with only one source. Noncommercial items are usually not used by the general public or non-governmental entities.

[2] Fixed prices provide for a firm price or, in appropriate cases, an adjustable price. A delivery order is an order for supplies placed against a contract.

[3] We reviewed purchases as of May 5, 2016, the date we began the audit.

Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of internal controls.[4] We identified an internal control weakness associated with DLA's Supplier Relationship Management (SRM) system.[5] Specifically, Rolls-Royce identified an error in the unit prices for 49 F402 engine spare parts and notified DLA Aviation contracting officials. DLA Aviation contracting officials modified the contract to correct unit prices. However, contracting officials did not modify 45 of 82 delivery orders that were placed with incorrect unit prices. We will provide a copy of the report to the senior official responsible for internal controls in the DLA.

[4] DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

[5] The SRM system is a component of DLA's Enterprise Business System.

Finding A

F402 Engine Spare Parts Had Pricing Errors

DLA Aviation contracting officials negotiated fair and reasonable prices for the 17 noncommercial, sole-source F402 engine spare parts we reviewed, valued at $55.3 million. However, after DLA Aviation awarded the contract to Rolls-Royce in January 2014, Rolls-Royce identified an error in the contract's unit prices for 49 F402 engine spare parts and notified DLA Aviation contracting officials in March 2014. DLA Aviation contracting officials modified the contract in April 2014 to correct unit prices for 49 spare parts; however, contracting officials did not modify 45 of 82 delivery orders that were placed from February 2014 through December 2015 with the incorrect unit prices. This occurred because DLA Aviation contracting officials did not accurately modify unit prices for the 49 F402 engine spare parts in its new ordering system, known as the Supplier Relationship Management (SRM); therefore, the system did not contain accurate pricing data. In addition, DLA Aviation lacked standard operating procedures and internal controls to ensure that the unit prices were accurately entered into the ordering system. Furthermore, DLA Aviation relied on the contractor to identify the pricing errors. As a result, if not corrected, DLA Aviation will pay $407,317 more than necessary for 45 delivery orders with incorrect prices for F402 engine spare parts.

Contracting Officials Negotiated Fair and Reasonable Prices

DLA Aviation contracting officials negotiated fair and reasonable prices for the 17 noncommercial, sole-source F402 engine spare parts we reviewed, valued at $55.3 million. The Federal Acquisition Regulation (FAR) states that contracting officers must purchase supplies and services from responsible sources at fair and reasonable prices.[6] It also states that when establishing the reasonableness of proposed prices, the contracting officer must obtain certified cost or pricing data, when required, as well as other necessary data to establish a fair and reasonable price.[7] DLA Aviation contracting officials relied on Rolls-Royce's certified cost or pricing data and performed price and cost analyses to determine whether the prices were fair and reasonable.

[6] FAR 15.402, "Pricing Policy."

[7] Certified cost or pricing data are required for contract actions greater than $700,000, unless an exception applies.

The FAR states that contracting officers should use price analysis to verify that the overall price is fair and reasonable.[8] Price analysis is the process of examining and evaluating a proposed price without evaluating the separate cost elements and proposed profit. The FAR states that the Government may use various price analysis techniques, such as comparing proposed prices to historical prices paid. In addition, the FAR requires contracting officers to use cost analysis to evaluate the reasonableness of individual cost elements of a contractor's proposal when certified cost or pricing data are required. Cost analysis is the review and evaluation of any of the separate cost elements and profit or fee in the contractor's proposal as needed to determine a fair and reasonable price. DLA Aviation contracting officials performed price and cost analyses and concluded that the spare-parts prices for F402 engines were fair and reasonable.

(~~FOUO~~) Based on our review and analysis of 17 F402 engine spare parts, we agreed that the prices for F402 engine spare parts were fair and reasonable. For example, in July 2014, DLA Aviation added base plate rings to the contract at a unit price of $[redacted]. We conducted historical price analysis and reviewed a May 2008 contract that the Navy used to purchase base plate rings at a unit price of $[redacted]. We escalated the historical price to July 2014 and compared the escalated price to DLA Aviation's unit price. We concluded that DLA Aviation's price was less than the historical price. In addition, we conducted cost analysis of base plate rings. For example, we compared the contractor's proposed material costs and indirect costs to supporting cost data and verified that these costs were accurate. As a result of price and cost analysis, we concluded that the price for base plate rings was fair and reasonable. See Appendix A for a discussion of our price and cost analyses.

Delivery Orders Had Incorrect Unit Prices

Rolls-Royce identified an error in the unit prices for 49 spare parts and notified DLA Aviation contracting officials of the error on March 6, 2014. The error incorrectly increased the unit prices for 49 spare parts by 2 percent. The FAR states that when a mistake in a contractor's bid is not discovered until after the contract is awarded, the mistake may be corrected by contract modification.[9] On April 28, 2014, DLA Aviation contracting officials modified the contract to correct the unit prices for 49 spare parts. However, contracting officials placed 82 delivery orders with incorrect unit prices. Specifically:

- DLA Aviation contracting officials placed 25 delivery orders before DLA Aviation contracting officials modified the contract to correct the unit prices. DLA Aviation contracting officials did not correct the unit prices on these 25 delivery orders.

[8] FAR 15.404-1, "Proposal Analysis Techniques."
[9] FAR 14.407-4, "Mistakes After Award."

- After Rolls-Royce identified the error and DLA Aviation contracting officials modified the contract to correct the unit prices, contracting officials placed an additional 57 delivery orders with incorrect unit prices. DLA Aviation contracting officials subsequently corrected unit prices on 37 of 57 delivery orders.

Table 1 provides an overview of the number of delivery orders placed each month with incorrect unit prices. The table identifies the number of delivery orders that were placed before and after the contract was modified, those that have been corrected, and ones still needing correction.

Table 1. Delivery Orders with Incorrect Prices

Month and Year Of Delivery Order	Delivery Orders With Incorrect Prices (Before Contract Was Modified)	Delivery Orders With Incorrect Prices (After Contract Was Modified)	Delivery Orders With Incorrect Prices that Have Been Corrected	Delivery Orders With Incorrect Prices that Need to be Corrected
February 2014	10			10
March 2014	11			11
April 2014	4			4
May 2014		3		3
September 2014		1		1
October 2014		1		1
December 2014		2	1	1
January 2015		2	2	
April 2015		3		3
May 2015		3		3
June 2015		2		2
July 2015		1	1	
August 2015		3	2	1
September 2015		33	29	4
October 2015		1	1	
December 2015		2	1	1
Total	**25**	**57**	**37**	**45**

Note: As of May 5, 2016, the last delivery order with incorrect prices was placed in December 2015.

(~~FOUO~~) DLA Aviation contracting officials did not correct errors on 45 of 82 delivery orders that had incorrect unit prices. The value of the 45 delivery orders was $17.7 million, and the errors on the delivery orders totaled $407,317. For example, DLA Aviation purchased 44 inner sub-assemblies (Figure 3) for $[redacted] each; however, that price was incorrect. The correct unit price was $[redacted], which when multiplied by 44 units, resulted in DLA Aviation paying $51,973.68 too much for these parts.[10]

DLA Aviation contracting officials did not correct errors on 45 of 82 delivery orders that had incorrect unit prices.

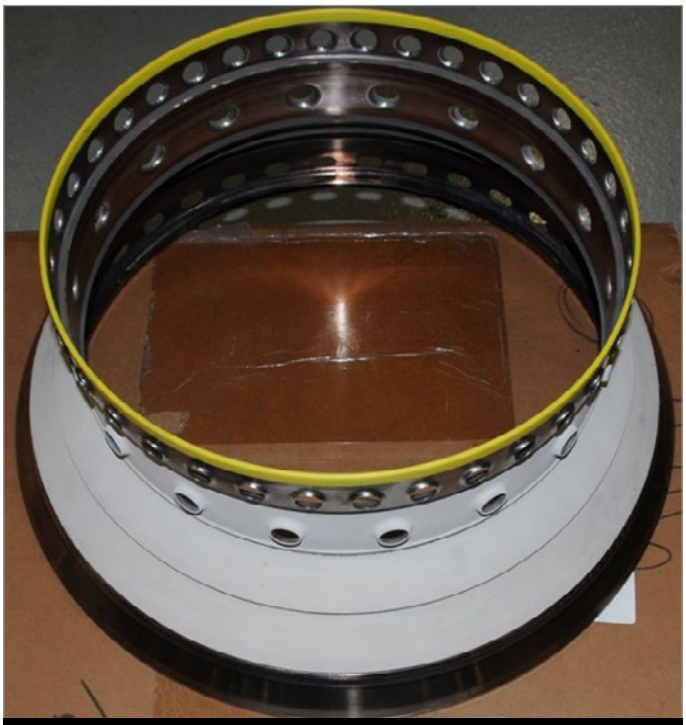


Figure 3. Inner Sub-Assembly.
Source: Defense Logistics Agency.

(~~FOUO~~) In another example, DLA Aviation purchased 10 engine intake air diffusers for $[redacted] per unit; however, the correct unit price was $[redacted], which when multiplied by 10 units, resulted in DLA Aviation paying $59,215.20 too much for engine intake air diffusers. See Appendix C for a complete list of delivery orders with incorrect prices.

[10] Minor inconsistencies may occur due to rounding.

Internal Controls for the New Ordering System Need Improvement

Incorrect unit prices on delivery orders occurred because DLA Aviation's new ordering system, the SRM, did not contain accurate pricing data for 49 F402 engine spare parts. Specifically, DLA Aviation contracting officials attributed the incorrect unit prices to inexperience using the new SRM system. In addition, DLA Aviation did not have written standard operating procedures or internal controls to ensure that the unit prices were accurately entered in the SRM system. Furthermore, DLA Aviation contracting officials used a manual process to review and place delivery orders for F402 engine spare parts. Also, DLA Aviation relied on Rolls-Royce to identify the pricing errors.

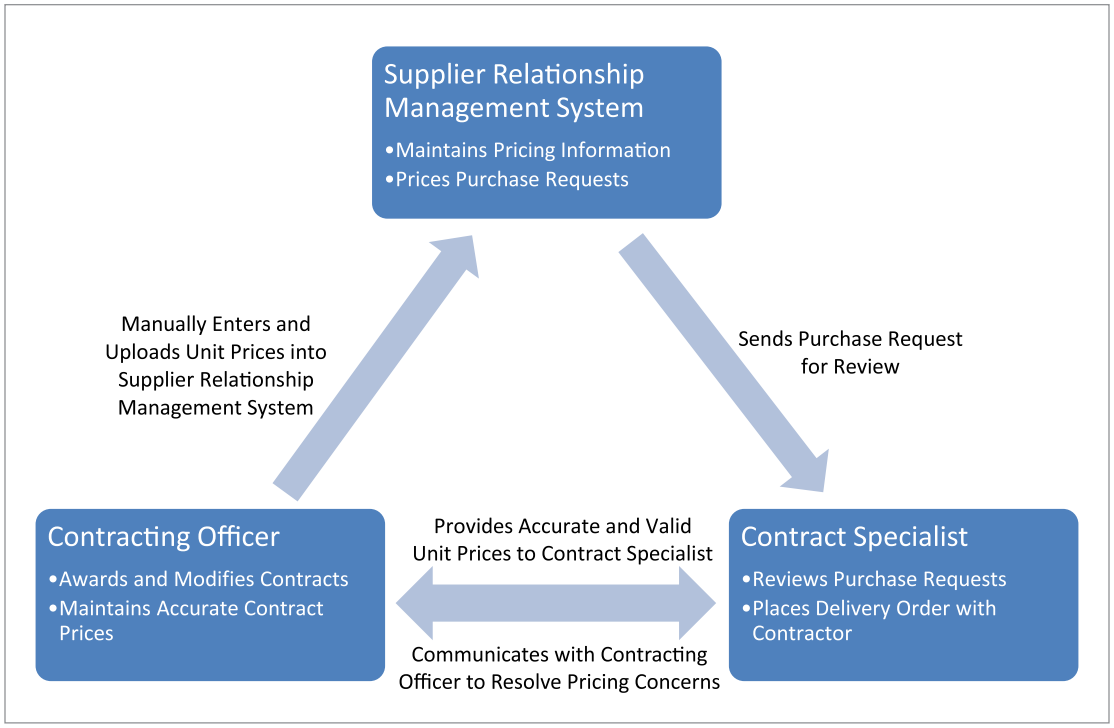
Contracting Officials Attributed Incorrect Pricing to Inexperience With the New Ordering System

DLA Aviation contracting officials attributed the incorrect unit prices on delivery orders to inexperience using the new SRM system. According to DLA Aviation contracting officials, in March 2014 when Rolls-Royce notified DLA Aviation of the error in the unit prices, DLA Aviation had transitioned to the SRM system. Contracting officials received training on the SRM system, but had limited experience using the system before inputting data for the F402 engine spare parts. In April 2014, DLA Aviation contracting officials modified the contract to correct the unit prices for F402 engine spare parts. However, contracting officials did not accurately modify the unit prices in the SRM system, and, as a result, the delivery orders had incorrect unit prices. DLA Aviation did not have internal controls to verify that modified unit prices for F402 engine spare parts were accurately entered in the SRM system.

Manual Process Did Not Identify Errors

In addition to inexperience using the SRM system, DLA Aviation contracting officials used a manual process to review and place delivery orders for F402 engine spare parts because Rolls-Royce was unable to receive electronic delivery orders. See Figure 4 for a diagram of the manual process.

Figure 4. F402 Engine Manual Process Diagram



Source: DoD OIG.

We found that the manual process was ineffective because it did not ensure prices were accurately applied to delivery orders. Rolls-Royce previously notified DLA Aviation contracting officials of incorrect pricing, but contracting officials continued placing incorrectly priced delivery orders. From May 2014 through December 2015, DLA Aviation placed 57 delivery orders with incorrect prices. Without written standard operating procedures or internal controls to verify the unit prices are accurately entered into the SRM system, more delivery orders could be placed with incorrect prices and the manual process may continue to be ineffective.

Contracting Officials Relied on Contractor to Identify Errors

DLA Aviation contracting officials relied on Rolls-Royce to identify pricing errors and notify DLA Aviation of incorrect unit prices on delivery orders. Rolls-Royce identified incorrect unit prices on 37 delivery orders and notified DLA Aviation. As a result, DLA Aviation contracting officials modified 37 delivery orders to correct the unit prices. However, DLA Aviation contracting officials only corrected delivery order prices if Rolls-Royce identified an error. For example, DLA Aviation contracting officials placed five delivery orders for chain units,

DLA Aviation contracting officials relied on Rolls-Royce to identify pricing errors.

and all five orders had the incorrect price. However, Rolls-Royce only notified DLA Aviation of an error on two of the five delivery orders. Therefore, DLA Aviation contracting officials only corrected the error on the two delivery orders identified by Rolls-Royce. DLA Aviation contracting officials stated that after a contractor notifies them of an error on a delivery order, there is no policy requiring the contracting official to determine whether there are other delivery orders with the same error.

DLA should establish standard operating procedures and internal controls to ensure that unit prices are accurately entered in the SRM system, to verify delivery order unit prices are correct, and to proactively determine whether additional delivery orders require correction after a pricing error is identified.

DLA Aviation Will Pay Too Much for Spare Parts

DLA Aviation will pay $407,317 more than necessary for F402 engine spare parts if it does not correct the pricing errors. In addition, the contract terms allow Rolls-Royce and DLA Aviation to renegotiate the prices for F402 engine spare parts every year. Therefore, without adequate controls, contracting officials may not accurately apply the renegotiated prices in the SRM system and more delivery orders could be placed with incorrect prices.

The contracting officer should determine whether the DLA Aviation is entitled to any credits or refunds for payments already made to Rolls-Royce.

Management Actions Taken

On November 3, 2016, in response to the discussion draft of this report, DLA Aviation modified 24 delivery orders to correct the unit prices; the corrections total $362,644. In addition, on July 21, 2016, DLA Aviation modified one delivery order to correct the unit price; the correction totaled $7,350. DLA officials stated that Rolls-Royce would issue refunds for 20 delivery orders with incorrect prices. However, as of January 6, 2017, DLA Aviation has not requested the refund from Rolls-Royce for 20 delivery orders totaling $37,323.

Recommendations, Management Comments, and Our Response

Recommendation A.1

We recommend the Director, Defense Logistics Agency:

a. **Establish standard operating procedures and internal controls to ensure that contracting officials enter and maintain accurate unit prices in the Supplier Relationship Management System, verify that delivery order unit prices are correct, and proactively determine whether additional delivery orders require correction after a pricing error is identified.**

Defense Logistics Agency Comments

The Director, DLA Acquisition, responding for the Director, DLA, agreed with the recommendation. The Director stated that contracting officers now verify and validate that unit prices are accurately entered into the SRM system and use SRM instructions to verify delivery order unit prices are accurate. In addition, the Director stated that standard practices have been established to determine whether additional delivery orders require correction after a pricing error has been identified.

Our Response

Comments from the Director addressed all specifics of the recommendation, and no further comments are required.

b. **Direct the contracting officer for contract SPE4A5-14-D-0015 to determine whether the Defense Logistics Agency Aviation is entitled to any credits or refunds for payments already made to Rolls-Royce.**

Defense Logistics Agency Comments

The Director, DLA Acquisition, responding for the Director, DLA, agreed with the recommendation. The Director stated that DLA Aviation reviewed all the contract's delivery orders and issued modifications to correct the delivery orders with pricing errors. In addition, the Director stated that DLA Aviation would withhold funds from a future contract modification to obtain a refund for the pricing errors.

Our Response

Comments from the Director addressed all specifics of the recommendation, and no further comments are required.

Finding B

Contracting Officials Did Not Enforce Contract Delivery Requirements

(~~FOUO~~) DLA Aviation contracting officials did not require Rolls-Royce to comply with on-time delivery requirements, as agreed to in the contract, even though DLA Aviation contracting officials paid Rolls-Royce a service fee of [redacted] or [redacted] percent for on-time delivery improvements.[11] This occurred because DLA Aviation contracting officials:

- did not require Rolls-Royce to establish accurate delivery schedules in the contract;
- accepted Rolls-Royce's explanations for delivery delays, although we concluded that the delays do not appear to have been excusable in accordance with FAR Clause 52.249-14;[12] and
- established a late-delivery disincentive that did not persuade Rolls-Royce to comply with the contract's delivery schedule.[13]

As a result, DLA Aviation paid Rolls-Royce $2.1 million in service fees for on-time delivery improvements for 328 deliveries that were supplied late. Also, according to Navy officials, the Navy had to remove serviceable parts from F402 engines and install them on other F402 engines to maintain mission-ready engines because there was an inadequate supply of F402 engine spare parts.

Parts Were Not Delivered On Time

(~~FOUO~~) DLA Aviation contracting officials did not require Rolls-Royce to comply with on-time contract delivery requirements despite paying Rolls-Royce a service fee of [redacted] or [redacted] percent for on-time delivery improvements. Specifically, Rolls-Royce PLC entered into an agreement with Aviall Services, Inc. to decrease production lead times for F402 engines. To support Rolls-Royce PLC, Aviall forecasts demand, activates dormant supply chains, manages inventory, and distributes parts.[14] As part of the agreement, Aviall charged Rolls-Royce a service fee of [redacted] or [redacted] percent, for each spare part on the contract. Rolls-Royce included this service fee in its unit prices to DLA Aviation.

[11] (~~FOUO~~) DLA Aviation paid Rolls-Royce a service fee of [redacted] percent for spare parts scheduled for delivery in more than 120 days and [redacted] percent for spare parts scheduled for delivery in 120 days or less. On-time delivery improvements refer to decreasing production lead times, forecasting, activating supply chains, warehousing safety stock, and distributing parts.

[12] FAR Clause 52.249-14, "Excusable Delays."

[13] Disincentives are applied when the contractor fails to meet agreed-upon delivery schedules. Specifically, the late-delivery disincentive allows for a minor reduction in unit prices for items that are delivered late.

[14] Dormant supply chains occur when parts have not been ordered in at least 2 years.

Rolls-Royce proposed and DLA Aviation accepted an 80-percent, on-time delivery rate in the first year of the contract, 85 percent in the second year, and 90 percent in the third year. Table 2 shows the contract's on-time delivery requirements compared to Rolls-Royce's actual on-time delivery rates.

Table 2. On-Time Delivery Requirements Compared to Actual Deliveries

Year of Delivery	Contract Requirement for On-Time Deliveries (percent)	Rolls-Royce Actual On-Time Deliveries (percent)
Year 1 (2014)	80	0
Year 2 (2015)	85	7
Year 3 (2016)	90	44
Years 4 and 5 (2017 and 2018)	95	N/A*

* Year 4 and 5 deliveries are scheduled to begin in January 2017.

As of September 2016, Rolls-Royce supplied 328 of 451 deliveries late to DLA Aviation. For example, Rolls-Royce was required to deliver three mounting plates (Figure 5) by August 31, 2014. However, Rolls-Royce did not complete the delivery until June 30, 2016, which was 669 days late.

Rolls-Royce supplied 328 of 451 deliveries late to DLA Aviation.

Figure 5. Mounting Plate. Source: Defense Logistics Agency.

In another example, Rolls-Royce was required to deliver 53 air compressor vanes to DLA Aviation by May 31, 2015. However, Rolls-Royce did not deliver the parts until June 30, 2016, which was 396 days late.

Delivery Challenges Affected Timeliness

Production of the Harrier was discontinued in 2003 and, according to PMA 257 officials, the Marine Corps planned to operate the Harrier through 2014. According to DLA Aviation contracting officials, they purchased F402 engine spare parts to support the Harrier through 2014. However, the Marine Corps now plans to operate the Harrier through 2026. Therefore, DLA Aviation contracting officials had to purchase additional F402 engine spare parts to support the Harrier, which required contracting officials to reactivate dormant supply chains.

DLA Aviation Did Not Require Accurate Delivery Schedules

DLA Aviation contracting officials did not require Rolls-Royce to establish accurate delivery schedules in the contract. According to the contracting officials, Rolls-Royce obtained proposals from its suppliers that identified the supplier's production lead times.[15] Rolls-Royce used the production lead times to develop the contract's delivery schedule. According to Rolls-Royce officials, after DLA Aviation placed delivery orders to order spare parts from Rolls-Royce, Rolls-Royce contacted its suppliers to procure the parts and reactivate the supply chains, as needed. DLA Aviation contracting officials stated that because supply chains were dormant, the suppliers did not always have current and accurate estimates for how long it would take to manufacture the parts. Therefore, the supplier's production lead times and Rolls-Royce's delivery schedules, which were based on those estimates and included in the contract, were overly optimistic.

Rolls-Royce's delivery schedules ... were overly optimistic.

The contract allowed Rolls-Royce 30-days after delivery orders were placed to review and accept the delivery schedules. Therefore, Rolls-Royce could have notified DLA Aviation and requested modifications to accurately reflect changes to the delivery schedules. However, Rolls-Royce did not modify the delivery schedules for 287 of 328 late deliveries of 230 F402 engine spare parts. Although Rolls-Royce modified the delivery schedules for 41 of 328 late deliveries, Rolls-Royce still delivered the parts late. For example, Rolls-Royce was required to deliver 17 roller bearing units to DLA Aviation in January 2015. Rolls-Royce requested an extension to the delivery date and reduction of the order quantity. Both parties agreed and modified the delivery date to May 2015 and reduced the order quantity to 12 units. However, Rolls-Royce delivered the parts in December 2015, 214 days beyond the modified delivery date. Although Rolls-Royce established the delivery schedule and was allowed 30 days to notify DLA Aviation that it could not meet the delivery schedule, Rolls-Royce supplied 328 late deliveries. Since the beginning of the contract, 328 late deliveries occurred that ranged from 30 days late to 669 days late. See Table 3 for a summary of late deliveries as of September 2016.

[15] A production lead time is the time that occurs between the placement of an order for supplies and receipt of the supplies.

Table 3. Summary of 328 Late Deliveries

Number of Days Late	Number of Deliveries	Percentage of Late Deliveries
1-100	94	29
101-200	88	27
201-300	60	18
301-400	53	16
401-500	15	5
501+	18	5
Total	**328**	**100**

The contracting officer should require Rolls-Royce to establish accurate delivery schedules and modify the delivery orders, as appropriate.

Contracting Officials Accepted Explanations From Rolls-Royce for Delivery Delays

DLA Aviation contracting officials accepted Rolls-Royce's explanations for delivery delays, even though the delays do not appear to have been excusable in accordance with FAR Clause 52.249-14. According to PMA 257 officials, Rolls-Royce provided various explanations for delivery delays, including lengthy processes to reactivate dormant supply chains and manufacturing problems. FAR Clause 52.249-14 states that the contractor is not in default if the failure to perform is:

- beyond the control and without the fault of the contractor for reasons such as acts of God, fires, floods, strikes, freight embargoes, or unusually severe weather; or
- caused by the subcontractor and it was beyond the control of the subcontractor and contractor.

Rolls-Royce did not attribute delivery delays to fires, floods, strikes, freight embargoes, or unusually severe weather. Dormant supply chains or manufacturing problems may have been excusable delays for initial orders in the first year of the contract. However, Rolls-Royce could have used the 30-day period to notify DLA Aviation that deliveries would be delayed and modified the delivery schedules. In addition, after 3 years and 328 late deliveries, the delays were not excusable because Rolls-Royce had adequate time to improve its planning and adjust the delivery schedules, as needed.

The contracting officer should assess Rolls-Royce's explanations for future late deliveries to determine whether they are excusable delays, in accordance with FAR Clause 52.249-14.

Late-Delivery Disincentive Did Not Improve Delivery Timeliness

DLA Aviation contracting officials established a late-delivery disincentive that did not persuade Rolls-Royce to meet the contract's delivery schedule. The contract's pricing memorandum of agreement states that DLA Aviation contracting officials shall apply late-delivery disincentives when the contractor fails to meet agreed-upon delivery schedules, if the cause of the delay is not excusable in accordance with FAR 52.249-14.[16]

(~~FOUO~~) DLA Aviation proposed a [redacted]-percent, late-delivery disincentive to be commensurate with the [redacted] to [redacted] percent service fee that DLA Aviation paid Rolls-Royce for on-time delivery improvements. However, Rolls-Royce would not accept the [redacted]-percent, late-delivery disincentive. Therefore, DLA Aviation and Rolls-Royce negotiated and agreed to a maximum 2-percent, late-delivery disincentive. As a result, the late-delivery disincentive was not comparable to the [redacted] to [redacted] percent service fee. For example, DLA Aviation purchased 307 air compressor vanes. The service fee that DLA Aviation paid Rolls-Royce for improved delivery of air compressor vanes was $106,685.39. Rolls-Royce delivered the air compressor vanes 122 days late. Although eligible, DLA Aviation did not apply the late-delivery disincentive to the order. If DLA Aviation applied the late-delivery disincentive, DLA Aviation would have recovered $13,444.66. DLA Aviation paid $106,685.39 for delivery improvements for air compressor vanes, but it could only recover $13,444.66 for late deliveries. Because DLA Aviation did not apply the late-delivery disincentive, it recovered $0. Figure 6 shows a picture of an air compressor vane.

Figure 6. Air Compressor Vane.
Source: Defense Logistics Agency.

[16] DLA Aviation contracting officials and Rolls-Royce officials included a pricing memorandum of agreement in the contract that established Rolls-Royce's methodology for calculating unit prices for F402 engine spare parts.

Contracting officials ... could have recovered $283,662 from Rolls-Royce.

DLA Aviation contracting officials stated they did not apply late-delivery disincentives to any late deliveries. If contracting officials applied the late delivery disincentive to 328 late deliveries, they could have recovered $283,662 from Rolls-Royce. DLA Aviation contracting officials will not retroactively apply the late-delivery disincentive. Contracting officials stated that the late-delivery disincentive was not intended to be punitive. The disincentive was intended to persuade Rolls-Royce to deliver parts in a timely manner. However, DLA Aviation contracting officials should have applied the late-delivery disincentive, as intended, to persuade Rolls-Royce to comply with the delivery schedule and achieve more on-time deliveries.

DLA Aviation contracting officials stated that the late-delivery disincentive was administratively burdensome to apply. According to the pricing memorandum of agreement, to apply the late-delivery disincentive for parts scheduled for delivery within 120 days of order, the Government must modify the delivery order every day the delivery is late. For parts scheduled for delivery in more than 120 days, the Government must modify the delivery order every 120 calendar days that the item is late. DLA Aviation contracting officials stated that they did not have the resources to modify the contract as frequently as needed to apply the late-delivery disincentive.

(~~FOUO~~) The contracting officer should re-negotiate the contract's late-delivery disincentive to be comparable to the [redacted] or [redacted] percent service fee for delivery improvement and revise the process for applying the disincentive to ensure it is not administratively burdensome.

Service Fees Paid for Late Deliveries, and F402 Engines Were Used for Spare Parts

DLA Aviation paid Rolls-Royce $2.1 million in service fees for on-time delivery improvements for 328 late deliveries or 73 percent of all deliveries. Table 4 shows the amounts that DLA Aviation paid Rolls-Royce for delivery improvements for each year of the contract. See Appendix D for a complete list of late deliveries and the associated services fees that were paid.

DLA Aviation paid Rolls-Royce $2.1 million ... for on-time delivery improvements for 328 late deliveries.

Table 4. Service Fees Paid for Late Deliveries

Year of Contract	Amounts that DLA Aviation Paid for Delivery Improvements
Year 1 (2014)	$6,804
Year 2 (2015)	$941,041
Year 3 (2016)	$1,134,740
Years 4 and 5 (2017 and 2018)	N/A
Total	**$2,082,585**

Additionally, according to PMA 257 officials, the Navy has had to routinely take F402 engine parts from one engine to use on another engine to maintain mission-ready engines because they did not have an adequate supply of F402 engine spare parts. PMA 257's goal was to have 149 F402 engines installed on Harriers or in inventory ready to be used, when needed. In July 2015, PMA 257 only had 131 engines available. In December 2015, PMA 257 achieved its readiness level because demand decreased and forecasting improved. However, PMA 257 officials stated that if demand increases, the Navy will not have enough engines again.

Recommendations, Management Comments, and Our Response

Recommendation B.1

We recommend that the Director, Defense Logistics Agency, direct the contracting officer for contract SPE4A5-14-D-0015 to:

a. Require Rolls-Royce to establish accurate delivery schedules and modify the delivery orders, as appropriate, and assess Rolls-Royce's explanations for future late deliveries to determine whether they are excusable delays, in accordance with Federal Acquisition Regulation clause 52.249-14.

Defense Logistics Agency Comments

The Director, DLA Acquisition, responding for the Director, DLA, agreed with the recommendation. The Director stated that delivery dates are negotiated and established at the time spare parts are added to the contract and that DLA Aviation considered the delivery dates accurate unless Rolls-Royce notified DLA Aviation otherwise. The Director further stated that the contracting officers evaluate each delinquent contract to determine whether an excusable delay occurred. The Director stated that contracting officers pursue remedies, when appropriate, in accordance with FAR Clause 52.249-8, "Default (Fixed Price Supply and Service)," or modify the delivery date if the delay was excusable.

Our Response

Comments from the Director addressed all specifics of the recommendation, and no further comments are required.

b. (~~FOUO~~) Re-negotiate the contract's late delivery disincentive so that it is comparable to the [redacted] or [redacted] percent service fee for delivery improvements and revise the process for applying the disincentive to ensure it is not administratively burdensome.

Defense Logistics Agency Comments

(~~FOUO~~) The Director, DLA Acquisition, responding for the Director, Defense Logistics Agency, partially agreed with the recommendation. The Director stated that DLA agreed with the concept and negotiated the disincentive at contract award; however, a 2-percent disincentive was the [redacted] that the Government could obtain. In addition, the Director stated that Rolls-Royce expedited delivery of urgent spare parts; therefore, in exchange, DLA Aviation waived the disincentive for many delivery orders and relieved Rolls-Royce of delinquency.

Our Response

Comments from the Director, partially addressed the recommendation. The disincentive was negotiated at contract award; however, DLA Aviation contracting officials stated that they planned to try to renegotiate the delivery disincentive, but that it could take up to 6 months. In addition, the Director's comments did not address revising the process for applying the disincentive to ensure it is not administratively burdensome. DLA contracting officials previously stated that they did not apply the disincentive because its application was administratively burdensome. According to the contract's pricing memorandum of agreement, to apply the late-delivery disincentive, the Government must modify the delivery order every day a delivery is late for parts scheduled for delivery within 120 days of order, and the Government must modify the delivery order every 120 calendar days for parts scheduled for delivery in more than 120 days. However, DLA Aviation contracting officials stated that they did not have the resources necessary to modify the contract as frequently as needed to apply the disincentive. If the Director determined that revising the process for applying the delivery disincentive was not feasible, the Director should provide an explanation for his determination. We request that the Director provide additional comments to the final report.

Appendix A

Scope and Methodology

We conducted this performance audit from May 2016 through December 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Nonstatistical Audit Sample of F402 Engine Spare Parts

We reviewed DLA Aviation contract SPE4A5-14-D-0015 to identify F402 engine spare parts. As of May 5, 2016, DLA Aviation purchased 408 parts, valued at $85.1 million. To answer the audit objective, we nonstatistically selected for review 17 F402 engine spare parts, which accounted for $55.3 million of $85.1 million obligated for spare parts on the contract. Specifically, we selected 17 spare parts with the most dollars obligated, which accounted for 65 percent of the total contract value. To calculate the effect of the pricing error, we reviewed all 49 spare parts with incorrect prices, which included 5 of 17 parts from the nonstatistical sample. To determine the impact of late deliveries, we reviewed all 230 spare parts that had delivery delays, which included 8 of 17 parts from the nonstatistical sample.

Foreign Currency Conversions

The contract was awarded in British Pounds, which we converted to U.S. Dollars for reporting purposes. Specifically, we converted British Pounds to U.S. Dollars based on the foreign currency exchange rates in effect at the time DLA Aviation recorded the obligation of funds. According to DLA Aviation financial analysts, DLA Aviation obtains its foreign currency exchange rates from the International Treasury Service.[17]

Interviews and Documentation

To determine whether DLA Aviation was purchasing sole-source F402 engine spare parts at fair and reasonable prices, we reviewed Federal and Defense regulations pertaining to contract pricing and price reasonableness. Specifically, we reviewed:

- FAR 14.407-4, “Mistakes After Award;”
- FAR 15.402, “Pricing Policy;”
- FAR 15.404-1, “Proposal Analysis Techniques;”

[17] The International Treasury Service is a part of the U.S. Department of the Treasury, which provides international payment services to Federal agencies in nearly 200 countries.

- Defense Federal Acquisition Regulation Supplement 217.7505, "Limitations on Price Increases;" and
- FAR Clause 52.249-14, "Excusable Delays."

We also reviewed DLA Aviation and Rolls-Royce contract files. For example, we reviewed contract SPE4A5-14-D-0015 and modifications, delivery orders and modifications, the pricing memorandums of agreement, and price negotiation memorandums. In addition, we reviewed Rolls-Royce's pricing proposals, supplier proposals, and agreement with Aviall.

We met with DLA Aviation officials at Richmond, Virginia, to discuss contract SPE4A5-14-D-0015, negotiations, price reasonableness, and DLA Aviation's analysis of Rolls-Royce's pricing for 17 F402 engine spare parts. We also discussed the delivery schedule, late delivery disincentive, and production lead times. We interviewed Rolls-Royce officials in Bristol, United Kingdom, to discuss Rolls-Royce's price reasonableness determinations, logistics distribution partnership agreement with Aviall, delivery delays, and production lead times. We provided Rolls-Royce the opportunity to review and comment on relevant portions of the draft report; however, Rolls-Royce did not provide comments on the draft report. In addition, we met with Aviall officials in Dallas, Texas, to discuss the logistics distribution partnership and demand forecasting. We also met with PMA 257 officials to discuss F402 engine spare parts forecasting and F402 engine readiness levels.

Price Analysis

For 17 F402 engine spare parts, we used the IHS Haystack Gold database to identify prior contracts for price analysis; we selected prior contracts awarded between 2006 and 2016. We used the Electronic Document Access (EDA) database to obtain copies of the prior contracts. We escalated the prior contract prices to the same month and year of the parts selected for review based on escalation factors from the Bureau of Labor Statistics Producer Price Index for "aircraft engine and engine parts." We compared the escalated prior purchase prices to contract unit prices to determine whether there were substantial price increases.

Cost Analysis

For 17 F402 engine spare parts, we requested that Rolls-Royce provide supporting documentation for contract prices. We obtained and reviewed Rolls-Royce's proposals, supplier quotes, and invoices. We compared Rolls-Royce's pricing agreements to the Forward Pricing Rate Recommendation from the Defense Contract Management Agency and the U.S. DoD Forward Pricing Rates from the United Kingdom Ministry of Defense. We analyzed Rolls-Royce's material costs and verified that Rolls-Royce's indirect rates were applied correctly.

Pricing Error Analysis

For the 49 F402 engine spare parts that Rolls-Royce identified as having errors, we obtained and reviewed all delivery orders that were issued, as of May 5, 2016. We compared the delivery order unit prices to the contract unit prices to determine whether the delivery order unit prices were correct. In addition, we compared the date that DLA Aviation corrected the error to the dates of the delivery orders to determine whether the delivery orders were issued before or after the error was corrected on the contract.

Late-Delivery Analysis

DLA Aviation contracting officials provided a report with delivery information, as of October 13, 2016, for contract SPE4A5-14-D-0015. From DLA Aviation's report, we identified 451 deliveries for the spare parts that we reviewed that were scheduled for delivery. For each of the 451 deliveries, we compared the scheduled delivery date to the actual delivery date to determine whether the deliveries were on time. We determined that 328 of 451 deliveries were late. For each of the 328 late deliveries, we calculated the late-delivery disincentive in accordance with the contract's pricing memorandum of agreement. Specifically, according to the contract's pricing memorandum of agreement, for each 120 days that a delivery was late, the unit price was reduced by the lessor of 0.5 percent or £150, which is $240. The contract's pricing memorandum of agreement allowed the unit price to be reduced up to three times, with a maximum unit price reduction the lessor of 2.0 percent or £500, which is $800.

Use of Computer-Processed Data

We used computer-processed data from the EDA database, DLA Aviation's Enterprise Business System (EBS), and Rolls-Royce's Electronic Receipting System. EDA is a mission-critical business system that supports Military Services and several DoD agencies by providing users internet access to documents to support the procurement, contract administration, bill paying, accounting process. We obtained contract documentation from EDA. To assess the reliability of the data, we compared the documents obtained from EDA to documents obtained from the contracting office. EBS is comprised of multiple information systems that DLA uses for financial, planning, procurement, and inventory management. We obtained foreign currency exchange rates and delivery information, such as scheduled and actual delivery dates, from EBS. To assess the reliability of EBS, we compared EBS data, including quantities, unit prices, and scheduled delivery dates, to delivery orders. In addition, we compared the foreign currency conversion rates to the quarterly exchange rates published by the U.S. Department of Treasury, Bureau of Fiscal Services. Rolls-Royce's Electronic Receipting System allows Rolls-Royce's

suppliers to submit invoices for payment into Rolls-Royce's Enterprise Resource Planning system. We obtained supplier invoices from the Electronic Receipting System to analyze Rolls-Royce's proposals. The Defense Contract Management Agency completed a Contractor Purchasing System Review on Rolls-Royce and did not identify any material control weaknesses that would affect the reliability of the data we used.[18] As a result, we determined that EDA, EBS, and Rolls-Royce's Electronic Receipting System's computer-processed data were sufficiently reliable to support our findings and conclusions.

Use of Technical Assistance

We consulted with the DoD Office of Inspector General Quantitative Methods Division to select a logical and reasonable nonstatistical sample and to ensure we accurately converted British Pounds to U.S. Dollars.

[18] The objective of a Contractor Purchasing System Review is to evaluate the efficiency and effectiveness with which the contractor spends Government funds and complies with Government policy when subcontracting. The review provides the administrative contracting officer a basis for granting, withholding, or withdrawing approval of the contractor's purchasing system.

Appendix B

Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) issued 17 reports related to fair and reasonable pricing. Unrestricted DoD IG reports can be accessed at http://www.dodig.mil/pubs/index.cfm.

DoD IG

Report No. DODIG-2016-093, "The Naval Air Systems Command Did Not Obtain Fair and Reasonable Prices on Scan Eagle Spare Parts," May 31, 2016

> Naval Air Systems Command contracting officials did not obtain fair and reasonable prices on sole-source spare parts.

Report No. DODIG-2016-080, "Army's Management of Gray Eagle Spare Parts Needs Improvement," April 29, 2016

> Contracting officers did not receive fair and reasonable prices for 31 of 37 nonstatistically sampled spare parts.

Report No. DODIG-2016-074, "Army Contracting Officials Could Have Purchased Husky Mounted Detection System Spare Parts at Lower Prices," March 31, 2016

> Contracting officials for the U.S. Army Contracting Command–Aberdeen Proving Ground generally obtained fair and reasonable prices for 13 sole-source Husky Mounted Detection System spare parts, valued at $209 million.

Report No. DODIG-2016-059, "U.S. Air Force Spent Billions on F117 Engine Sustainment Without Knowing What a Fair Price Was," March 11, 2016

> Air Force officials awarded the Globemaster III Integrated Sustainment Program base contract without obtaining sufficient data to determine whether the Air Force purchased F117 engine sustainment services at fair and reasonable prices.

Report No. DODIG-2016-047, "Defense Logistics Agency Did Not Appropriately Determine Fair and Reasonable Prices for F108 Engine Sole-Source Commercial Parts," February 16, 2016

> The DLA Aviation contracting officer did not appropriately determine fair and reasonable prices for sole-source commercial spare parts purchased from CFM International.

Report No. DODIG-2016-023, "Improvements Needed in the Defense Logistics Agency's Evaluation of Fair and Reasonable Prices for C-130 Aircraft Spare Parts," November 16, 2015

DLA Aviation contracting officers did not perform adequate proposal analysis to determine fair and reasonable prices for supply-support services and selected spare parts. Additionally, DLA Aviation contracting officers did not adequately support fair and reasonable price determinations for C-130 parts purchased on 23 of 26 delivery orders, related to the nonstatistical sample of 20 spare parts.

Report No. DODIG-2015-153, "Defense Logistics Agency Aviation Generally Purchased Sole-Source Spare Parts From the General Electric Company at Fair and Reasonable Prices, but Improvements Could Be Made," July 24, 2015

The DLA Aviation contracting officer generally purchased sole-source spare parts at fair and reasonable prices for sole-source spare parts reviewed, valued at $23 million.

Report No. DODIG-2015-137, "Improvements Needed on DoD Procurements from Robertson Fuel Systems," June 25, 2015

The report stated that DoD did not effectively procure fuel systems and parts on nine nonstatistically selected, sole-source contracts.

Report No. DODIG-2015-120, "Defense Logistics Agency Did Not Obtain Fair and Reasonable Prices from Meggitt Aircraft Braking Systems for Sole-Source Commercial Spare Parts," May 8, 2015

The DLA Aviation contracting officer did not obtain fair and reasonable prices for 51 of 54 statistically sampled sole-source commercial spare parts.

Report No. DODIG-2015-103, "Summary of DoD Office of the Inspector General Spare-Parts Pricing Audits: Additional Guidance is Needed," March 31, 2015

DoD did not have adequate processes to obtain fair and reasonable prices for spare parts.

Report No. DODIG-2015-053, "Naval Supply Systems Command Needs to Improve Cost Effectiveness of Purchases for the Phalanx Close-In Weapon System," December 19, 2014

Naval Supply Systems Command Weapon Systems Support contracting officers did not adequately manage the performance-based logistics contracts to make cost-effective purchases for the Phalanx Close-In Weapon System.

Report No. DODIG-2014-110, "Ontic Engineering and Manufacturing Overcharged the Defense Logistics Agency for Sole-Source Spare Parts," September 15, 2014

DLA contracting officials did not obtain fair and reasonable prices for 21 sole-source spare parts, valued at $26.2 million.

Report No. DODIG-2014-088, "Defense Logistics Agency Aviation Potentially Overpaid Bell Helicopter for Sole-Source Commercial Spare Parts," July 3, 2014

The contracting officer did not sufficiently determine whether prices were fair and reasonable for sole-source, commercial parts.

Report No. DODIG-2014-054, "Defense Logistics Agency Land and Maritime Paid Too Much for High Mobility Multipurpose Wheeled Vehicle Repair Parts," April 4, 2014

DLA Land and Maritime contracting officials negotiated questionable prices for High Mobility Multipurpose Wheeled Vehicle repair parts purchased on its sole-source, commercial integrated logistics partnership contract.

Report No. DODIG-2014-038, "Air Force Life Cycle Management Center Could Not Identify Actual Cost of F119 Engine Spare Parts Purchased from Pratt and Whitney," February 10, 2014

Contracting officers awarded about $1.6 billion for F119 engine sustainment, including engine spare parts from 2008 through 2012, but did not validate actual unit costs of engine spare parts purchased.

Report No. DODIG-2014-020, "U.S. Army Contracting Command Did Not Obtain Fair and Reasonable Prices for Communications Equipment," December 5, 2013

Contracting officers did not obtain fair and reasonable prices for communications equipment to support the Afghan National Security Forces.

Report No. D-2013-090, "Improved Guidance Needed to Obtain Fair and Reasonable Prices for Sole-Source Spare Parts Procured By the Defense Logistics Agency From The Boeing Company," June 7, 2013

DLA Aviation contracting officers did not negotiate fair and reasonable prices for sole-source spare parts, thereby not getting best value for the Government.

Appendix C

Delivery Orders Affected by Pricing Errors

Rolls-Royce identified an error that incorrectly increased unit prices by 2 percent. DLA Aviation contracting officials did not correct the pricing error on 45 delivery orders that had incorrect prices. Table 5 identifies each delivery order, incorrect price, correct price, difference between the prices, quantity purchased, and net effect of the error.

Table 5. Summary of Delivery Orders with Incorrect Prices

~~(FOUO)~~ Delivery Order Number	~~(FOUO)~~ Incorrect Unit Price	~~(FOUO)~~ Correct Unit Price	Difference*	Quantity Purchased	Total Effect of Pricing Error*
0001	$[redacted]	$[redacted]	$1,181.22	44	$51,973.68
0002	[redacted]	[redacted]	1.99	2,238	4,453.62
0003	[redacted]	[redacted]	934.75	4	3,739.00
0004	[redacted]	[redacted]	6,068.20	9	54,613.80
0005	[redacted]	[redacted]	17.32	34	588.88
0006	[redacted]	[redacted]	137.49	23	3,162.27
0007	[redacted]	[redacted]	0.54	453	244.62
0008	[redacted]	[redacted]	378.50	12	4,542.00
0009	[redacted]	[redacted]	325.15	52	16,907.80
0010	[redacted]	[redacted]	43.94	32	1,406.08
0011	[redacted]	[redacted]	1,280.51	34	43,537.34
0012	[redacted]	[redacted]	384.29	7	2,690.03
0013	[redacted]	[redacted]	15.24	209	3,185.16
0014	[redacted]	[redacted]	3.18	101	321.18
0015	[redacted]	[redacted]	148.72	12	1,784.64
0016	[redacted]	[redacted]	0.55	2,095	1,152.25
0017	[redacted]	[redacted]	1.52	670	1,018.40
0018	[redacted]	[redacted]	1,208.83	4	4,835.32
0019	[redacted]	[redacted]	17.63	11	193.93
0020	[redacted]	[redacted]	1,205.29	12	14,463.48 ~~(FOUO)~~

Table 5 footnotes are defined on the following page.

Table 5. Summary of Delivery Orders with Incorrect Prices (cont'd)

~~(FOUO)~~ Delivery Order Number	~~(FOUO)~~ Incorrect Unit Price	~~(FOUO)~~ Correct Unit Price	Difference*	Quantity Purchased	Total Effect of Pricing Error*
0021	[redacted]	[redacted]	2.60	150	390.00
0022	[redacted]	[redacted]	1,284.31	8w	10,274.48
0023	[redacted]	[redacted]	149.66	16	2,394.56
0024	[redacted]	[redacted]	4.84	1,102	5,333.68
0025	[redacted]	[redacted]	127.15	25	3,178.75
0026	[redacted]	[redacted]	330.29	31	10,238.99
0027	[redacted]	[redacted]	18.51	357	6,608.07
0028	[redacted]	[redacted]	1.54	2,141	3,297.14
0122	[redacted]	[redacted]	43.48	30	1,304.40
0139	[redacted]	[redacted]	5,921.52	10	59,215.20
0180	[redacted]	[redacted]	0.16	78	12.48
0284	[redacted]	[redacted]	1.13	230	259.90
0289	[redacted]	[redacted]	78.22	8	625.76
0298	[redacted]	[redacted]	0.18	99	17.82
0315	[redacted]	[redacted]	79.30	1	79.30
0323	[redacted]	[redacted]	3.11	103	320.33
0324	[redacted]	[redacted]	4.45	200	890.00
0354	[redacted]	[redacted]	83.05	2	166.10
0357	[redacted]	[redacted]	4.58	197	902.26
0402	[redacted]	[redacted]	41.22	13	535.86
0449	[redacted]	[redacted]	14.12	57	804.84
0454	[redacted]	[redacted]	1,183.93	32	37,885.76
0509	[redacted]	[redacted]	10.80	50	540.00
0520	[redacted]	[redacted]	73.50	100	7,350.00
0589	[redacted]	[redacted]	1,139.37	35	39,877.95
Total					**$407,317.11** ~~(FOUO)~~

* Minor inconsistencies may occur due to rounding.

Appendix D

Service Fees for Late Deliveries

DLA Aviation paid Rolls-Royce $2.1 million in service fees for on-time delivery improvements for 328 late deliveries. Table 6 identifies the national stock number for each part, delivery order number, order quantity, original due date, modified due date, actual due date, number of days the delivery was late, and associated service fee that DLA Aviation paid.

Table 6. Service Fees Paid From 2014 Through 2016 on Late Deliveries

National Stock Number	Delivery Order	Ordered Quantity	Original Delivery Date[1]	Modified Delivery Date[1,2]	Actual Delivery Date[1,3]	Number of Days Late[4]	Service Fee
2014							
2840-99-781-1460	0102	14	12/31/2014		3/31/2016	456	$2,788
2840-99-606-7804	0005	34	10/31/2014		8/31/2015	304	2,030
5306-99-738-9680	0063	410	8/31/2014				1,582
5340-99-888-9072	0070	1	8/31/2014		6/30/2016	669	38
	0070	2	8/31/2014		6/30/2016	669	77
	0124	2	10/31/2014		9/30/2015	334	72
	0140	3	11/30/2014		6/30/2016	578	108
	0150	3	11/30/2014		5/31/2016	548	108
2014 Total							**$6,804**
2015							
2840-99-585-5501	0001	44	12/31/2015				179,215
2840-99-453-5367	0047	60	7/31/2015				120,580
2840-99-133-4087	0123	307	5/31/2015		9/30/2015	122	106,685

Table 6 footnotes are defined on the last page of the table.

Table 6. Service Fees Paid From 2014 Through 2016 on Late Deliveries (cont'd)

National Stock Number	Delivery Order	Ordered Quantity	Original Delivery Date[1]	Modified Delivery Date[1,2]	Actual Delivery Date[1,3]	Number of Days Late[4]	Service Fee
3130-99-421-8782	0009	52	1/31/2015				58,301
	0026	31	4/30/2015				35,305
2840-01-164-3149	0049	287	6/30/2015				39,142
2840-99-024-6665	0099	53	5/31/2015		6/30/2016	396	26,184
5307-99-810-2932	0077	2,709	8/31/2015		2/29/2016	182	22,123
2840-99-695-3065	0032	8	3/31/2015		7/31/2015	122	828
	0057	73	3/31/2015				7,596
	0147	123	6/30/2015	12/31/2015	8/31/2016	244	11,991
2840-99-842-2204	0254	147	3/31/2015		10/31/2015	214	19,633
5306-99-383-4186	0024	1,102	9/30/2015		2/29/2016	152	18,376
2840-99-735-8889	0202	444	11/30/2015		4/30/2016	152	17,011
3120-99-853-6626	0002	2,238	12/31/2015				15,386
3010-99-010-0346	0033	41	3/31/2015		10/31/2015	214	6,494
	0060	52	3/31/2015		2/29/2016	335	8,276
3130-99-257-3173	0015	12	1/31/2015	5/31/2015	12/31/2015	214	6,154
	0023	16	2/28/2015	8/31/2015	9/30/2015	30	8,257
5306-01-174-6523	0227	1,890	11/30/2015		9/30/2016	305	14,386
2840-99-109-1110	0305	304	12/31/2015				13,986
4310-99-607-5204	0244	798	11/30/2015				11,006
3110-99-452-6121	0119	11	1/31/2015		7/31/2015	181	5,322
	0152	11	3/31/2015				5,072
2840-99-109-0129	0184	941	9/30/2015				9,877

Table 6 footnotes are defined on the last page of the table.

Table 6. Service Fees Paid From 2014 Through 2016 on Late Deliveries (cont'd)

National Stock Number	Delivery Order	Ordered Quantity	Original Delivery Date[1]	Modified Delivery Date[1,2]	Actual Delivery Date[1,3]	Number of Days Late[4]	Service Fee
2840-99-234-3555	0258	25	7/31/2015				9,087
5306-99-722-9183	0056	124	7/31/2015		8/31/2015	31	351
	0062	2,852	7/31/2015		5/31/2016	305	8,073
2840-99-750-2439	0130	524	1/31/2015	5/31/2015	6/30/2015	30	8,196
3110-99-611-3760	0132	2	1/31/2015		9/30/2015	242	1,503
	0265	5	7/31/2015				3,513
	0355	3	10/31/2015				2,193
3120-99-549-6489	0145	2,535	6/30/2015	11/30/2015			7,129
5365-99-795-1350	0224	714	10/31/2015				6,919
5330-99-212-1537	0051	40	3/31/2015		2/29/2016	335	2,113
	0051	40	3/31/2015		1/31/2016	306	2,113
	0051	34	3/31/2015		1/31/2016	306	1,796
5365-99-830-8695	0230	3,925	11/30/2015				5,936
2840-99-606-6512	0010	5	4/30/2015		6/30/2015	61	757
	0010	7	4/30/2015				1,060
	0010	20	4/30/2015				3,030
	0122	1	10/31/2015				150
4730-01-341-0089	0106	311	5/31/2015		8/31/2016	458	4,251
5315-00-468-5580	0248	2,136	11/30/2015		4/30/2016	152	3,789
5306-00-155-2842	0072	333	7/31/2015		5/31/2016	305	1,663
	0079	401	8/31/2015				1,980
5365-99-125-4982	0113	64	5/31/2015		5/31/2016	366	3,589

Table 6 footnotes are defined on the last page of the table.

Table 6. Service Fees Paid From 2014 Through 2016 on Late Deliveries (cont'd)

National Stock Number	Delivery Order	Ordered Quantity	Original Delivery Date[1]	Modified Delivery Date[1,2]	Actual Delivery Date[1,3]	Number of Days Late[4]	Service Fee
2840-00-468-5553	0035	45	11/30/2015				3,538
5640-99-888-3233	0052	46	3/31/2015				3,409
	0031	1	3/31/2015		9/30/2015	183	74
5310-99-495-7029	0039	506	3/31/2015		7/31/2015	122	345
	0078	278	4/30/2015		8/31/2015	123	188
	0096	100	5/31/2015		10/31/2016	519	66
	0143	375	6/30/2015		9/30/2015	92	240
	0151	1,333	7/31/2015		9/30/2015	61	838
	0178	651	8/31/2015		3/31/2016	213	408
	0285	2,233	12/31/2015		10/31/2016	305	1,319
5306-99-606-6474	0091	2,672	7/31/2015				3,398
3020-99-062-9911	0160	15	11/30/2015				3,219
5305-00-468-6805	0276	1,000	11/30/2015		6/30/2016	213	3,135
5330-01-339-8131	0263	507	11/30/2015		3/31/2016	122	3,036
5315-99-179-8445	0295	14,547	12/31/2015		4/30/2016	121	2,241
3120-99-731-5514	0228	1,978	11/30/2015		8/31/2016	275	2,016
5330-99-709-4474	0190	363	9/30/2015		10/31/2015	31	1,971
5340-99-893-0030	0136	229	6/30/2015	11/30/2015			1,888
5307-01-157-8414	0073	102	4/30/2015		10/31/2015	184	344
	0080	426	4/30/2015		9/30/2016	519	1,418
4710-00-368-8182	0104	40	5/31/2015		6/30/2016	396	1,742

Table 6 footnotes are defined on the last page of the table.

Table 6. Service Fees Paid From 2014 Through 2016 on Late Deliveries (cont'd)

National Stock Number	Delivery Order	Ordered Quantity	Original Delivery Date[1]	Modified Delivery Date[1,2]	Actual Delivery Date[1,3]	Number of Days Late[4]	Service Fee
2840-99-588-1203	0286	8	12/31/2015		4/30/2016	121	966
	0042	5	3/31/2015	12/31/2015	4/30/2016	121	696
5306-99-513-7947	0144	730	10/31/2015		10/31/2016	366	1,595
5340-99-893-0015	0121	500	5/31/2015		7/31/2016	427	1,551
4710-01-157-8567	0302	40	12/31/2015				1,447
2840-99-109-0997	0205	177	10/31/2015		3/31/2016	152	1,381
5305-00-468-5694	0210	805	10/31/2015		2/29/2016	121	1,364
5310-99-109-0429	0066	211	4/30/2015		1/31/2016	276	1,361
5330-99-721-4198	0195	532	9/30/2015		10/31/2015	31	1,285
5306-00-001-3942	0094	200	8/31/2015		8/31/2016	366	650
	0179	200	12/31/2015		3/31/2016	91	614
5365-99-729-3394	0159	1,523	3/31/2015		2/29/2016	335	1,232
5999-99-536-1433	0183	254	8/31/2015				1,205
3120-99-109-0851	0103	222	5/31/2015		7/31/2016	427	1,204
5340-99-988-3798	0223	250	10/31/2015				1,187
4730-99-109-1223	0041	120	3/31/2015		4/30/2016	396	1,179
5306-01-166-4535	0045	410	6/30/2015		10/31/2015	123	1,175
2840-99-781-1439	0165	165	7/31/2015		1/31/2016	184	1,162
5306-01-340-0174	0129	450	8/31/2015				1,140
5306-00-125-9664	0212	205	10/31/2015		7/31/2016	274	1,120
4730-99-109-0143	0092	29	4/30/2015		9/30/2015	153	653
	0111	20	5/31/2015		9/30/2015	122	446

Table 6 footnotes are defined on the last page of the table.

Table 6. Service Fees Paid From 2014 Through 2016 on Late Deliveries (cont'd)

National Stock Number	Delivery Order	Ordered Quantity	Original Delivery Date[1]	Modified Delivery Date[1,2]	Actual Delivery Date[1,3]	Number of Days Late[4]	Service Fee
5315-99-895-9825	0229	15	11/30/2015		6/30/2016	213	575
	0307	14	12/31/2015				521
3130-99-765-0148	0109	5	5/31/2015		8/31/2016	458	1,087
5340-99-727-7904	0069	3	4/30/2015		5/31/2016	397	380
	0182	6	8/31/2015		6/30/2016	304	699
5307-00-452-8598	0029	10	3/31/2015		3/31/2016	366	271
	0198	12	10/31/2015		3/31/2016	152	289
	0221	10	11/30/2015		7/31/2016	244	245
	0267	10	12/31/2015		7/31/2016	213	243
5340-99-893-0035	0174	571	8/31/2015		12/31/2015	122	977
5330-99-607-5560	0154	2,000	7/31/2015		12/31/2015	153	558
	0197	1,483	9/30/2015		9/30/2016	366	400
2840-00-468-5579	0101	59	5/31/2015		9/30/2015	122	489
	0155	59	7/31/2015		2/29/2016	213	461
5342-00-468-7436	0196	1,129	9/30/2015		2/29/2016	152	945
5310-99-883-8435	0215	53	11/30/2015		2/29/2016	91	904
5310-99-109-0451	0162	479	7/31/2015		5/31/2016	305	887
5305-99-781-4100	0076	100	4/30/2015		10/31/2015	184	873
5305-00-468-5695	0291	790	12/31/2015				860
5305-99-126-9394	0007	453	5/31/2015		7/31/2015	61	859
5315-99-369-1290	0169	42	9/30/2015		10/31/2015	31	404
	0093	42	6/30/2015	12/31/2015			430

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Table 6. Service Fees Paid From 2014 Through 2016 on Late Deliveries (cont'd)

National Stock Number	Delivery Order	Ordered Quantity	Original Delivery Date[1]	Modified Delivery Date[1,2]	Actual Delivery Date[1,3]	Number of Days Late[4]	Service Fee
2840-99-192-2544	0097	221	5/31/2015		12/31/2015	214	773
2995-00-452-8544	0201	250	9/30/2015		5/31/2016	244	769
5310-99-133-4643	0133	1,644	1/31/2015		2/29/2016	394	383
	0135	1,644	1/31/2015		3/31/2016	425	383
5315-99-601-7750	0208	602	10/31/2015		3/31/2016	152	761
5310-99-607-6734	0218	1,024	10/31/2015		4/30/2016	182	744
5306-99-807-3896	0090	195	4/30/2015		3/31/2016	336	690
2840-99-820-1058	0128	34	1/31/2015		6/30/2015	150	638
4730-00-468-7132	0112	33	5/31/2015		2/29/2016	274	636
5340-99-893-0036	0089	342	4/30/2015		11/30/2015	214	633
5340-99-151-8198	0273	68	11/30/2015		3/31/2016	122	629
5365-01-341-4150	0292	16	12/31/2015		2/29/2016	60	315
	0303	16	12/31/2015		2/29/2016	60	310
4710-99-109-0112	0293	33	12/31/2015				619
5307-00-468-6799	0055	105	3/31/2015				618
5365-99-695-3283	0120	94	5/31/2015		5/31/2016	366	602
5306-00-097-7363	0168	250	9/30/2015		5/31/2016	244	597
5306-99-648-3170	0163	145	7/31/2015		11/30/2015	122	595
4730-00-152-0853	0105	17	5/31/2015		7/31/2015	61	585
5306-99-568-5486	0158	1,450	9/30/2015		2/29/2016	152	556
5310-99-967-9293	0110	28	5/31/2015		9/30/2015	122	511
5310-01-353-1814	0211	12	10/31/2015		2/29/2016	121	481

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Table 6. Service Fees Paid From 2014 Through 2016 on Late Deliveries (cont'd)

National Stock Number	Delivery Order	Ordered Quantity	Original Delivery Date[1]	Modified Delivery Date[1,2]	Actual Delivery Date[1,3]	Number of Days Late[4]	Service Fee
5306-00-468-7915	0167	263	7/31/2015		10/31/2015	92	463
3120-99-225-7190	0176	149	8/31/2015		10/31/2015	61	442
3110-00-468-6615	0131	166	6/30/2015	12/31/2015	3/31/2016	91	442
5340-99-259-8236	0050	442	3/31/2015		12/31/2015	275	378
	0193	80	9/30/2015		4/30/2016	213	61
5365-99-858-1765	0260	74	4/30/2015		11/30/2015	214	415
5315-00-126-1781	0272	131	11/30/2015				394
4710-99-109-0113	0216	10	10/31/2015		7/31/2016	274	355
5340-99-759-8558	0175	45	8/31/2015		2/29/2016	182	349
2840-99-109-0631	0173	36	8/31/2015				338
5315-00-452-8647	0065	87	4/30/2015		5/31/2016	397	159
	0194	105	9/30/2015		5/31/2016	244	171
5307-99-348-9564	0082	16	4/30/2015		11/30/2015	214	327
5365-01-340-1240	0245	347	11/30/2015				315
2840-99-607-6448	0266	47	11/30/2015		4/30/2016	152	294
5310-99-700-1284	0186	3,531	8/31/2015		9/30/2016	396	281
5330-99-967-4398	0304	74	12/31/2015		2/29/2016	60	279
5365-01-072-6600	0114	35	5/31/2015		1/31/2016	245	261
5365-00-468-6230	0278	231	11/30/2015		4/30/2016	152	260
4710-99-235-5032	0181	14	1/31/2015				255
5325-99-607-5874	0246	64	11/30/2015				253
5340-01-353-3359	0226	47	10/31/2015				217

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Table 6. Service Fees Paid From 2014 Through 2016 on Late Deliveries (cont'd)

National Stock Number	Delivery Order	Ordered Quantity	Original Delivery Date[1]	Modified Delivery Date[1,2]	Actual Delivery Date[1,3]	Number of Days Late[4]	Service Fee
2840-99-781-0334	0126	100	8/31/2015		2/29/2016	182	107
	0191	100	12/31/2015		2/29/2016	60	103
5340-99-660-9344	0296	38	12/31/2015		8/31/2016	244	201
5340-99-215-7337	0067	169	4/30/2015		10/31/2015	184	192
5315-00-468-7024	0134	36	1/31/2015		7/31/2016	547	184
5310-01-157-8372	0268	209	11/30/2015		10/31/2016	336	181
5340-99-888-9072	0345	5	7/31/2015		6/30/2016	335	170
5340-99-404-1982	0058	5	3/31/2015		1/31/2016	306	105
	0075	3	4/30/2015		1/31/2016	276	63
5365-99-972-1612	0255	2	6/30/2015		10/31/2015	123	165
5315-00-126-1782	0188	56	8/31/2015		4/30/2016	243	129
5365-99-122-0156	0161	64	7/31/2015		11/30/2015	122	119
5310-99-109-0444	0220	106	10/31/2015		5/31/2016	213	95
3040-01-163-6343	0290	121	12/31/2015		3/31/2016	91	82
5315-01-031-3357	0127	9	5/31/2015		12/31/2015	214	73
2840-01-202-7795	0054	1,113	8/31/2014	5/31/2015	9/30/2015	122	68
5365-99-535-6263	0187	45	8/31/2015		5/31/2016	274	67
5340-99-979-0186	0071	11	8/31/2014	5/31/2015	9/30/2015	122	61
5340-99-607-6554	0146	278	2/28/2015				59
5340-99-623-8479	0275	10	11/30/2015		2/29/2016	91	34
5340-99-710-3038	0172	199	8/31/2015		11/30/2015	91	29
5315-01-034-3047	0125	5	5/31/2015		11/30/2015	183	27

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Table 6. Service Fees Paid From 2014 Through 2016 on Late Deliveries (cont'd)

National Stock Number	Delivery Order	Ordered Quantity	Original Delivery Date[1]	Modified Delivery Date[1,2]	Actual Delivery Date[1,3]	Number of Days Late[4]	Service Fee
5340-99-109-0555	0219	8	10/31/2015		3/31/2016	152	9
5330-99-324-6129	0237	2	6/30/2015		10/31/2015	123	1
2015 Total							**$941,041**
2016							
2840-99-551-9100	0117	64	4/30/2016				371,627
2840-99-988-2687	0004	9	6/30/2016				188,319
2840-99-841-4026	0011	34	1/31/2016				150,274
	0022	8	2/29/2016				35,464
2840-99-363-9877	0321	718	8/31/2016				32,406
2840-00-468-6367	0177	2,139	1/31/2016				32,312
2840-01-164-3149	0445	189	8/31/2016				23,212
5305-99-126-9394	0149	2,080	1/31/2016		3/31/2016	60	3,790
	0157	1,067	2/29/2016				1,894
	0157	2,880	2/29/2016		6/30/2016	122	5,112
	0171	1,491	3/31/2016		6/30/2016	91	2,635
	0192	479	3/31/2016		5/31/2016	61	832
	0192	996	3/31/2016		5/31/2016	61	1,731
	0259	1,282	5/31/2016				2,250
	0281	1,551	6/30/2016				2,610
2840-99-781-1459	0379	70	3/31/2016		9/30/2016	183	18,878
2840-01-353-3396	0341	371	1/31/2016	6/30/2016			18,728

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Table 6. Service Fees Paid From 2014 Through 2016 on Late Deliveries (cont'd)

National Stock Number	Delivery Order	Ordered Quantity	Original Delivery Date[1]	Modified Delivery Date[1,2]	Actual Delivery Date[1,3]	Number of Days Late[4]	Service Fee
2840-99-456-3352	0003	4	5/31/2016				12,893
2995-00-468-6625	0025	25	1/31/2015	4/30/2016	9/30/2016	153	10,961
3110-99-864-6502	0006	23	8/31/2015	6/30/2016			10,904
5325-99-739-0142	0329	34	2/29/2016				5,998
	0587	24	9/30/2016				4,064
2840-99-781-0327	0012	7	7/31/2015	6/30/2016			9,276
5340-99-606-5867	0541	127	6/30/2016		8/31/2016	62	9,236
5330-99-152-4019	0180	78	1/31/2015	2/29/2016			3,872
	0399	53	8/31/2015	4/30/2016	6/30/2016	61	2,597
	0448	51	10/31/2015	6/30/2016			2,489
2840-99-781-0333	0380	3,568	3/31/2016				8,899
2945-00-468-7187	0349	624	2/29/2016		6/30/2016	122	7,338
4720-01-164-4027	0348	100	2/29/2016		3/31/2016	31	7,258
2840-01-018-3206	0388	312	8/31/2016				7,063
2840-99-607-6459	0390	211	3/31/2016				6,338
2840-99-606-6698	0206	489	3/31/2016				5,942
3010-99-010-0346	0545	20	6/30/2016		9/30/2016	92	2,852
	0564	20	7/31/2016		10/31/2016	92	2,826
2840-99-609-8701	0383	5	5/31/2016				5,588
3110-99-452-6121	0567	11	3/31/2016				4,920
2840-99-798-5994	0328	264	1/31/2016		7/31/2016	182	4,603

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Table 6. Service Fees Paid From 2014 Through 2016 on Late Deliveries (cont'd)

National Stock Number	Delivery Order	Ordered Quantity	Original Delivery Date[1]	Modified Delivery Date[1,2]	Actual Delivery Date[1,3]	Number of Days Late[4]	Service Fee
5310-99-700-3897	0370	2,700	4/30/2016				4,574
3020-99-437-3753	0277	23	3/31/2016				4,537
2840-99-606-6677	0430	128	5/26/2016	8/31/2016			4,247
5306-01-172-3268	0200	219	1/31/2016		3/31/2016	60	1,358
	0209	192	2/29/2016		4/30/2016	61	1,211
	0371	264	7/31/2016				1,671
2840-99-125-3005	0378	25	8/31/2016				4,211
5340-99-513-5144	0325	165	1/31/2016		3/31/2016	60	4,018
3110-99-860-5142	0164	15	5/31/2016	9/30/2016			3,497
4710-99-864-6736	0337	28	1/31/2016		8/31/2016	213	3,226
2840-01-361-9794	0392	288	6/30/2016				3,115
4710-99-219-2827	0334	20	1/31/2016		9/30/2016	243	2,980
4730-01-340-1331	0342	177	1/31/2016		3/31/2016	60	2,806
5330-99-212-1537	0449	40	5/31/2016		7/31/2016	61	1,948
	0449	17	6/30/2016		7/31/2016	31	828
4730-01-340-5816	0377	56	5/31/2016	9/30/2016			2,494
3040-99-109-0750	0289	8	8/31/2016				2,158
	0315	1	8/31/2016				273
5306-01-164-3991	0373	387	3/31/2016		5/31/2016	61	1,133
	0482	375	5/31/2016		8/31/2016	92	1,093
2840-99-781-0335	0396	546	3/31/2016		8/31/2016	153	2,159

Table 6 footnotes are defined on the last page of the table.

Table 6. Service Fees Paid From 2014 Through 2016 on Late Deliveries (cont'd)

National Stock Number	Delivery Order	Ordered Quantity	Original Delivery Date[1]	Modified Delivery Date[1,2]	Actual Delivery Date[1,3]	Number of Days Late[4]	Service Fee
3120-99-731-5514	0375	1,000	3/31/2016		6/30/2016	91	1,021
	0422	1,000	5/31/2016		6/30/2016	30	1,020
3130-99-765-0148	0394	5	3/31/2016				1,027
	0562	5	7/31/2016				997
5305-99-395-9780	0141	100	1/31/2016		7/31/2016	182	1,017
	0264	100	6/30/2016		7/31/2016	31	964
5330-99-709-4474	0565	363	7/31/2016				1,961
5315-99-764-4684	0369	424	5/31/2016		7/31/2016	61	1,789
2840-00-468-6675	0040	136	3/31/2015	6/30/2016			1,726
5315-99-109-1002	0425	320	6/30/2016	9/30/2016			1,538
5330-99-747-4544	0203	150	10/31/2015	4/30/2016	10/31/2016	184	347
	0203	513	10/31/2015	4/30/2016			1,186
2840-99-779-2719	0338	13	3/31/2016				1,511
2840-99-456-6428	0243	14	6/30/2016				1,481
5640-99-888-3233	0359	21	3/31/2016				1,434
5325-99-769-2913	0166	129	3/31/2016		5/31/2016	61	516
	0284	230	8/31/2016		10/31/2016	61	894
5330-99-324-6129	0376	674	3/31/2016		4/30/2016	30	1,381
3040-99-109-0084	0313	6	4/30/2016				1,375
5306-00-001-3942	0314	200	4/30/2016				592
	0199	240	1/31/2016	9/30/2016			708

Table 6 footnotes are defined on the last page of the table.

Table 6. Service Fees Paid From 2014 Through 2016 on Late Deliveries (cont'd)

National Stock Number	Delivery Order	Ordered Quantity	Original Delivery Date[1]	Modified Delivery Date[1,2]	Actual Delivery Date[1,3]	Number of Days Late[4]	Service Fee
2915-99-909-6461	0327	19	2/29/2016				1,286
5307-00-452-8598	0283	13	1/31/2016		7/31/2016	182	307
	0317	30	2/29/2016		7/31/2016	153	723
	0352	10	3/31/2016		9/30/2016	183	249
2840-00-468-5550	0407	145	4/30/2016		8/31/2016	123	1,173
2840-00-468-7799	0330	18,616	1/31/2016				1,165
2840-01-018-3205	0363	50	3/31/2016				1,142
3120-99-109-0851	0552	222	6/30/2016	7/31/2016			1,126
2840-99-973-5494	0034	1,080	4/30/2015	6/30/2016			1,118
5305-99-743-1379	0014	101	1/31/2016	6/30/2016			1,109
5310-00-473-9502	0387	36	3/31/2016		7/31/2016	122	1,082
5315-99-895-9825	0320	14	1/31/2016				530
	0374	14	3/31/2016				537
4730-00-468-5692	0331	18	3/31/2016				1,049
5306-99-016-0972	0506	200	5/31/2016		8/31/2016	92	1,041
5306-00-468-7281	0367	204	4/30/2016		5/31/2016	31	1,028
4710-99-479-6765	0333	18	2/29/2016		3/31/2016	31	1,001
2840-99-606-6512	0461	5	8/31/2016				688
	0461	2	8/31/2016				275
4710-99-957-2925	0336	10	1/31/2016		3/31/2016	60	824
5306-00-468-5542	0568	127	8/31/2016	9/30/2016			314
	0596	203	9/30/2016				466

Table 6 footnotes are defined on the last page of the table.

Table 6. Service Fees Paid From 2014 Through 2016 on Late Deliveries (cont'd)

National Stock Number	Delivery Order	Ordered Quantity	Original Delivery Date[1]	Modified Delivery Date[1,2]	Actual Delivery Date[1,3]	Number of Days Late[4]	Service Fee
5305-01-353-3327	0297	150	4/30/2016		9/30/2016	153	350
	0084	150	8/31/2015	6/30/2016			399
2840-99-157-9830	0335	3	7/31/2016				688
2840-99-606-7804	0019	11	12/31/2014	6/30/2016	7/31/2016	31	669
5306-99-366-5431	0214	145	2/29/2016		9/30/2016	214	631
5315-99-601-7750	0343	482	1/31/2016		4/30/2016	90	622
5306-00-422-9057	0142	316	2/28/2015	9/30/2016			568
5330-01-340-4656	0395	526	3/31/2016				475
4730-00-277-0954	0423	19	5/31/2016	8/31/2016	9/30/2016	30	452
5306-00-125-9663	0309	42	4/30/2016	9/30/2016			435
5320-99-607-5441	0386	356	3/31/2016		7/31/2016	122	432
5315-01-034-3047	0319	10	1/31/2016		4/30/2016	90	51
	0487	70	5/31/2016				359
4710-00-468-6627	0494	10	5/31/2016	9/30/2016			402
2995-99-607-5099	0358	233	3/31/2016		6/30/2016	91	343
2840-99-607-6330	0364	68	3/31/2016		6/30/2016	91	334
5340-99-253-0750	0366	193	3/31/2016				318
5307-00-468-6799	0486	50	5/31/2016				264
2840-99-940-5487	0393	71	3/31/2016		4/30/2016	30	139
	0466	60	5/31/2016	7/31/2016	8/31/2016	31	115
5340-99-720-8731	0308	100	1/31/2016		9/30/2016	243	248

Table 6 footnotes are defined on the last page of the table.

Table 6. Service Fees Paid From 2014 Through 2016 on Late Deliveries (cont'd)

National Stock Number	Delivery Order	Ordered Quantity	Original Delivery Date[1]	Modified Delivery Date[1,2]	Actual Delivery Date[1,3]	Number of Days Late[4]	Service Fee
5310-99-967-9293	0312	14	1/31/2016		3/31/2016	60	233
5340-99-563-5693	0288	27	12/31/2015	6/30/2016	9/30/2016	92	206
2840-00-452-8600	0350	504	2/29/2016		5/31/2016	92	196
5342-00-468-7135	0614	126	10/31/2016	8/31/2016	9/30/2016	30	195
2840-01-191-7076	0318	63	1/31/2016				169
5315-99-109-0099	0322	602	1/31/2016		3/31/2016	60	163
2840-00-468-6388	0491	88	5/31/2016		6/30/2016	30	146
5340-99-517-1342	0222	7	10/31/2015	2/29/2016	3/31/2016	31	142
5310-01-022-3597	0251	20	6/30/2015	6/30/2016			126
5365-99-122-0156	0368	64	3/31/2016		7/31/2016	122	118
5365-99-593-2448	0403	75	4/30/2016		8/31/2016	123	98
5340-01-353-3357	0361	5	3/31/2016		5/31/2016	61	84
3040-01-163-7393	0485	104	5/31/2016		7/31/2016	61	81
5315-01-031-3357	0310	9	1/31/2016		3/31/2016	60	68
5310-00-468-7363	0344	9	1/31/2016		8/31/2016	213	68
5365-00-655-2053	0298	99	4/30/2016		6/30/2016	61	60
5999-99-657-9556	0524	100	5/31/2016				48
2016 Total							**$1,134,740**
Grand Total							**$2,082,585**

1 All delivery dates were rounded to the last day of the month because according to the contract, late deliveries are calculated based on the last day of the month.

2 A blank cell indicates that the delivery date was not modified.

3 A blank cell indicates that Rolls-Royce has not delivered the entire order quantity.

4 A blank cell indicates that we cannot calculate the number of days late the order is because Rolls-Royce has not delivered the entire order, as of September 2016.

Management Comments

Defense Logistics Agency

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

JAN 09 2017

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Response to DoD IG Draft Report "Defense Logistics Agency Aviation Negotiated Fair and Reasonable Prices for F402 Engine Spare Parts, but Pricing Errors and Late Deliveries Occurred" (Project No. D2016-D000AH-0154.000)

Attached is the DLA's response to the subject Draft Report. We appreciate the opportunity to review and comment on the findings and recommendations. The point of contact for this audit is [redacted]

MATTHEW R. BEEBE
Director, DLA Acquisition

Attachment:
As stated

Defense Logistics Agency (cont'd)

For Recommendation A.1, The Department of Defense Inspector General recommends that the Director, Defense Logistics Agency (DLA):

Recommendation A.1.a: Establish standard operating procedures and internal controls to ensure that contracting officials enter and maintain accurate unit prices in the Supplier Relationship Management System, verify that delivery order unit prices are correct, and proactively determine whether additional delivery orders require correction after a pricing error is identified.

DLA Response Recommendation A.1.a: Concur. DLA Aviation contracting staff utilize the existing job-aid to verify delivery order unit prices are correct in the supplier relationship management system. In addition, standard practices have been established to determine whether additional delivery orders require correction after a pricing error is identified. Contracting Officers now verify and validate the prices loaded into SRM, prior to releasing the outline agreement and after the release to ensure prices are accurately loaded into the system. The contracting officers coordinate with Subject Matter Experts as necessary.

Recommendation A.1.b: Direct the contracting officer for contract SPE4A5-14-D-0015 to determine whether the Defense Logistics Agency Aviation is entitled to any credits or refunds for payments already made to Rolls Royce.

DLA Response Recommendation A.1.b: Concur. Aviation has reviewed all orders under this contract and issued modifications for all open delivery orders to correct the pricing errors. A refund of £41,395.63 which is equal to $51,402.23 based on the current exchange rate will be withheld from the final negotiated Reactivation Cost bilateral modification.

For Recommendation B.1, The Department of Defense Inspector General recommends that the Director, Defense Logistics Agency (DLA) direct the contracting officer for contract SPE4A5-14-D-0015 to:

Recommendation B.1.a: Require Rolls Royce to establish accurate delivery schedules and modify the delivery orders, as appropriate, and assess Rolls Royce's explanations for future late deliveries to determine whether they are excusable delays, in accordance with Federal Acquisition Regulation clause 52.249-14.

DLA Response Recommendation B.1.a: Concur. Delivery dates are negotiated and established at the time items are added to the contract. Provisions of the contract allow Rolls Royce to advise DLA Aviation within 30 days if these dates have changed. If notification is not received, delivery dates are considered accurate. The Contracting Officers currently evaluate each delinquent contract to assess whether an 'excusable delay' exists. If so, modification to the contract delivery date is granted. Contracting Officers use remedies in accordance with FAR clause 52.249-08, Default (Fixed Price Supply and Service) if determined appropriate.

DODIG PROJECT NO. D2016-D000AH-0154.000

Defense Logistics Agency (cont'd)

Recommendation B.1.b: ~~(FOUO)~~ Re-negotiate the contract's late delivery disincentive so that it is comparable to the [redacted] or [redacted] percent service fee for delivery improvements and revise the process for applying the disincentive to ensure it is not administratively burdensome.

DLA Response Recommendation B.1.b: ~~(FOUO)~~ Partially Concur. DLA agrees with the concept but the provisions for a disincentive were negotiated upon award. A maximum of a 2% disincentive was the [redacted] the government was able to obtain upon final negotiations. For many of the orders to which these disincentives would have applied, the disincentive was waived because Rolls-Royce provided expedited delivery on urgent items and in consideration DLA relieved Rolls-Royce of delinquency on many orders.

DODIG PROJECT NO. D2016-D000AH-0154.000

Acronyms and Abbreviations

DLA	Defense Logistics Agency
EBS	Enterprise Business System
EDA	Electronic Document Access
FAR	Federal Acquisition Regulation
PMA	Program Management Activity
SRM	Supplier Relationship Management

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