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United States General Accounting Office

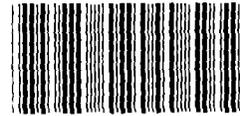
GAO

Report to the Honorable
Pete Wilson, U.S. Senate

November 1987

AIR FORCE PROCUREMENT

More B-1B Spares Should Have Been Bought Directly From Manufacturers



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GAO/NSIAD-88-13

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RELEASED

**National Security and
International Affairs Division**

B-226688

November 18, 1987

The Honorable Pete Wilson
United States Senate

Dear Senator Wilson:

As requested, we are reporting the results of our review of the extent to which the Air Force attempted to procure spare parts for the B-1B bomber directly from the manufacturers to avoid costs of overhead and profit that are incurred when they are bought from prime contractors. Our analysis of 34 parts included in the initial procurements of B-1B spares disclosed that none were bought directly from the manufacturers even though 25 of the items qualified for direct purchase. In addition, we noted instances in which the Air Force bought B-1B spare parts from prime contractors even after it had purchased identical items from the manufacturers at lower prices.

Department of Defense data shows that buying spares from the manufacturers, which is referred to as "breakout," generally results in price reductions by avoiding prime contractors' charges for overhead and profit. While not all of the more than \$2.3 billion worth of B-1B spare parts bought by the Air Force could be broken out, the potential price reductions resulting from breakout actions were substantial. Air Force analyses of 736 spares broken out from prime contractors to manufacturers during calendar year 1986 by the Oklahoma City Air Logistics Center, one of five such centers providing support for Air Force weapon systems, showed price reductions ranging from 36 percent to 62 percent and averaging 50 percent. Such potential price reductions were not being realized for the B-1B, however, because the Air Force did not take full advantage of breakout opportunities.

Background

The Air Force contracted for the production of 100 B-1B aircraft, the last of which is expected to be delivered in April 1988. The B-1B is being produced by four associate prime contractors (as opposed to a single prime contractor) with a different associate contractor having production responsibility for the airframe, engines, offensive avionics, and defensive avionics. Also, the Air Force awarded contracts to six component manufacturers for the braking system and wheels, auxiliary power unit spares, ejection seats, radomes, inertial navigation equipment, and gyro stabilizers. The airframe contractor is responsible for integration and final assembly. To obtain needed B-1B spare parts that they do not

manufacture, the associate prime contractors and component manufacturers contract with spares manufacturers.

The Air Force Logistics Command (AFLC) used a new concept called Expanded Advance Buy (EAB) to acquire spares for the B-1B. The EAB involved procuring combined initial and replenishment spares requirements in quantities anticipated to be needed to support the B-1B aircraft for 4 years. In implementing the EAB, AFLC purchased all of the parts from the four associate prime contractors and six component manufacturers, even when these organizations were not the manufacturers of the parts. EAB may be considered for use in future systems' acquisitions.

Buying spares from manufacturers is a cost-effective alternative to dealing exclusively with prime contractors when provisioning a weapon system. To take advantage of this alternative, the Air Force must identify the manufacturers of parts not made by prime contractors, determine that the prime contractors add no value to the parts after manufacture, and execute contracts with the manufacturers.

The Department of Defense (DOD) established its "Breakout Program" in 1963 and issued a joint service regulation in 1969. One of the program's objectives is the earliest possible screening of spare parts to determine the potential for breakout. Until recently, however, Air Force breakout efforts generally encompassed only replenishment spares purchases. The breakout concept was not officially extended to initial spares until February 22, 1985, when the Air Force published procedures mandating breakout of initial spares.

Spares Breakout Not Adequately Used During EAB

We analyzed 34 B-1B spares included in the EAB, which were bought from, but not manufactured by, three of the four associate prime contractors. Of these, 25 met the Air Force breakout criteria. Subsequent to the EAB, all 25 items were approved for breakout and, in fact, additional replenishment quantities of 17 of the items have been purchased from the manufacturers.

While we have not evaluated the rationale for or overall results of the EAB, in our opinion, the Air Force could have avoided prime contractors' overhead and profit charges if, in executing the 4-year EAB, it had taken advantage of opportunities to buy initial and replenishment spares directly from manufacturers. The following examples demonstrate missed breakout opportunities during the EAB.

- Stock No. 6680-01-147-8344JF; a sensor used to monitor fan rotor revolutions on the F101 engine used on the B-1B. During discussions for initial provisioning with Oklahoma City Air Logistics Center and other Air Force officials, the General Electric Company, an associate prime contractor, identified Simmonds Precision, Inc., as the actual manufacturer of this sensor. However, the center did not attempt to break out the item at that time, but instead contracted with the associate prime contractor in March 1984 to buy eight units at a cost of \$2,361 each under the EAB. Using the data provided by General Electric, the center later approved this item for breakout for follow-on replenishment spares, and in November 1986 it purchased 20 units from the manufacturer at a cost of \$1,908 each. After breaking out this item, the Air Force paid about \$453 less per unit than it paid for the eight items bought previously from the associate prime contractor.
- Stock No. 2915-01-208-0167JF; a fuel control for the F101 engine used on the B-1B. In July 1982, General Electric identified Woodward Governor, Inc., as the manufacturer of this item. Oklahoma City Air Logistics Center officials said they considered breaking out the item, but in March 1984 they purchased eight units at a cost of \$70,624 each from the associate prime contractor under the EAB. Using the data provided by General Electric, the center later approved this item for breakout for follow-on replenishment spares and in July 1986 purchased five units from the manufacturer at a cost of \$51,675 each. After breaking out this item, the Air Force paid \$18,949 less per unit than it paid for each of the eight units bought previously from the prime contractor.

Material requirements branch and B-1B program officials at the Oklahoma City center agreed that breakout of initial and replenishment spare parts during the EAB could have resulted in price reductions similar to those shown in the two examples above for the procurement of follow-on replenishment spares. They stated, however, that breakout requires additional administrative leadtime and paperwork. These officials said that it takes an average of 273 days of administrative leadtime to negotiate specific quantities and prices for individual procurements with manufacturers, while procurements from the associate prime contractors can be processed without delay by issuing unpriced, automated provisioned items orders¹ against existing contracts.

¹Orders issued to contractors against previously awarded provisioning contracts. The orders identify the specific items and quantities desired and are issued at estimated prices; final prices are negotiated at a later date.

Material management officials at the center also stated that full-scale development and production of the B-1B aircraft were performed concurrently to compress the time required to achieve deployment. They said that while this approach enabled the Air Force to achieve initial operational capability (IOC) for the first aircraft to be put on alert at Dyess Air Force Base (AFB), Texas, within a relatively short period of time (about 5 years), it did not provide enough time to break out the items, put them on contract with manufacturers, and receive them by October 1, 1986, the IOC date for the B-1B. They noted that the center considered attempting to execute contracts with 10 spares manufacturers, including Woodward Governor, Inc., which manufactures the fuel control discussed in the above example, but that because of the emphasis on meeting the IOC date, the items eventually were bought from the associate prime contractors. The officials stated that during the EAB, contractual arrangements were already available with the four associate prime contractors to buy the total quantities of spares projected to be needed during the first 4 years of B-1B operation. They said using this alternative avoided the longer administrative leadtime associated with direct buys that they believed might have precluded having needed parts available to meet IOC for the B-1B.

AFLC officials said that the B-1B EAB, which involved initial and replenishment spares, occurred at a time during 1983 through 1985 when (1) no formal guidelines existed covering breakout of initial spares and (2) the automated provisioning system had limited ability to handle breakout purchases from manufacturers. AFLC officials said that in February 1985 AFLC published procedures mandating initial spares breakout. In addition, AFLC made improvements to its automated system that now enables it to be used for purchases directly from manufacturers. However, they said achieving breakout during initial provisioning will always be difficult, especially when the acquisition timeframe for a weapon system is compressed, as it was for the B-1B. They said that administrative leadtime and paperwork, combined with manpower shortages, will continue to be obstacles to effective breakout of initial spares.

We recognize that B-1B breakout efforts were affected by pressures to have spare parts available by the IOC date, administrative leadtime, and paperwork necessary to accomplish breakout, and the inability of the Air Force automated provisioning system to handle breakout transactions. In several instances, however, the associate prime contractor provided the manufacturer's identity to the Air Force early in the weapon system's full-scale development phase. Had the Air Force used this

information as early as possible, it could have executed contracts with some manufacturers and assured delivery of the parts before the IOC date. For example, in July 1982—51 months before the IOC date—Woodward Governor, Inc., was identified as the manufacturer of the fuel control (Stock No. 2915-01-208-0167JF). Considering a 9-month administrative leadtime and the 30-month actual production leadtime when ordered from the associate prime contractor, this early identification of the manufacturer gave the Air Force ample time to break out this item.

The Air Force could also have taken advantage of breakout opportunities by recognizing that not all of the spares quantities included in the EAB would be needed by the B-1B IOC date. Some spares needed for the last two B-1B squadron activations, which were scheduled 12 to 16 months after the IOC date as shown in table 1, could have been broken out.

Table 1: Activation Dates for B-1B Bases

Location	Number of aircraft assigned ^a	Activation date
Dyess AFB, Texas	29	October 1986
Ellsworth AFB, South Dakota	35	January 1987
Grand Forks AFB, North Dakota	17	September 1987
McConnell AFB, Kansas	17	February 1988
	98	

^aTwo aircraft are also assigned to Edwards AFB, California.

Using a 9-month administrative leadtime for breakout, the Air Force had enough time to purchase some initial spares from known manufacturers and to meet the activation dates for Grand Forks and McConnell AFBs. For instance, had the Air Force started breakout of the fuel control in March 1984 (when it placed the order with the associate prime contractor), a contract could have been executed by January 1985. Assuming the same 30-month production leadtime as the Air Force experienced by purchasing through the associate prime contractor, the fuel control would have been available by July 1987, thereby meeting the activation dates for Grand Forks and McConnell AFBs.

Replenishment Spares Purchased From Prime Contractors After Breakout

Since the EAB, the Air Force has purchased and continues to purchase many millions of dollars of additional B-1B replenishment spares. We found that the Oklahoma City Air Logistics Center made additional purchases from associate prime contractors, using provisioned items orders, even after the items had been broken out and approved for purchase from the manufacturers. For 8 of the 17 items we reviewed, the center made purchases from associate prime contractors after contracts had been executed with the item manufacturers at lower prices.

The following examples illustrate Air Force actions and give indications of the price differences that can result for the items purchased.

- Stock No. 6610-01-147-8345; a circuit card for a computer used on the B-1B. The Oklahoma City Air Logistics Center purchased 13 of these circuit cards from the associate prime contractor, Rockwell International, during initial provisioning, using provisioned items orders. A final unit price of \$87,056 was later negotiated for the 13 items. Rockwell International, at a provisioning conference, identified Harris Corporation as the manufacturer. The center used this information to break out the item in September 1985 when it purchased 27 follow-on replenishment spares from Harris Corporation at a unit price of \$80,361. However, on December 26, 1985, the center ordered an additional 12 units from Rockwell International at an estimated price of \$249,288 each, more than 200 percent higher than the manufacturer's price. As of August 5, 1987, the Air Force had not negotiated final unit prices for this procurement from Rockwell International.
- Stock No. 2915-01-148-0456JF; a temperature sensor on the F101 engine used on the B-1B. During initial provisioning, the Oklahoma City Air Logistics Center purchased three of these sensors at a unit price of \$6,203 and six units at a cost of \$4,209 each from the General Electric Company, an associate prime contractor. The center, using information provided by General Electric, later broke out this item and, in August 1985, purchased five replenishment spares from Woodward Governor, the actual manufacturer, at a unit price of \$2,927. However, in December 1985, the center ordered 16 units from General Electric on a provisioned items order for which a unit price of \$4,206 was subsequently negotiated. This price was \$1,279, or 44 percent, higher than that previously paid to the manufacturer. In a letter dated January 28, 1986, General Electric advised the center that it was holding the order because the items being ordered were follow-on buys of units already procured and that it preferred that the center buy these parts from the manufacturer. To assist the Air Force, General Electric identified the manufacturer of the items and suggested that if direct purchase was not possible, the

center issue a priced order against one of General Electric's existing basic ordering agreements instead of adding the needed quantity to an unpriced provisioned items order. However, in a letter dated February 18, 1986, the Air Force contracting officer directed General Electric to proceed with the transaction.

In March 1982, AFLC issued a policy directive on provisioned items orders because it believed that these orders were being used, without authorization, as a "crutch" to support short leadtime requirements for replenishment spares. AFLC prohibited the previous abusive use of such orders and pointed out that such use had

- violated DOD prohibitions against using the provisioning process for replenishment spare parts,
- significantly increased spares costs due to prime contractors' added charges, and
- shifted legitimate AFLC contracting workload to the Air Force Systems Command with a resultant negotiation disadvantage.

The 1982 policy directive stated that existing procedures (urgent purchase requests, basic ordering agreements, letter contracts, etc.) for procuring replenishment spares were sufficient to support Air Force requirements.

Oklahoma City center material requirements branch and B-1B program officials told us that provisioned items orders were used because of expediency; that is, they represented the quickest method of getting parts delivered as close as possible to the initial operational date (Oct. 1, 1986) for B-1B aircraft. Center officials said that they had not intentionally violated the regulations and policy and that, in retrospect, in expediting the purchases they failed to check the procurement status of the items and assumed (erroneously) that the items had not undergone breakout.

AFLC officials agreed that using provisioned items orders as discussed in the above examples was improper. On November 3, 1986, AFLC issued a reiteration of its 1982 policy on the appropriate use of such orders. The policy emphasized that provisioned items orders cannot be issued to prime contractors to procure items that have undergone breakout procedures and have been approved for purchase direct from the manufacturer. However, we found that this policy reiteration also was not always followed, as illustrated by the following example.

- Stock No. 1660-01-148-0459; an air blower used on the B-1B aircraft. This item was initially acquired from Rockwell International, an associate prime contractor. It had subsequently undergone breakout procedures and had been approved for breakout to the manufacturer, Sundstrand Industries, in January 1984 and again in March 1985, but no purchases were made from Sundstrand. On November 13, 1986, the Oklahoma City center ordered, on a provisioned items order, 25 replenishment spares from Rockwell International at an estimated unit price of \$179,481.

Conclusions

The Air Force did not take full advantage of breakout opportunities during initial provisioning for the B-1B. In particular, the Air Force could have used available data to break out individual spare parts for purchase directly from manufacturers as part of the 4-year EAB, rather than buying all items from associate prime contractors and component manufacturers. We do not believe the decision to buy all initial and replenishment spare parts in the EAB from the associate prime contractors and component manufacturers was appropriate in view of the significant price reductions that are possible when procurements of this type are broken out. Neither do we believe that using provisioned items orders as an expedient means of getting parts on order justifies violating AFLC policy of not buying replenishment spare parts from prime contractors when the items have been approved for breakout.

AFLC's reiteration of its policy, prohibiting use of provisioned items orders to buy spare parts from prime contractors when the items have been approved for purchase from manufacturers, was a step in the right direction. However, we are concerned whether the policy will be properly implemented, because items approved for breakout were ordered on a provisioned items order from a prime contractor after AFLC reiterated its policy.

Recommendations

To maximize the breakout of spare parts during initial provisioning of future systems, we recommend that the Secretary of the Air Force direct the Commander, AFLC, to:

- Emphasize the need to identify manufacturers of spares items, evaluate such items for breakout, and establish contracts to purchase the items directly from manufacturers as early as possible in the provisioning process, even for programs such as the EAB.

- Ensure that the avoidance of administrative leadtime and paperwork involved in breaking out spares items is not routinely used as justification for avoiding procurement from spares manufacturers.
- Require air logistics centers to recognize that all initially provisioned spares may not be needed by a weapon system's IOC and to take full advantage of cost-effective opportunities to break out procurement of spares quantities needed for base activations that occur subsequent to the IOC.

We also recommend that the Secretary of the Air Force direct the Commander, AFLC, to closely monitor Oklahoma City and other air logistics centers' compliance with AFLC policy against using provisioned items orders to avoid breaking out spares that have been approved for purchase directly from the manufacturers.

Agency Comments and Our Evaluation

In commenting on a draft of this report (see app. II), DOD generally concurred with our recommendations and indicated that actions had been or would be taken which are expected to significantly increase spares breakout in the future.

DOD stated that the EAB approach was selected for all B-1B spares acquisitions on the basic assumption that it would result in significant savings and other benefits by combining into economic lot sizes the procurement of material to be used in production and as spares. After the EAB approach was selected, commitments were made to buy the spares from the prime contractors. According to DOD, a change in methodology after that point would have caused the Air Force to break its commitments to buy spares from the prime contractors and would have delayed initial provisioning of the aircraft. DOD stated that it does not agree that the EAB method was not the correct approach to support the B-1B program.

DOD interpreted our draft report as being critical of the Air Force's decision to use the EAB approach to acquire spares for the B-1B. This interpretation was not correct and we have added explicit language to the report stating that we did not review the rationale for or the overall results of the use of the EAB.

There was nothing inherent in the EAB approach that precluded breaking out spares. Any savings realized as a result of combining procurements into economic lot sizes would have stemmed primarily from reduced production costs incurred by the manufacturers of the spares. If the manufacturers, which would have been the same organizations regardless of

whether the spares were broken out or ordered through the prime contractors, had been able to reduce their production costs, these reduced costs would have resulted in lower prices to the Air Force. For those spares that could have been broken out, the benefits of these reduced costs could have been passed directly to the Air Force. However, procurement of these spares through the prime contractors would result in these manufacturing cost savings benefits being reduced by the amount of the prime contractors' overhead and profit charges before being passed to the Air Force. As shown by the examples cited in the report, the Air Force could have used available data and assessed the feasibility of breaking out individual items. For those items that could have been broken out, the Air Force could have avoided prime contractors' charges. DOD, in commenting on the draft report, agreed that, in retrospect, additional B-1B spares could possibly have been broken out earlier in the acquisition process.

DOD acknowledged that the Air Force had erred, because of inadequate internal coordination, in buying replenishment spares from prime contractors after the items had been approved for breakout and had been bought from manufacturers at lower prices. DOD stated that the Air Force has taken action to ensure that proper coordination occurs in the future.

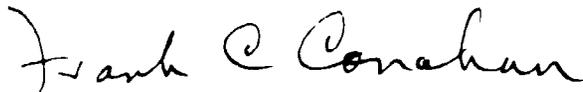
The actions that DOD indicated have been or will be initiated, if effectively implemented, should assure that assessments of breakout opportunities are made early in the acquisition process for future weapon systems and that spares are not bought from prime contractors after they have been approved for breakout.

The objective, scope, and methodology of our review is described in appendix I.

Unless you publicly announce the contents of this report earlier, we plan no further distribution until 14 days after its issue date. At that time, we will send copies to the Chairmen, House and Senate Committees on

Appropriations and on Armed Services, House Committee on Government Operations, and Senate Committee on Governmental Affairs; the Director, Office of Management and Budget; and the Secretaries of Defense and the Air Force.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank C. Conahan".

Frank C. Conahan
Assistant Comptroller General

Objective, Scope, and Methodology

Our overall objective was to evaluate AFLC breakout procedures for initial spare parts acquisitions. To accomplish our objective, we reviewed Air Force policies, procedures, and practices at Headquarters, AFLC, and at the Oklahoma City Air Logistics Center. Also, we interviewed AFLC and center officials responsible for carrying out these responsibilities.

For our review, we judgmentally selected 34 Oklahoma City center-managed items that were initially provisioned for the B-1B. These items were acquired from three of the four associate B-1B prime contractors, but were not manufactured by them. We selected these items because they were potential breakout candidates that appeared to meet Air Force breakout criteria. For items actually meeting the breakout criteria, we reviewed data supporting each purchase of initial and replenishment spares made during January 1983 through March 1987. This enabled us to identify contractors from whom the parts had been purchased and to determine whether replenishment spares were purchased from associate prime contractors after having been approved for breakout.

Our approach in selecting potential breakout candidates for review allowed us to quickly identify whether or not the center attempted breakout during initial provisioning. However, our approach did not enable us to estimate the total magnitude and value of missed breakout opportunities and we did not attempt to estimate the savings that could have been achieved through individual breakout actions. Our review was performed in accordance with generally accepted government auditing standards.

Comments From the Assistant Secretary of Defense (Production & Logistics)

Note GAO comments supplementing those in the report text appear at the end of this appendix



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON D C 20301-8000

JUL 20 1987

PRODUCTION AND
LOGISTICS
L/SPM

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International Affairs Division
US General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "AIR FORCE PROCUREMENT: More B-1B Spares Should Have Been Bought Directly From Manufacturers," dated May 1, 1987 (GAO code 392184) OSD Case 7289. The DoD partially concurs with the GAO findings and recommendations.

The DoD agrees that, in retrospect, more B-1B spares could possibly have been broken out earlier in the B-1B procurement process. At the time the Expanded Advance Buy (EAB) approach was developed for the B-1B, however, the DoD Breakout Program was directed primarily toward replenishment spares, not initial provisioning. Procedures for initial spares breakout were not established until June 1986.

It is also important to recognize that in developing the EAB approach for the B-1B, the Air Force considered component breakout and the potential for spares obsolescence during this period. In 1984, an Air Force Audit Agency report entitled "B-1B Component Breakout," reached similar conclusions as the current GAO report. Based on an analysis developed at that time, the Air Force determined that savings of \$158.9 million were achievable through the EAB approach. The Congress was made aware of this planned acquisition strategy before it was implemented. Commitments to contractors were then established early to take advantage of quantity buys and to facilitate design improvements.

The DoD agrees that spares should be considered for breakout as early in the acquisition process as is practicable, and has already taken action to do so. In June 1986, the Commander, Air Force Logistics Command, published new criteria for breakout of

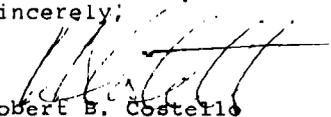
See comment

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initial spares. For those items that meet the breakout criteria, each Air Logistics Center is now routinely attempting to breakout spares procurements. Additionally, the Air Force is increasing its attention to compliance with provisioned item order procedures. These actions are expected to result in significant increases in spares breakout.

Thank you for the opportunity to comment on this draft GAO report. Comments relative to each of the major points raised in the report are enclosed.

Sincerely;



Robert B. Costello
Assistant Secretary of
Defense
(Production & Logistics)

Enclosure

DEPARTMENT OF DEFENSE COMMENTS ON

GAO DRAFT REPORT - DATED MAY 1, 1987
(GAO CODE 392184), OSD CASE 7289

"AIR FORCE PROCUREMENT: MORE B-1B SPARES SHOULD
HAVE BEEN BOUGHT DIRECTLY FROM MANUFACTURERS"

* * * * *

FINDINGS

FINDING A: Initial Spares Breakout Efforts for the B-1B Program. The GAO analyzed 34 B-1B spares included in the Air Force Logistics Command (AFLC) concept called the expanded advance buy (EAB) for B-1B spares acquisition. Twenty-five of these spares were approved for breakout and replenishment quantities for 17 of them were purchased from the actual manufacturer rather than the prime. The GAO also found, however, that none of these items were broken out during the EAB. The GAO discussed two specific examples where EAB breakout opportunities were missed and concluded that the Air Force could have avoided prime contractors' overhead and profit charges if it had bought the initial and replenishment spares directly from manufacturers. (pp. 1-2, pp. 4-5/GAO Draft Report)

DoD Response: Partially concur. The DoD agrees that, in retrospect, additional spares breakout opportunities may have been available early in the B-1B acquisition. The EAB, however, was approved by the Assistant Secretary of Defense (Comptroller) in December 1983, based on a well supported review of all spares requirements of the three associate contractors. In reaching its decision on the EAB, the Air Force considered component breakout and the potential for spares obsolescence as a result of future reliability testing, and it was determined that the anticipated savings of \$158.9 million were achievable. Projected savings under the EAB approach were developed based on a comparison of the three associate contractors, the engine contractors' normal business activities, and the EAB procedures. No additional breakout of B-1B components (First Tier Manufacturers) were planned. The basic assumption was that materiel, components, and subassemblies were less costly if procured in economic lot sizes (i.e., production and spares). With a firm commitment to spares, iterative design improvements can be accomplished more effectively. From the data submitted the commitment was then made to associate contractors to purchase under economic order quantity procedures 48 months of spares support. Based on the commitment, large overall savings were expected and determined to be achievable. Both the House and Senate Committees on Armed Services and Appropriations were made aware of this Air Force planned acquisition strategy.

Now on pp. 1, 2, 3 and 8

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It is important to note at the time of this decision (December 1983), the DoD breakout program was generally directed only toward replenishment spares purchases. This is normally well after initial provisioning actions have taken place and design stability is achieved. It was not until February 22, 1985, that interim guidelines for initial spares breakout were provided. Main points of the interim guidelines were to procure on the provisioning contract or use purchase requests for breakout to First Tier Manufacturers. The decision was to be based on which method would ensure best possible logistic support of the weapon system. Limited data availability and the pressing time associated with vendor contracts impacted the amount of breakout that was achievable. The vendor contract leadtime situation is being addressed. This could be corrected by awarding provisioning type contracts to major vendors at the same time prime contracts for the weapon are awarded. Final official procedures for breakout during initial provisioning were first provided in Air Force Logistics Command Regulation (AFLCR) 800-9 dated June 20, 1986. In addition, the Air Force made major changes to the initial provisioning system which allowed placement of orders to secondary contractors once provisioning contracts were awarded. This capability was not available at the start of B-1B initial provisioning.

In the case of the B-1B, the Air Force operated under normal initial provisioning as outlined and approved under the EAB procedures. They were committed to buy required spares under EAB procedures. A change in methodology at that time would have caused problems in two areas. First, it would have broken the commitment made to the associate contractors and therefore, could have affected overall program savings. Secondly, contracts with major vendors would have been required, which would have delayed initial provisioning and affected user support of the B-1B.

FINDING B: Reasons for Not Breaking Out B-1B Spares During the EAB. The GAO reported that Air Force officials agreed that breakout efforts during the EAB could have resulted in price reductions. The GAO also reported, however, that the Air Force officials cited several reasons why breakout was not done, including: (1) The additional administrative leadtime and paperwork involved; (2) Pressures to have spare parts available to support the B-1B in order to achieve its relatively short initial operational capability (IOC) date; and (3) Because the B-1B EAB occurred during 1983 through 1985, when no formal guidelines existed to cover initial spares breakout and when the automated provisioning system had limited ability to handle breakout purchases. While the GAO recognized these reasons, the GAO also concluded that the Air Force could have done more to achieve timely execution of contracts with manufacturers during the EAB. The GAO identified several instances where the associate prime contractor provided the identity of the manufacturer to the Air Force during early full scale development. The GAO concluded that this provided ample time for breakout. The GAO further concluded that the Air Force could have taken

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Now on pp 3, 4, and 5

advantage of breakout opportunities by recognizing that not all the spares would be needed by the B-1B IOC date. Overall, the GAO concluded that the Air Force decision to buy all initial and replenishment spare parts during the EAB from the associate prime contractors and component manufacturers was not appropriate in view of the significant price reductions possible when such procurements are broken out. (p. 2, pp. 5-8, p. 12/GAO Draft Report)

DoD Response: Partially concur. The DoD agrees with the reasons reported by the GAO for not breaking out B-1B spares procurements. Also important in determining initial spares breakout opportunities, however, are manpower levels, available leadtimes and mission support requirements. It is Air Force policy to breakout items when, after considering all these factors, breakout is determined to be in the best interest of the Government and mission support requirements can still be met.

As discussed in the DoD response to Finding A, the DoD does not agree that the EAB method was not the correct approach to support the B-1B program. As previously discussed, the analysis supporting the EAB decision considered the economics and mission impact of breakout, as well as other alternatives. Changing this philosophy late in the EAB effort may have jeopardized existing contract arrangements and mission support.

Finally, from the standpoint of supporting the implementation of this new weapons system, use of the EAB concept proved to be an efficient technique. Timely logistics support for the initial operation of B-1B is the subject of another GAO audit currently in progress (GAO code 392305).

FINDING C: B-1B Replenishment Spares Purchased from Prime Contractors After Breakout. The GAO found that since the EAB, the Air Force made purchases for 8 of 17 items from prime contractors after firm price contracts had been executed with the item manufacturers at lower prices. The GAO also found, however, that in March 1982, the AFLC issued a policy directive on provisioned item orders, prohibiting their use to support short leadtime requirements for replenishment spares. The GAO reported that, according to Air Force officials, provisioned item orders were used for the B-1B replenishment items for expediency reasons and because they had erroneously assumed that the items had not undergone breakout. According to the GAO, AFLC officials agreed that use of provisioned item orders for these items was improper. The GAO reported that in November 1986, the AFLC reiterated the 1982 policy, emphasizing that provisioned item orders cannot be issued to prime contractors to procure items that have undergone breakout procedures and been approved for direct purchase from the manufacturer. The GAO further found, however, that this reiterated policy was still not always followed. The GAO concluded that the 1986 policy reiteration is a step in the right direction to increased use of breakout opportunities, but that the policy may not be fully implemented since items approved for

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breakout had been purchased from prime contractors. (p. 2, pp. 9-12/GAO Draft Report)

DoD Response: Concur. This situation occurred when a complete Single Integrated Operational Plan (SIOP) Additive Spares Support (SASS) Kit was placed on procurement. The need date for this kit was established to coincide with the IOC, and the items in the kit were placed on order using provisioned item orders (PIOs) without knowledge that routine replenishment spares had been broken out. The Air Force has taken action to ensure that as additional procurements develop, proper coordination will occur and the purchases will be made directly from the breakout contractor.

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RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of the Air Force direct the Commander, AFLC, to emphasize the need to identify manufacturers of spares items, evaluate such items for breakout, and establish contracts to purchase the items directly from manufacturers, as early as possible in the provisioning process, even for programs such as the EAB. (pp. 12-13/GAO Draft Report)

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DoD Position: Partially concur. While the DoD agrees with the objective stated in Recommendation 1, the Commander, AFLC, has already emphasized the need for identifying manufacturers of spares items and evaluating such items for breakout by publishing Air Force Logistics Command Regulation (AFLCR) 800-9, Chapter 35 of June 1986. (Since breakout of initial spares requires extensive advance planning, the AFLC is reviewing the policy and will make refinements as necessary.) For those items which meet the breakout criteria specified in the aforementioned regulation, each Air Logistics Center is routinely establishing contracts or provisioning agreements to purchase those items directly from the actual manufacturers. The EAB approach, however, should not necessarily be included.

The EAB is an acquisition strategy that requires a great deal of analysis prior to application and is a viable alternate strategy to breakout. The Air Force is fully committed to applying the best combination of SAIP, breakout, or multiyear contracts for quantity discounts to achieve the most economic and responsive support possible.

RECOMMENDATION 2: The GAO recommended that the Secretary of the Air Force direct the Commander, AFLC, to ensure that the avoidance of administrative leadtime and paperwork involved in breaking out spares items is not routinely used as justification for avoiding procurement from spares manufacturers. (p. 13/GAO Draft Report)

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DoD Position: Partially concur. The DoD agrees with the intent of this recommendation, however, AFLCR 800-9, Chapter 35, has a checklist of criteria that must be met before a decision can be made to break out a part to the actual manufacturer. As stated in AFLCR 800-9, excessive leadtimes, urgency of need, configuration stability and control, system warranties and cost analysis are some of the criteria which influence the decision to acquire spares from the prime contractor or actual manufacturer.

RECOMMENDATION 3: The GAO recommended that the Secretary of the Air Force direct the Commander, AFLC, to require Air Logistics Centers to recognize that all initially provisioned spares may not be needed by a weapon system's IOC and to take full advantage of cost-effective opportunities to break out procurement of spares quantities needed for base activations which occur subsequent to the IOC. (p. 13/GAO Draft Report)

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DoD Position: Partially concur. The DoD agrees with the intent of this recommendation. In determining the acquisition method to use, however, the Air Force looks at indicators such as the contractor's engineering estimated maintenance factor, estimated failure data, projected aircraft deliveries, initial spares need dates, quantities required, configuration stability, leadtimes and cost. Based on these criteria, judgements are made regarding breaking out items with acceptable risk. This analysis takes into consideration whether splitting contracts for initial spares will automatically result in price savings.

RECOMMENDATION 4: The GAO recommended that the Secretary of the Air Force direct the Commander, AFLC, to monitor closely Oklahoma City and other Air Logistics Centers compliance with AFLC policy against using PIOs to avoid breaking out spares which have been approved for purchase directly from manufacturers. (p. 13/GAO Draft Report)

DoD Position: Concur. The DoD agrees that in general PIOs should not be used where items have been identified for direct purchase. The Air Force will make this a special interest item during IG inspections, Management Effectiveness Inspections (MEIs) and Staff Assistance Visits. These methods should ensure that PIOs are used only in those circumstances where justified.

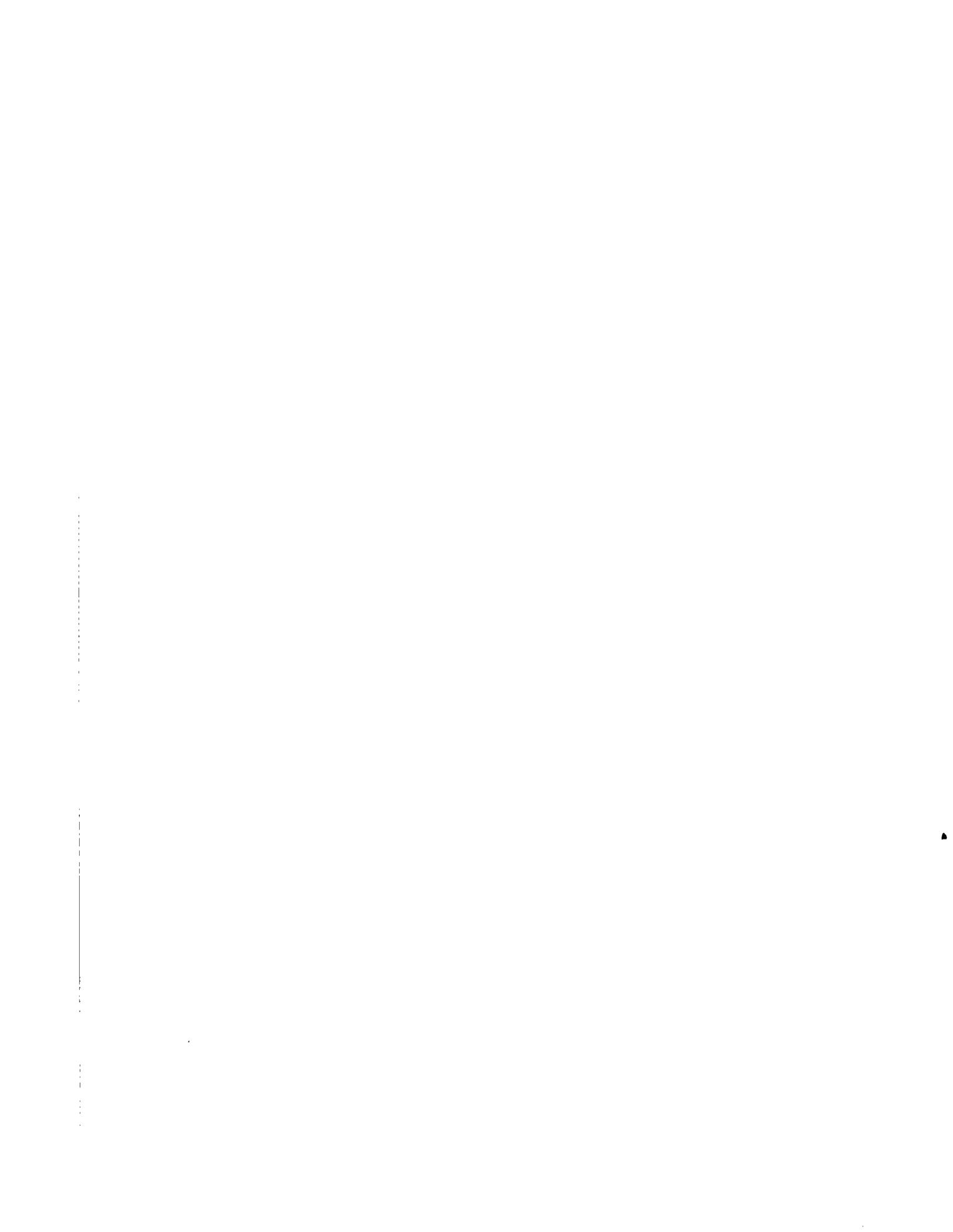
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The following is a GAO comment on the Assistant Secretary of Defense (Production and Logistics) letter dated July 20, 1987.

GAO Comment

The scope of the Air Force Audit Agency's work covered the issue of component breakout; it did not cover spares breakout.



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