

GAO Highlights

Highlights of [GAO-16-236](#), a report to congressional committees

Why GAO Did This Study

The DOD supply chain is vulnerable to the risk of counterfeit parts, which have the potential to delay missions and ultimately endanger service members. To effectively identify and mitigate this risk, DOD began requiring its agencies in 2013 and its contractors in 2014, to report data on suspect counterfeit parts. A Senate report included a provision for GAO to review DOD's efforts to secure its supply chain from counterfeit parts. This report examines, among other things, (1) the use of GIDEP to report counterfeits, (2) GIDEP's effectiveness as an early warning system, and (3) DOD's assessment of defense contractors' systems for detecting and avoiding counterfeits.

GAO analyzed data from GIDEP for fiscal years 2011 through 2015; reviewed DOD policies, procedures, and documents; and met with agency officials and seven selected contractors based on dollar value from contracts that included a new counterfeit clause.

What GAO Recommends

GAO recommends that DOD oversee its defense agencies' reporting efforts, develop standard processes for when to report a part as suspect counterfeit, establish guidance for when to limit access to GIDEP reports, and clarify criteria to contractors for their detection systems. DOD agreed with the 3 recommendations on GIDEP reporting but partially agreed with the recommendation to clarify criteria, stating it did not agree with providing specific implementation details. GAO continues to believe clarifying criteria is important, which is different than specific implementation details.

View [GAO-16-236](#). For more information, contact Marie A. Mak at (202) 512-4841 or MakM@gao.gov.

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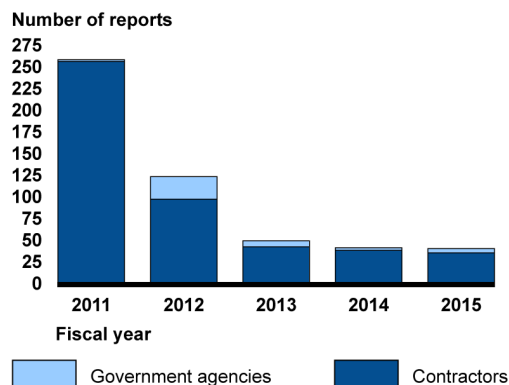
COUNTERFEIT PARTS

DOD Needs to Improve Reporting and Oversight to Reduce Supply Chain Risk

What GAO Found

Department of Defense (DOD) agencies and contractors submitted 526 suspect counterfeit parts reports in the Government-Industry Data Exchange Program (GIDEP) from fiscal years 2011 through 2015. These were submitted primarily by contractors. Defense agencies and contractor officials explained that congressional attention to counterfeit parts in 2011 and 2012 led to increased reporting, and that the lower number of reports in more recent years is partly the result of better practices to prevent the purchase of counterfeit parts.

Number of Suspect Counterfeit Reports for Fiscal Years 2011–2015



Source: GAO analysis of Government-Industry Data Exchange Program data. | GAO-16-236

Several aspects of DOD's implementation of its mandatory GIDEP reporting for suspect counterfeit parts have limited GIDEP's effectiveness as an early warning system.

- First, DOD is not conducting oversight to ensure that defense agencies are reporting as required. As a result, the Defense Logistics Agency (DLA), for example, may be underreporting suspect counterfeit parts in GIDEP.
- Second, there is no standardized process for establishing how much evidence is needed before reporting suspect counterfeit parts in GIDEP and DLA applies a significantly more stringent standard than, for example, the Navy. Consequently, reports may not be submitted in a timely manner.
- Third, defense agencies typically limit access of suspect counterfeit GIDEP reports to government agencies, so industry is not aware of the potential counterfeiting issues identified. DOD policy does not include guidance about when access to these reports should be limited.

All seven contractors GAO spoke with have established systems to detect and avoid counterfeit electronic parts; however, DOD has not finalized how these systems will be assessed. Contractors are seeking additional clarification on how to meet some of DOD's requirements. Until DOD clarifies criteria for contractors on how their systems will be evaluated, it cannot fully ensure these systems detect and avoid electronic counterfeit parts, as required.