

April 15, 2016



Expected Release

9:00am

Statement of
Jacqueline L. Wicecarver
Acting Deputy Inspector General for Auditing
Department of Defense Office of Inspector General

before the

Subcommittee on Oversight and Investigations
House Armed Services Committee

on

Defense Logistics Agency Product Aviation Processes to Obtain
Restitution from Contractors that Provide Defective Spare Parts

Good morning Chairwoman Hartzler, Ranking Member Speier, and distinguished members of the Subcommittee. Thank you for the opportunity to appear before you today to discuss our audit, Report Number DODIG-2016-052, of Defense Logistics Agency (DLA) Aviation processes to obtain restitution from contractors that provide defective spare parts. I request that this report be submitting for the record.

We initiated a series of audits on DLA Product Quality Deficiency Report (PQDR) processing based on our research that showed several potential problems involving the PQDR processing, DLA contract management, and warfighter support. The first two audits in this series focused on the DLA Aviation supply chain.¹ A third on-going audit is focusing on the DLA Land and Maritime supply chain.²

Background

DLA provides the U.S. military and combined allied forces with logistics, acquisition, and technical services, including providing more than 85 percent of the military's spare parts. DLA Aviation is DoD's integrated materiel manager for more than 1.1 million repair parts and operating supply items in support of all fixed- and rotor-wing aircraft. DLA Aviation purchases spare parts from contractors, stores the parts in DLA distribution depots, and sells and issues parts to DoD customers. DoD organizations use PQDRs to report defective parts that result from deficiencies in design, workmanship, specifications, material, or other nonconforming conditions.

¹ Report No. DODIG-2015-140, "Defense Logistics Agency Can Improve Its Product Quality Deficiency Report Processing," July 1, 2015, and DODIG-2016-052, "Defense Logistics Agency Aviation Can Improve its Processes to Obtain Restitution From Contractors That Provide Defective Spare Parts," February 23, 2016.

² Audit of Defense Logistics Agency Land and Maritime Product Quality Deficiency Report Processing (Project No. D2016-D000AG-0085.000)

Our objective for the Audit of Defense Logistics Agency Aviation Product Quality Deficiency Report Processing was to determine whether DLA Aviation personnel were adequately processing PQDRs and obtaining appropriate restitution (reimbursement) from contractors that provided defective spare parts. As part of this audit we also determined whether DLA personnel adequately removed the defective parts from the DoD supply system. During the audit we reviewed a statistical sample of 65 stock numbers for which DoD customers submitted PQDRs and DLA investigations identified contractor fault for causing defective parts.³ Our audit did not include the identification or investigation of counterfeit or substitute parts. However, when DLA encounters potential counterfeit or substitute parts it refers the matter to the DLA Counterfeit Material and Unauthorized Product Substitution team, which engages the DoD Defense Criminal Investigation Service, if warranted. The Defense Criminal Investigation Service is the criminal investigative arm of the DoD OIG.

Overall, we found that DLA Aviation did not pursue and obtain appropriate restitution from contractors who supplied defective parts.⁴ In addition to our finding from DODIG-2015-140, DLA Aviation did not adequately process and properly code the deficiency reports to reflect the root causes of the deficiencies, in DODIG-2016-052, we found DLA Aviation did not pursue and obtain appropriate restitution from contractors who supplied defective parts.

³ The scope of our review included 312 stock numbers with associated PQDRs closed between January 2014 and June 2014. Based on the results of our finding for the 65 sample items, we projected 269 stock numbers for which contractors supplied defective parts.

⁴ For DODIG-2016-052, we defined the term restitution to mean the value of parts the PQDR investigation determined to be defective as a result of contractor noncompliance. Restitution can be in the form of replacement parts, refunds, or voluntary consideration obtained in accordance with acquisition regulations. For all instances where DLA Aviation pursued restitution for our sample items, the restitution was generally in the form of replacement parts, not refunds or consideration.

Pursuing and Obtaining Restitution for Defective Parts

When a DoD customer submits a PQDR for a defective part, DLA conducts an investigation to determine the cause of the defect. When DLA's investigation determines that a contractor caused the defect, DLA logistics operations and acquisition personnel should complete the following steps:

- contact the contractor and request restitution;
- adequately search DoD's inventory to identify and remove all defective parts on the associated contract(s);⁵
- obtain a monetary refund or return the defective parts to the responsible contractor for repair or replacement, and
- track the status of all parts returned to the responsible contractor for replacement (if restitution was in the form of replacement parts) and ensure that serviceable replacement parts are provided.

In most cases, failure to successfully complete any of these steps will prevent or limit DLA's ability to pursue and obtain appropriate restitution for the defective parts. Through our audit efforts, we found failures in the above processes occurred because of inadequate DLA policy and ineffective communication among personnel involved in all steps of processing PQDRs and pursuing and obtaining restitution. For example, we determined that DLA Aviation quality assurance personnel did not coordinate with acquisition personnel to contact responsible contractors as part of the PQDR investigations. In addition, DLA lacked sufficient oversight and

⁵ This involves searching existing stock on hand at all 24 of DLA's distribution depots for additional defective spare parts provided on the contract(s) and notifying DoD customers who purchased the defective parts to have them search their on-hand inventory.

controls over the process to ensure the completion of all necessary steps. For example, quality assurance supervisors did not always ensure that quality assurance specialists completed the necessary steps during PQDR investigations. In addition, DLA lacked controls to ensure that all defective parts were returned to the contractor by logistics operations personnel and adequately tracked by acquisition personnel.

In addition, the shortcomings in DLA Aviation's PQDR processing left defective parts unaccounted for in the DoD supply system, negatively impacting warfighter readiness and safety. Overall, we projected DLA Aviation did not pursue and obtain appropriate restitution for a projected 269 stock numbers for which contractors supplied defective parts. As a result, we projected that DLA Aviation did not recover at least \$12.3 million in restitution.⁶ By not receiving appropriate restitution for defective parts, DLA may spend additional funds to purchase needed parts to replace the defective parts and to replenish its supply levels.

For example, we reviewed a PQDR investigation for tie-down straps valued at about \$1 per hundred straps. Despite the low cost, these items were considered critical application items and were used to attach oxygen hoses to pilot's helmets. The 412th Maintenance Group, Edwards Air Force Base, CA., identified deficient tie-down straps on a PQDR and stated that the ties broke and did not hold the oxygen hose to the oxygen mask, causing loss of oxygen to aircrew members during flight. The PQDR investigation determined that the contractor was responsible for the defect, and the contractor delivered 52,314 tie-down straps on the associated contract. DLA Aviation quality assurance reviewed multiple PQDRs, searched the DLA distribution depots, and located only 16,701 of the defective tie-down straps. The remaining 35,613 tie-down

⁶ \$12.3 million represented the projected value of the defective parts that were not replaced or refunded and does not include any additional amounts associated with consideration or voluntary refunds.

straps purchased off the contract were unaccounted for, and DLA Aviation's quality assurance personnel did not alert other customers who purchased the defective tie-down straps nor request a search of DoD's inventory. The defective tie-down straps potentially jeopardized the safety of the aircrew.

DLA agreed to develop a plan to review all stock numbers with associated PQDRs closed from January 2014 through November 2015 where the investigation indicated that the PQDR was valid and that the deficiency was due to a contractor noncompliance. In addition, the plan will address how DLA Aviation will take steps to identify high-value, critical safety items, and take prompt action to pursue appropriate restitution and to ensure that related defective parts are removed from the DoD supply system once the population is identified.

In another example, we reviewed a PQDR investigation for three defective co-pilot control wheels for the C-5 aircraft valued at \$35,909 each. The 436th Maintenance Group, Dover Air Force Base, initiated the PQDR and stated that the improperly manufactured parts prevented the control wheel hub assembly from being installed properly. The complaint further stated that continuously changing the component had consumed numerous valuable hours and effort that caused a work stoppage with completing the required maintenance task. The PQDR investigation determined that all 30 parts provided on the contract were defective and that the contractor was at fault. The contractor replaced 3 parts from the PQDR and agreed to replace the remaining 27 parts upon their receipt. DLA Aviation searched the DLA distribution depot inventory in March 2014 and identified that 23 of the remaining defective control wheels were being stored at the DLA distribution depot in Warner Robins, Georgia. DLA Aviation instructed the DLA distribution depot to ship the parts back to the contractor.

However, DLA Aviation officials did not respond to our inquiries about the 23 control wheels and DLA transaction data showed that the defective control wheels were never shipped from the DLA distribution depot in Warner Robins. Accordingly, DLA Aviation could not produce any evidence that it received restitution for 23 of the 27 defective parts, valued at \$825,907. In addition, DLA Aviation did not notify the other customers who purchased the remaining 4 of the 27 defective control wheels nor requested a search of DoD's inventory for the unaccounted parts. As a result, the shortcomings in DLA Aviation's PQDR processing left defective parts unaccounted for in the DoD supply system, potentially requiring additional maintenance and delays in the return of the aircraft to mission ready condition, thereby negatively impacting warfighter readiness and safety.

Recommendations

We made a total of five recommendations to DLA Headquarters to address the deficiencies identified during the audit. Specifically, we recommended that the Director, DLA, develop a plan of action with milestones to improve the agency's processes to identify defective spare parts and pursue and obtain restitution from contractors that provide defective spare parts. The plan should address the findings our report identified and establish controls and oversight to ensure DLA Aviation logistics operations and acquisition personnel:

- coordinate and pursue restitution from contractors that provide defective parts;
- adequately search all DoD's inventory to identify and remove defective parts;
- return defective parts to responsible contractors for replacement;
- track the status of defective parts shipped back to contractors and ensure that appropriate restitution is provided in the form of replacement parts; and

- review all stock numbers with associated product quality deficiency reports closed from January 2014 through November 2015 where DLA investigations concluded that the contractor provided defective parts, take prompt action to pursue and obtain appropriate restitution, and remove all defective parts from the DoD supply system.

The Director, DLA, agreed with our recommendations and stated that DLA will complete corrective actions by March 31, 2016. As of April 8, 2016, DLA had not provided a formal written response outlining the status of the corrective actions. However, a DLA official overseeing implementation of the corrective actions informed the audit team that DLA has several corrective actions either planned or in progress. These actions included updated guidance, expedited training, system changes, black belt initiatives, and a deep dive review of all PQDRs.

Conclusion

DLA Aviation did not pursue and obtain appropriate restitution from contractors that supplied defective parts. In addition, the shortcomings in DLA Aviation's PQDR processing left defective parts unaccounted for in the DoD supply system, negatively impacting warfighter readiness and safety. We made recommendations to DLA to improve its processes for pursuing and obtaining restitution from contractors that provide defective parts and for identifying and removing defective parts from the DoD supply system. DLA agreed with our recommendations and is in the process of completing corrective actions. As stated earlier, we have an on-going audit to determine if similar problems exist at the DLA Land and Maritime supply chain. This concludes my statement and I would be happy to answer any questions you may have regarding this audit.