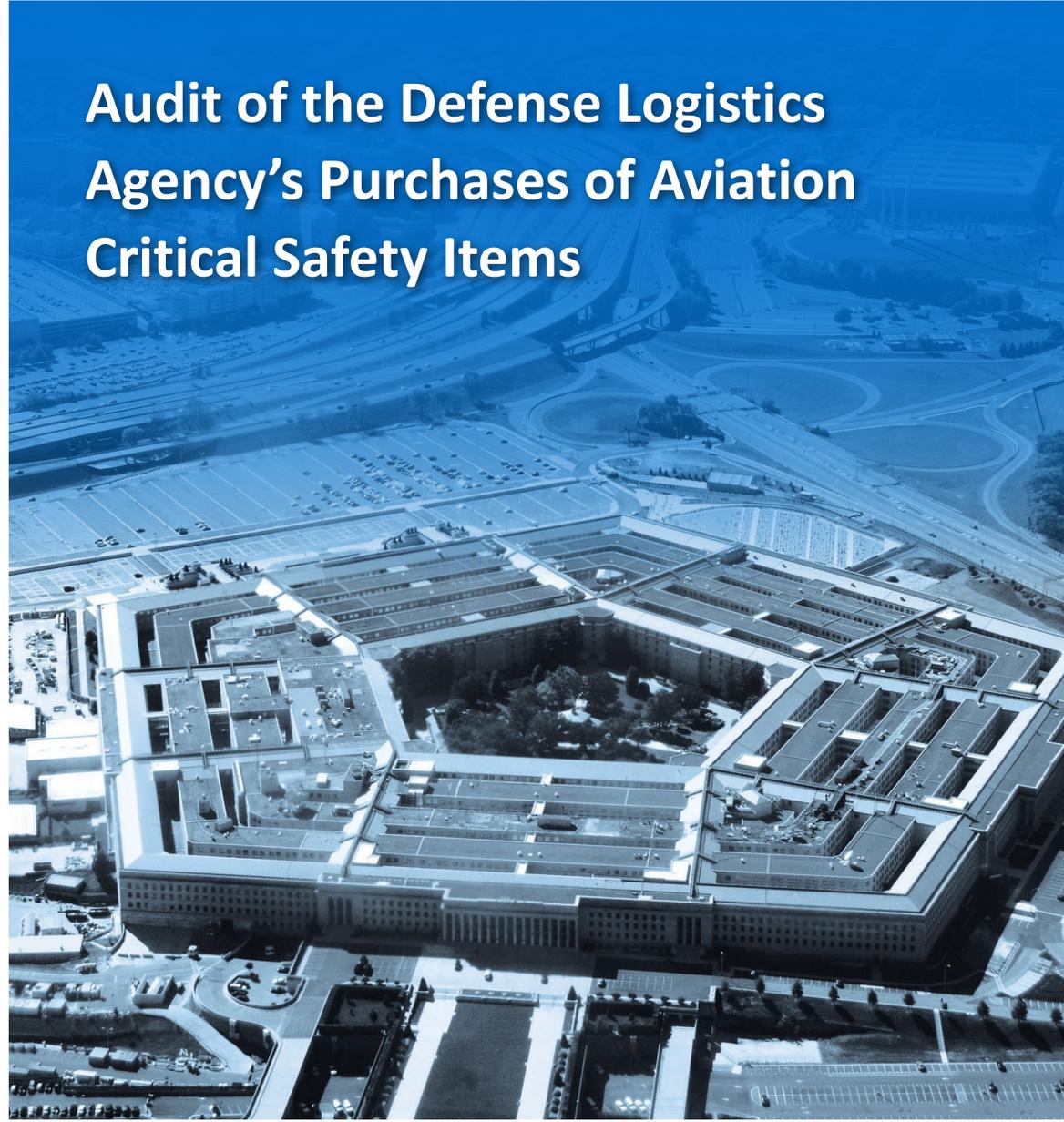




INSPECTOR GENERAL

U.S. Department of Defense

DECEMBER 3, 2019



Audit of the Defense Logistics Agency's Purchases of Aviation Critical Safety Items

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Audit of the Defense Logistics Agency's Purchases of Aviation Critical Safety Items

December 3, 2019

Objective

The objective of this audit was to determine whether Defense Logistics Agency (DLA) personnel properly purchased aviation critical safety items at the DLA Aviation Supply Chain in accordance with DoD guidance.

Background

Aviation critical safety items are parts, assemblies, installation equipment, launch equipment, recovery equipment, or support equipment for an aircraft or aviation weapon system that if they fail or malfunction could cause a catastrophic or critical failure resulting in the loss of or serious damage to the aircraft or aviation weapon system and personal injury or loss of life.

Each Military Department has a Service Engineering Support Activity that is responsible for ensuring the airworthiness of an aviation weapon system, identifying items and products that meet the aviation critical safety item classification criteria, and for qualifying and approving supply sources.

The DLA manages the global supply chain for the Military Services and DLA personnel purchase aviation critical safety items directly from approved sources or from dealers and distributors that agree to obtain the items from approved sources to support the Services' mission requirements.

The Defense Contract Management Agency (DCMA) is responsible for ensuring the integrity of contractual processes and providing a broad range of

Background (cont'd)

contract-procurement management services, including product inspection, test, or verification to ensure that critical safety items presented for acceptance meet the contract's technical requirements.

After contract award, the DCMA monitors contractor performance to ensure that cost, product performance, and delivery schedules comply with the contract's terms and conditions. As part of this effort, the DCMA completes a contract technical review to identify the contract's quality and technical requirements associated with the item the DLA is purchasing.

In FY 2017, DLA Aviation personnel awarded 11,427 contracts, valued at \$423.4 million. The contracts involved 3,978 unique aviation critical safety item stock numbers. From this universe of contracts, we reviewed a nonstatistical sample of 85 contracts, valued at \$37.5 million. The contracts involved 81 unique aviation critical safety item stock numbers.

Finding

We determined that DLA personnel obtained aviation critical safety items in accordance with DoD guidance to meet Service mission requirements for 83 of 85 contracts reviewed, valued at \$37.5 million. However, DLA personnel awarded two contracts to sources that the Service Engineering Support Activities did not approve. DLA personnel took corrective actions during the audit, such as notifying the responsible Service Engineering Support Activity and obtaining source approval, screening stock at a DLA Distribution Depot, and alerting customers.

While we determined that the aviation critical safety items obtained met DoD requirements, we also identified weaknesses in the DLA's controls for 31 contracts awarded to dealers and distributors that could have resulted in the purchase of nonconforming parts. Specifically, DLA personnel did not prepare or issue quality assurance letters of instruction to the DCMA or obtain documentation to trace items to approved sources to validate source approval in accordance with DoD guidance.



Results in Brief

Audit of the Defense Logistics Agency's Purchases of Aviation Critical Safety Items

Finding (cont'd)

The awards to unapproved sources and control weaknesses occurred because DLA officials did not:

- provide adequate procedures and oversight to ensure that personnel accurately completed critical safety items award checklist requirements for all 33 contracts, or
- establish a process to ensure that personnel issued internally prepared quality assurance letters of instruction to the DCMA and verified the DCMA's receipt of the instructions for 15 of the 33 contracts.

In addition, DLA officials did not provide oversight to ensure that DLA business process analyst personnel independently and consistently performed compliance reviews on all aviation critical safety item contracts after contract award. DLA officials cited resource limitations as the reason that the compliance reviews were not conducted on all aviation critical safety item contracts.

We also identified deficiencies in the DLA compliance review procedures involving the verification of traceability documentation and the issuance of quality assurance letters of instruction to the DCMA.

Because of the control weaknesses involving issuing quality assurance letters of instruction and obtaining documentation to trace parts to approved sources, the DLA could not validate that approved sources manufactured the critical safety items for 31 contracts awarded to dealers and distributors. Therefore, we obtained inspection and acceptance results from the DCMA for 27 contracts to verify product conformance. We also requested the DLA take additional steps for four contracts to verify product conformance.

Finally, as a result of the control weaknesses over its aviation critical safety item purchases, the DLA could purchase nonconforming parts. A critical safety item malfunction as a result of nonconforming parts could cause a catastrophic or critical failure resulting in the loss of or serious damage to the aircraft or weapon system, threatening the life and safety of the warfighter.

Recommendations

We recommend that the DLA Director improve and implement controls over the purchases of aviation critical safety items in the DLA Aviation supply chain. Specifically, we recommend that the Director:

- establish procedures for the completion and review of DLA critical safety item award checklists and provide oversight and recurring training,
- improve, implement, and enforce controls over the independent compliance reviews of aviation critical safety item contract awards,
- develop a formalized process to ensure issuance of quality assurance letters of instruction to the DCMA for aviation critical safety item contracts and obtain and retain evidence of the DCMA's receipt of the instructions,
- revise the memorandum of agreement between the DLA and the DCMA to clarify responsibilities,
- review the problems in this report, identify responsible personnel, and initiate as appropriate any administrative actions warranted by the review, and
- implement the applicable corrective actions resulting from this report across all DLA organizations that purchase aviation critical safety items.



Results in Brief

Audit of the Defense Logistics Agency's Purchases of Aviation Critical Safety Items

Management Comments and Our Response

The DLA Acquisition Director, responding for the DLA Director, agreed with the recommendations, stating that the DLA has taken action or has planned actions to:

- update the critical safety item award checklist and provide procedures and training,
- update technical quality procedures to address the issuance of quality assurance letters of instruction to the DCMA and the retention of DCMA receipt acknowledgement,
- improve the critical safety item contract award compliance review process,

- review the deficiencies cited and the involvement and actions of staff to determine if individual administrative actions are warranted, and
- direct enterprise-wide adoption of corrective actions resulting from this audit to all DLA supply chains.

The comments from the Director addressed our recommendations; therefore, the recommendations are resolved and will remain open. We will close the recommendations once the Director provides the documentation showing that the actions have been completed. Please see the Recommendations Table on the next page for the status of recommendations.

Recommendations Table

| Management | Recommendations Unresolved | Recommendations Resolved | Recommendations Closed |
|------------------------------------|----------------------------|---------------------------------------|------------------------|
| Director, Defense Logistics Agency | None | 1.a, 1.b, 1.c, 1.d, 2.a, 2.b, 3, 4 | None |

Note: The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.



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

December 3, 2019

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND
SUSTAINMENT
DIRECTOR, DEFENSE LOGISTICS AGENCY**

**SUBJECT: Audit of the Defense Logistics Agency's Purchases of Aviation Critical Safety Items
(Report No. DODIG-2020-037)**

This final report provides the results of the DoD Office of Inspector General's audit. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

The Defense Logistics Agency Acquisition Director, responding for the Defense Logistics Agency Director, agreed to address all the recommendations presented in the report; therefore, the recommendations are considered resolved and open. As described in the Recommendations, Management Comments, and Our Response section of this report, the recommendations may be closed when we receive adequate documentation showing that all agreed-upon actions to implement the recommendations have been completed. Therefore, please provide us within 90 days your response concerning specific actions in process or completed on the recommendations. Your response should be sent to either followup@dodig.mil if unclassified or rfunet@dodig.smil.mil if classified SECRET.

We appreciate the cooperation and assistance received during the audit. If you have any questions, please contact me at [REDACTED]

A handwritten signature in cursive script, reading "Theresa S. Hull".

Theresa S. Hull
Assistant Inspector General for Audit
Acquisition, Contracting, and Sustainment

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Introduction

Objective

We determined whether Defense Logistics Agency (DLA) personnel properly purchased aviation critical safety items (CSIs) at the DLA Aviation Supply Chain in accordance with DoD guidance.¹ See Appendix A for scope and methodology, and prior audit coverage.

Background

Aviation Critical Safety Item Guidance and Management

Public Law defines aviation CSIs and DoD guidance specifies how DoD organizations are to identify, classify, purchase, and manage the items.

Public Law

Public Law 108-136 defines aviation CSI as a part, an assembly, or equipment for installation, launch, recovery, or support for an aircraft or aviation weapon system if the item contains a characteristic that any failure, malfunction, or absence of which could cause:

- catastrophic or critical failure resulting in the loss of or serious damage to the aircraft or weapon system;
- risk of personal injury or loss of life; or
- unintentional engine shutdown that jeopardizes safety.²

The Public Law requires the Secretary of Defense to establish a quality control policy for the procurement of aviation CSIs and the procurement of modifications, repair, and overhaul of such items that requires the:

- head of the design control activity for aviation CSIs to establish processes to identify and manage the procurement, modification, repair, and overhaul of aviation CSIs;³
- head of the contracting activity for an aviation CSI to enter into a contract for the procurement, modification, repair, or overhaul of CSIs only with a source approved by the design control activity; and

¹ Throughout the report, we refer to DLA Aviation supply chain personnel as DLA personnel unless otherwise noted.

² Public Law 108-136, "National Defense Authorization Act for Fiscal Year 2004," section 802, "Quality Control in Procurement of Aviation Critical Safety Items and Related Services," November 24, 2003.

³ The term "design control activity," with respect to an aviation CSI, represents the system's command of a Military Department that is specifically responsible for ensuring the airworthiness of an aviation system or equipment that uses the item.

- aviation CSI delivered—and the services performed with respect to aviation CSI—to meet all technical and quality requirements specified by the design control activity.

DoD Aviation Critical Safety Item Policy

The Military Departments, DLA, and Defense Contract Management Agency (DCMA) issued a Joint Instruction that covers the management of aviation CSIs used in fixed- and rotary-wing aircraft, unmanned air vehicles, aviation weapons and equipment, and associated aviation support equipment.⁴ The Joint Instruction establishes processes for coding and tracking aviation CSIs and approving supply sources.

Service Engineering Support Activities

The Joint Instruction specifies that the Service Engineering Support Activities (ESAs) are the design control activities for aviation CSIs and have multiple responsibilities, including to:

- identify items and products that meet the criteria for classification as aviation CSI and qualifying and approving aviation CSI suppliers;
- verify and validate criticality determinations and the technical data necessary to design, manufacture, procure, repair, or overhaul aviation CSI;
- record the criticality determinations for aviation CSIs by stock number in the respective logistics systems;⁵
- maintain lists of approved aviation CSI sources by their respective Commercial and Government Entity (CAGE) Code;⁶ and
- revalidate the criticality determinations for existing items whenever there are changes to the item's configuration, manufacturing or repair and overhaul processes, or sources of supply, or when there is a request for waiver or deviation.

⁴ Secretary of the Navy Instruction 4140.2, "Management of Aviation Critical Safety Items," January 25, 2006.

⁵ A stock number is a 13-digit number that consists of a 4-digit supply classification code and a 9-digit national item identification number that DoD organizations use to manage inventory items.

⁶ A CAGE code is a five-digit identifier number assigned to suppliers of various Governmental agencies.

Approved Aviation Critical Safety Item Sources

The Joint Instruction identifies sources for contracting activities to consider when purchasing CSIs, unless otherwise established by the Service ESAs, such as:

- the system or subsystem prime contractor;
- the original equipment manufacturer (OEM) that supplies the CSI to the prime contractor where the Service ESA determines the prime contractor provides no “value added” to the item that the Government could not perform;
- fully licensed manufacturers of the prime contractor or OEM that provide substantiation of their licensing arrangement;
- alternate sources approved by the cognizant Service ESA, including Service depots and other Government facilities; and
- dealers or distributors who provide traceability that the system prime contractor, OEM, or ESA-approved alternative source produced the items they are supplying and the items are unchanged in any way.⁷

The Joint Instruction requires the DLA to purchase aviation CSIs only from the sources the Service ESAs approve. The Service ESAs also assign codes to specify the methods for DLA personnel to use when purchasing CSIs.⁸ For example, the codes identify whether the CSI is suitable for competitive acquisition or whether to purchase it from an ESA-approved source. In addition, the codes identify whether the part requires source approval by the design control activity or whether the Government has unlimited rights to the technical data.

Surplus Aviation Critical Safety Items

The Joint Instruction specifies that the DLA should only consider offers of surplus CSIs for procurement if the Service ESA has approved documentation substantiating that the proposed item:⁹

- was originally manufactured by an approved source at the time of manufacture and the manufacturer's approval for that item has not subsequently been revoked;
- is unused in any way;
- is not repaired, recycled, remanufactured, reconditioned, or has not been previously dispositioned as nonconforming by the system or subsystem prime contractor, OEM, other supplier or the Government;

⁷ Traceability is evidence that traces an item from the dealer or distributor back to the approved manufacturing source.

⁸ These are acquisition method codes and acquisition method suffix codes.

⁹ Surplus is material that the U.S. Government originally purchased and accepted and subsequently sold or disposed of by the Defense Reutilization and Marketing Service.

- fully conforms to all critical characteristics as identified in item technical data requirements, contract, or other ESA instruction (for example, the item's critical characteristics are not discrepant in any way); and
- has a remaining shelf life or other time-critical aspects that are acceptable to the Service ESA.

The Joint Instruction also specifies that Government contract quality assurance inspections must be performed on surplus offers to ensure that the items meet all critical characteristics identified on the component drawings, in the solicitation or contract, and in other quality instructions.

Defense Logistics Agency Aviation Critical Safety Item Policy

The DLA issued a Quality Deskbook that provides additional policy and procedures for the management of aviation CSI based on the Joint Instruction.¹⁰ The Quality Deskbook covers CSI source management, management controls, quality management and requirements, commonuse CSI coordination, supervisory review responsibilities, and monthly CSI contract compliance reviews. In addition, the DLA issued an Acquisition Directive that provides guidance on purchasing aviation CSI, supporting documentation, and contractor records retention and Government contract files.¹¹

The DLA Quality Deskbook requires DLA personnel to issue a quality assurance letter of instruction (QALI) to the DCMA for contracts awarded to surplus providers, dealers and distributors, or as required by the Service ESA when contract technical requirements are significant or the aviation CSI has critical characteristics, special features, or special acquisition concerns. DLA personnel are required to issue a QALI to the organization responsible for Government contract quality assurance to ensure conformance of DLAprocured products and services.

Defense Logistics Agency

The DLA, headquartered at Fort Belvoir, Virginia, manages the global supply chain for the Army, Navy, Air Force, Marine Corps, and combatant commands and provides 86 percent of the military's spare parts. The DLA's Aviation Supply Chain (DLA Aviation), headquartered in Richmond, Virginia, supports more than 1,700 weapons systems and is the U.S. military's integrated materiel manager for more than 1.2 million national stock number items. The DLA's supply chains acquire and sell aviation CSIs to DoD customers. Table 1 shows the FY 2017 aviation CSI contract awards and unique CSIs by the DLA supply chain.

¹⁰ DLA "Technical and Quality Policy and Procedures Deskbook," appendix B15, "Critical Item Management (CIM): Critical Safety Items (CSI)," October 27, 2016.

¹¹ DLA "Defense Logistics Acquisition Directive," Revision 5, December 29, 2017.

Table 1. FY 2017 Aviation CSI Contract Awards and Unique CSIs by DLA Supply Chain

| DLA Supply Chain | Contract Awards | Unique CSIs | Value (Millions) |
|-----------------------|-----------------|--------------|------------------|
| DLA Aviation | 11,427 | 3,978 | \$423.4 |
| DLA Troop Support | 1,628 | 881 | 36.3 |
| DLA Land and Maritime | 1,033 | 560 | 43.6 |
| Total | 14,088 | 5,419 | \$503.3 |

Source: The DLA.

The DLA obtains lists of aviation CSIs and their approved sources from the Service ESAs and purchases aviation CSIs to meet the Services' requirements. The DLA requires its quality assurance, acquisition, and contracting personnel to complete a CSI checklist before awarding contracts for aviation CSIs to ensure that personnel award contracts to approved sources and obtain traceability documentation and issue QALIs when required. See Appendix B for a copy of the DLA CSI checklist.

Aviation Critical Safety Items Purchased From Dealers and Distributors

The DLA acquires aviation CSIs from contractors (dealers and distributors) that did not manufacture the items. Typically, prime contractors or OEMs:

- formally sanction approved dealers and distributors to buy, sell, and distribute their products; and
- review, audit, approve, and monitor approved dealers and distributors to assure the parts supplied are identical to those originally supplied to them.

Parts provided by approved dealers and distributors typically carry the same warranty and protections as items obtained directly from the prime contractor or OEM. Contractors that submit quotes or offers for items they do not manufacture are required to retain documented evidence (supply chain traceability) that the item is from an approved manufacturer and conforms to specified technical requirements. In some cases, the manufacturers do not formally sanction dealers and distributors.¹²

¹² Dealers and distributors not formally sanctioned are organizations that sell, convey, or otherwise transfer a product (not its own) to another party. The dealers and distributors perform no manufacturing or testing and may sell a manufacturer's product without the manufacturer's knowledge.

Depending on the status of the parts in the manufacturing process, the DLA can purchase aviation CSIs from dealers and distributors if the dealer or distributor:

- has the item in stock, or
- does not have the item in stock but has an agreement to obtain the CSI from the manufacturer.

Defense Contract Management Agency

The DCMA, headquartered at Fort Lee, Virginia, is a DoD combat support agency responsible for ensuring the integrity of contractual processes and providing a broad range of contract-procurement management services. After contract award, the DCMA monitors contractors' performance and management systems to ensure that cost, product performance, and delivery schedules comply with the contract's terms and conditions. As part of this effort, the DCMA completes a contract technical review to identify the quality and technical requirements associated with the item the DLA purchases. The Joint Instruction specifies that the DCMA will perform Government contract quality assurance using requirements established by QALIs, including product inspection, test, or verification to ensure that CSIs presented for acceptance meet the contract's technical requirements.

Sampling of Aviation Critical Safety Item Contracts

In FY 2017, DLA Aviation personnel awarded 11,427 contracts, valued at \$423.4 million. The contracts involved 3,978 unique aviation CSI stock numbers. From this universe of contracts, we reviewed a nonstatistical sample of 85 contracts, valued at \$37.5 million. The contracts involved 81 unique aviation CSI stock numbers.

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 the controls.¹³

We identified controls weaknesses associated with the DLA's aviation CSI purchases. Specifically, DLA personnel awarded contracts to unapproved sources and did not prepare QALIs or obtain traceability documentation for contracts awarded to dealers and distributors. We will provide a copy of the report to the senior DLA official responsible for internal controls.

¹³ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

The Defense Logistics Agency Needs to Improve Its Aviation Critical Safety Item Purchase Controls and Consistently Enforce Compliance Reviews

We determined that DLA personnel obtained aviation CSIs in accordance with DoD guidance to meet Service mission requirements for 83 of 85 contracts reviewed, valued at \$37.5 million. However, DLA personnel awarded two contracts to sources that the Service ESAs did not approve but took corrective actions during the audit. While we determined that the CSIs obtained met DoD requirements, we also identified weaknesses in the DLA's controls over aviation CSI purchases for 31 contracts awarded to dealers and distributors that could have resulted in the purchase of nonconforming parts. Specifically, DLA personnel did not prepare or issue QALIs or obtain traceability documentation in accordance with DoD guidance. The awards to unapproved sources and control weaknesses occurred because DLA officials did not:

- provide adequate procedures and oversight to ensure that personnel accurately completed CSI award checklist requirements for all 33 contracts, or
- establish a process to ensure that personnel issued internally prepared QALIs to the DCMA and verified the DCMA's receipt of the QALIs for 15 of the 33 contracts.

In addition, DLA officials did not provide oversight to ensure that DLA business process analyst personnel independently and consistently performed compliance reviews on all aviation CSI contracts after award. DLA officials cited resource limitations as the reason that the compliance reviews were not conducted on all aviation CSI contracts. We also identified deficiencies in the compliance review procedures involving the verification of traceability documentation and the issuance of QALIs to the DCMA.

Because of the control weaknesses, the DLA could not validate that approved sources manufactured the CSIs for 31 contracts awarded to dealers and distributors. Therefore, we obtained inspection and acceptance results from the DCMA for 27 contracts to verify product conformance. We also requested the DLA take additional steps for four contracts to verify product conformance.

Finally, as a result of the control weaknesses over its aviation CSI purchases, the DLA could purchase nonconforming parts. A CSI malfunction as a result of nonconforming parts could cause a catastrophic or critical failure resulting in the loss of or serious damage to the aircraft or weapon system, threatening the life and safety of the warfighter.

The Defense Logistics Agency Obtained Aviation Critical Safety Items to Support Service Mission Requirements

In FY 2017, DLA Aviation personnel awarded 11,427 contracts for aviation CSIs, valued at \$423.4 million. From this universe of contracts, we reviewed a nonstatistical sample of 85 contracts, valued at \$37.5 million. As described in the paragraphs following Table 2, DLA and DCMA personnel provided evidence that the DLA obtained aviation CSIs to support Service mission requirements for 83 of 85 contracts reviewed. However, DLA personnel awarded two contracts to sources that the Service ESAs did not approve but took corrective actions during the audit. Table 2 lists the various types of award categories for the 85 contracts.

Table 2. Award Categories for 85 Sampled Contracts for Aviation CSIs

| Contract Award Category | Contracts | Unique CSIs |
|---|-----------|-------------|
| Dealers and Distributors for New Parts | 37 | 35 |
| Directly to a Service ESA-Approved Source | 18 | 17 |
| Not Requiring Service ESA Source Approval | 11 | 10 |
| Dealers and Distributors for Surplus CSIs | 10 | 10 |
| Emergency Buys or Inspection at Destination | 7 | 7 |
| Unapproved Sources | 2 | 2 |
| Total | 85 | 81 |

Source: The DoD OIG.

Awards to Dealers and Distributors for New Parts Properly Obtained

DLA personnel properly obtained aviation CSIs for 37 contracts awarded to dealers and distributors for new parts. For 35 of the 37 contracts, DLA personnel awarded the contracts to dealers and distributors that agreed to obtain the parts from sources the Service ESAs approved. We verified that the dealers and distributors obtained the parts from the approved sources. For example, DLA personnel awarded a delivery order to a distributor for engine fuel oil heater core assemblies used on the KC-135 aircraft (military refueling aircraft). DLA personnel correctly completed a CSI award checklist, and obtained adequate traceability documentation

prior to contract award ensuring the approved source authorized the distributor to provide its parts. In addition, DLA personnel issued a QALI to the DCMA instructing DCMA personnel to ensure the material met the contract requirements. DCMA personnel inspected and accepted the material and verified that the distributor obtained it from the approved source.

DLA personnel properly obtained aviation CSIs for 2 of the 37 contracts for which the Service ESA coded the CSIs to allow for full and open competition and did not require source approval. The DLA awarded the contracts to dealers. We determined that DLA personnel included proper testing requirements in the contracts or obtained the parts from contractors that provided parts on prior contracts with no adverse quality problems.

Awards Directly to a Service Engineering Support Activity– Approved Source for Parts Properly Obtained

DLA personnel properly obtained aviation CSIs for 18 contracts awarded directly to sources that the Service ESAs approved. For these contracts, we verified that the Service ESA's approved source list properly identified the awardee.

Awards Not Requiring Service Engineering Support Activity Source Approval for Parts Properly Obtained

DLA personnel properly obtained aviation CSIs for 11 contracts for which the Service ESAs coded the CSIs to allow for full and open competition and did not require source approval. The DLA awarded the contracts to manufacturers. We determined that DLA personnel included proper testing requirements in the contracts, such as a first article test, or obtained the parts from contractors that provided parts on prior contracts with no adverse quality problems.¹⁴

We reviewed the testing requirements that DLA personnel established in the contracts and procurement histories for the CSIs to identify prior contracts the DLA awarded to contractors for our sampled CSIs. We researched the DoD Product Data Reporting and Evaluation Program information system to ensure that DLA customers had not submitted product quality deficiency reports for parts associated with these contracts.¹⁵

¹⁴ A first article test determines whether a contractor can furnish a product that conforms to all contract requirements for acceptance prior to the regular production on the contract.

¹⁵ The DoD Product Data Reporting and Evaluation Program Information System is a Navy-hosted system that DLA personnel and the DLA's customers use to report and track product quality deficiency reports. A product quality deficiency is a defect or nonconforming condition, which limits or prohibits the item from fulfilling its intended purpose.

For example, DLA personnel awarded a contract for rod-end ball bearings used on the CH-47 Chinook Helicopter (medium-to-heavy-lift helicopter) using full and open competition based on the Air Force ESA's CSI coding. DLA personnel awarded the contract to a manufacturer that had previously supplied the plain rod-end bearings on prior contracts without any adverse quality problems. We researched the DoD Product Data Reporting and Evaluation Program information system and verified that DLA customers had not submitted product quality deficiency reports for the rod-end ball bearings on any of the prior contracts.

Awards to Dealers and Distributors for Surplus Parts Properly Obtained

DLA personnel properly obtained aviation CSIs for 10 contracts awarded to dealers and distributors for surplus material. For these contracts, we verified that DLA personnel followed surplus purchase procedures outlined in the Joint Instruction and obtained the Service ESA's approval prior to contract award.¹⁶

For example, DLA personnel awarded a contract to a dealer for access cover assemblies (airframe structural components) used on the E2 aircraft (all-weather, carrier-based tactical aircraft). DLA personnel correctly obtained traceability documentation prior to contract award. The traceability documents identified the material as surplus from a prior Navy contract, and the dealer indicated that the parts were unused and in the original packaging. DLA personnel obtained approval from the Navy ESA to purchase the surplus material pending a quality assurance inspection. DLA personnel issued a QALI to the DCMA instructing DCMA personnel to conduct a quality assurance inspection and ensure that the offered material was unused, undamaged, and manufactured by the Navy ESA-approved source. The DCMA inspected and accepted the material.

Awards for Emergency Buys or Inspection at Destination for Parts Properly Obtained

DLA personnel properly obtained aviation CSIs for seven contracts awarded using emergency buy procedures to support Air Force customers or using surplus procedures and requiring inspection at destination by an Air Force engineer. For six of these contracts, we verified that DLA personnel followed emergency buy procedures outlined in the Joint Instruction and in a performance-based agreement with the Air Force and obtained the Air Force ESA's approval prior to contract award.¹⁷ For one contract, we verified that DLA personnel followed surplus

¹⁶ DLA personnel use DLA Form 339, "Request for Engineering Support," to request ESA approval to purchase surplus stock.

¹⁷ DLA personnel use the DLA Form 1912, "DLA Local Purchase—Technical Support Request," to request engineering support from the Service ESAs for DLA retail emergency acquisitions.

purchase procedures outlined in the Joint Instruction and obtained the Air Force ESA's approval prior to contract award and required inspection at destination by an Air Force engineer.

For example, DLA personnel awarded a contract for the emergency purchase of gearbox impellers (internal engine components) used on the F-100 aircraft engine to a dealer that offered surplus gearbox impellers. The emergency purchase was necessary because the delivery date for new gearbox impellers on another contract was a year away. Prior to contract award, DLA personnel obtained the Air Force ESA's approval and required an Air Force engineer to inspect and accept the parts upon receipt.

Awards to Unapproved Sources for Parts Not Properly Obtained and the Defense Logistics Agency's Corrective Actions

DLA personnel awarded two contracts to sources that the Service ESAs did not approve. During the audit DLA personnel implemented corrective actions for one contract awarded to an unapproved manufacturing source and the other contract for surplus material that the Service ESA did not approve.

DLA personnel awarded one contract for aircraft safety belts used on the Harrier AV-8B aircraft (tactical combat aircraft) to a manufacturing source that the Navy ESA had not approved. DLA personnel incorrectly noted on the CSI award checklist that the awardee was an approved source. DLA personnel stated that they could not determine any relationship between the Navy ESA-approved manufacturing source and the contract awardee. During our audit, DLA Aviation personnel requested the necessary engineering support and the Navy ESA approved the source. We reviewed the contract history of the aircraft safety belts and found that DLA personnel previously awarded 11 contracts to the same contractor. We researched the DoD Product Data Reporting and Evaluation Program information system and verified that DLA customers had not submitted any product quality deficiency reports for aircraft safety belts associated with these contracts.

DLA personnel awarded the other contract for an actuator speed brake used on the AV8B Harrier aircraft to a dealer that agreed to obtain the actuator from a Service ESA-approved source. However, when DLA personnel requested traceability documentation, the contractor acknowledged that the material was surplus from a previous Government contract. DLA personnel could not provide evidence that they completed a CSI award checklist for the contract or obtained the Service ESA's approval to purchase the surplus material. In response to our inquiries, DLA officials directed a DLA Distribution Depot to screen all material delivered

on the contract and identified that a speed brake was issued to a Marine Corps customer. In addition, DLA issued a customer alert notification for the unapproved surplus material and the responsible Navy ESA and AV-8 program office also received notification.

The Defense Logistics Agency had Weaknesses in Its Aviation Critical Safety Item Purchase Controls

In addition to the two contracts DLA personnel awarded to unapproved sources, we identified weaknesses in the DLA's controls over aviation CSI purchases for 31 of the 83 contracts awarded to dealers and distributors that we reviewed. Specifically, DLA personnel did not prepare or issue QALIs for 31 contracts and also did not obtain traceability documentation for 8 of these 31 contracts in accordance with DoD guidance. The 2 awards to unapproved sources and control weaknesses associated with 31 contracts occurred because DLA officials did not:

- provide adequate procedures and oversight to ensure that personnel accurately completed the CSI award checklist requirements for all 33 contracts, or
- establish a process to ensure that personnel issued internally prepared QALIs to DCMA and verified DCMA's receipt of the QALIs for 15 of the 33 contracts.

Of the 85 contracts listed in Table 2, DLA personnel awarded 47 to dealers and distributors for new and surplus stock. The DLA Quality Deskbook requires DLA personnel to issue QALIs and obtain traceability documentation for CSI contracts awarded to dealers or distributors. However, DLA personnel did not prepare or issue QALIs for 31 of the 47 contracts for new and surplus stock. In addition, DLA personnel did not obtain traceability documentation for 8 of the 31 contracts for which they did not prepare or issue a QALI.

Inadequate Procedures and Oversight on Completing Critical Safety Item Award Checklists

DLA officials did not provide adequate procedures and oversight to ensure that personnel accurately completed CSI award checklist requirements for 2 contracts awarded to unapproved sources and 31 contracts awarded to dealers and distributors.¹⁸ For these 33 contracts, we determined whether DLA personnel accurately completed the CSI award checklist requirements.

¹⁸ See Appendix B for an example of a DLA CSI checklist.

The CSI award checklist is a control to ensure that DLA personnel comply with applicable requirements before purchasing aviation CSIs. The DLA Quality Deskbook requires DLA personnel to complete a CSI award checklist for all CSI contract awards and supervisors must review the completed checklist. The checklist includes five parts containing multiple requirements for DLA personnel to complete prior to contract award. The various parts of the checklist contain boxes that DLA personnel check when completing the required steps for different types of contract awards. For example, there are boxes for completion of required steps associated with awards to approved sources, dealer and distributors, and awards for surplus material. DLA personnel responsible for completing the checklist sign the checklist and their supervisors sign acknowledging their review. Our review focused on whether DLA personnel awarded contracts to approved sources and completed the following key CSI award checklist requirements.

- Preparing QALIs and submitting the QALIs to the DCMA.
- Verifying source approval.
- Obtaining traceability documentation to trace aviation CSIs from dealers and distributors to approved sources.
- Performing supervisory reviews.

DLA personnel primarily responsible for completing aviation CSI award checklists include the product specialist and the acquisition specialist. The product specialist provides technical and quality expertise and identifies necessary product testing and inspection requirements. The product specialist also evaluates contractor technical and quality assurance data and works with the acquisition specialist on applicable contract terms and conditions. In addition, the product specialist interprets technical requirements, reviews specifications and associated technical data, and analyzes CSIs for compliance, and initiates and processes requests for Service engineering support.

The acquisition specialist is responsible for the activities required to accomplish procurement actions, including acquisition planning, solicitation, evaluation and analysis, negotiation, and contract award. Prior to contract award, the acquisition specialist performs and reviews procurement activities. In addition, the acquisition specialist may have a warrant, which authorizes the specialist to obligate funds as a contracting officer.

Checklist Requirements Not Always Completed for Quality Assurance Letters of Instruction and Source Approval

DLA personnel did not complete the CSI award checklist requirements associated with preparing and issuing QALIs and verifying source approval for 33 contracts.

For 16 contracts awarded to dealers and distributors, DLA personnel did not prepare QALIs. DLA personnel noted a QALI requirement on the CSI award checklist for 5 contracts and they did not:

- note a QALI requirement on the CSI award checklist for 8 contracts,
- assign the DCMA as the contract administrator for 2 contracts, or
- prepare a CSI checklist for 1 contract.

For 15 contracts awarded to dealers and distributors, DLA personnel prepared QALIs but did not issue them to the DCMA. DLA personnel noted that a QALI was issued to the DCMA on the CSI award checklist for 4 contracts and did not note that a QALI was issued to the DCMA on the CSI award checklist for 11 contracts.

For two contracts awarded to unapproved sources, DLA personnel:

- did not prepare a CSI award checklist for one contract, and
- incorrectly noted an award to an approved manufacturing source on the CSI award checklist for the other contract.

The DLA Quality Deskbook specifies that a QALI is mandatory for purchase orders awarded to surplus providers and dealers and distributors, or when the Service ESA provides special quality assurance requirements. When DLA personnel award a contract to a dealer or distributor, the QALI should include the requirement to examine inventory control records to ensure that the offered item is in the contractor's stock and is the **exact product specified in the contract** [emphasis added]. The QALI should identify any documentation that the contracting officer identified as being unattainable prior to the award, or when DCMA personnel need to examine original documentation at source inspection. Documentation examples include a quote from an approved source or documents on an approved source's letterhead (such as an invoice or packing slip). Part IV of the CSI checklist contains four boxes corresponding to QALI requirements.¹⁹

Product specialists we interviewed provided inconsistent responses regarding how they completed the section of the CSI checklist associated with QALIs. Some product specialists stated that they did not believe they needed to indicate a QALI requirement on the CSI checklist in cases where the awardee was a dealer or distributor with no adverse quality history. In addition, the product specialists

¹⁹ See Appendix B, Part IV, for details on the CSI award checklist requirements for QALIs.

cited a lack of guidance and training. For example, DLA personnel awarded a contract for gunner's reel assemblies (harnesses that retain aircrew during flight) used on either the Army UH-60 Black Hawk helicopter or the Navy SH-60 Sea Hawk helicopter (utility helicopters) to a distributor that agreed to obtain the parts from an approved source. The product specialist did not identify the QALI requirement on the associated CSI award checklist and the DLA did not issue a QALI to the DCMA.

Some product specialist stated that they only check the box for "QALI required for surplus and dealer/distributors" for purchases of surplus stock and not for all dealer and distributor purchases. Other product specialists stated that they do not use the box. For example, the DLA awarded a contract for surplus hose fitting retainers used on aerial refueling systems to a dealer. The associated CSI checklist identified that the award was for surplus material, but the DLA product specialist did not indicate a QALI requirement so DLA personnel did not issue a QALI to the DCMA.

In addition, Part IV of the CSI checklist contains another box to indicate whether DLA personnel sent a QALI to DCMA. However, some product specialists stated that they do not send QALIs to the DCMA until after contract award and they do not update the CSI award checklist subsequent to contract award. Therefore, a checked box did not accurately reflect whether the product specialist sent a QALI to the DCMA.

Checklist Requirements Not Always Completed for Traceability

DLA personnel did not complete the requirements for obtaining traceability documentation or accurately complete the traceability section in the CSI award checklists for eight contracts.²⁰ Specifically, DLA personnel:

- did not note a traceability requirement on the CSI award checklist or obtain traceability documentation for four contracts; and
- noted a traceability requirement on the CSI award checklist but did not obtain traceability documentation for four contracts.

Contractors that do not manufacture items include authorized dealers and distributors. Authorized dealers and distributors must provide licensee agreements or letters from approved sources authorizing them to sell specific items. The DLA Quality Deskbook specifies that, prior to awarding a contract to a dealer or

²⁰ For all eight contracts, DLA personnel also did not either prepare or issue a QALI to the DCMA. See Appendix B, Part IV, for details on the CSI award checklist requirements for traceability documentation.

distributor, DLA personnel must obtain traceability documentation showing that the prime contractor, OEM, or approved alternate source produced the items and that the items are unchanged in any way.

DLA personnel who completed certain CSI award checklist sections did not always have the responsibility for the tasks associated with the respective sections. For a contract award to a dealer or distributor, Part IV of the CSI award checklist contains a requirement that the product specialists check a box when completing a traceability step. By checking the box, the product specialist acknowledges that adequate documentation is on file to show that the awardee is an authorized dealer for the approved manufacturer. It also indicates that the product specialist reviewed traceability documentation prior to award and included a requirement in the QALI that the traceability documentation be available at inspection. However, we interviewed DLA acquisition specialists who stated that they were responsible for obtaining and reviewing traceability documentation. The acquisition specialists are responsible for completing Part III of the checklist involving pre-award actions. However, Part III of the checklist does not have a step to address traceability. We also noted that the CSI checklist did not contain boxes to identify whether traceability is required, provided, or adequate.

DLA personnel did not always obtain traceability documentation. For example, DLA personnel awarded a contract for valves used on the F/A-18 aircraft engine to a dealer that agreed to obtain the valves from an approved source. DLA personnel did not check the applicable box on the checklist to indicate the traceability requirement. In response to our request for traceability documentation, DLA personnel provided a shipping label identifying that the dealer shipped the valves to a DLA distribution depot. DLA personnel did not provide anything to demonstrate that the dealer was authorized by the approved source. In addition, DLA personnel did not issue a QALI instructing the DCMA to inspect the valves at acceptance to ensure that the approved source manufactured them.

Supervisory Reviews of Critical Safety Item Award Checklists Were Insufficient

DLA personnel did not accurately complete CSI award checklists requirements involving QALIs, traceability, or source approval for 31 contracts and the associated CSI award checklists did not always contain all required signatures and lacked evidence of supervisory review.

Part V of the CSI checklist requires the signature of DLA personnel responsible for completing their respective sections of the checklist.²¹ These personnel include the product specialist, acquisition specialist, and contracting officer. In addition, Part V of the checklist requires the signature of reviewing officials. The reviewing officials include the product specialist's supervisor and the official one level above the contracting officer. CSI award checklists for 8 of the 31 contracts reviewed lacked all required signatures. Specifically, the eight checklists lacked either the product specialist's or the acquisition specialist's signature or did not have at least one review official's signature. In addition, at least one supervisory review official signed each of the 31 CSI award checklists. Because we identified exceptions with the 31 CSI award checklists, we question the sufficiency of the supervisory reviews.

For example, DLA personnel awarded a contract for swivel link assemblies (aircraft fuel system components) used on the V22 Osprey aircraft (multirole combat aircraft) to a dealer that agreed to obtain them from an approved source. DLA personnel completed and reviewed the CSI award checklist and it contained checked boxes associated with completing steps for preparing a QALI and obtaining traceability documentation. However, DLA personnel did not have evidence to support that they issued a QALI and DCMA personnel stated that DLA personnel never provided a QALI. In addition, the traceability documentation was not adequate at the time of award. The product specialist and product specialist's supervisor signed the CSI award checklist. In addition, the acquisition specialist, contracting officer, and the official one level above the contracting officer also signed the CSI award checklist. However, there was no evidence that anyone verified the accuracy of the completed checklist.

Procedures for Completing and Reviewing Critical Safety Item Award Checklists Were Not Adequate

The DLA did not provide adequate procedures to ensure consistent and accurate completion and supervisory review of CSI award checklists. DLA product and acquisition specialists provided varying explanations of how they completed their respective sections of the checklist and what the checklist boxes represent. DLA personnel stated that they were unaware of any specific guidance or detailed instructions on how to complete the checklists. DLA personnel also cited a lack of training.

The DLA Quality Deskbook does not provide guidance on the completion of CSI award checklists or supervisory review. As illustrated in Appendix B, the last page of the CSI checklist contains basic instructions. However, for Parts III and IV of

²¹ See Appendix B, Part V, for the required CSI award checklist signatures.

the checklist, the instructions simply direct the acquisition specialist and award specialist to review and verify the statements in their respective sections and to mark all applicable boxes.

The DLA needs to improve and implement controls, establish procedures, and provide oversight and recurring training to ensure accurate completion of CSI award checklist requirements, including completing the required steps for verifying source approval, obtaining traceability documentation, and preparing and issuing QALIs to the DCMA.

Quality Assurance Letters of Instruction Prepared but Not Always Issued

For 15 contracts awarded to dealers and distributors, DLA personnel prepared QALIs but did not have evidence that they issued the QALIs to the DCMA. DCMA personnel stated that DLA personnel never provided them with the QALIs for the 15 contracts.

The DLA's QALI guidance specifies that personnel should use a QALI when contractual technical requirements are significant or the product has critical characteristics, special features, or specific acquisition concerns.²² The guidance requires the DLA product specialist to prepare the QALI, issue it to the DCMA office responsible for contract administration, and retain a copy of the QALI and an electronic transaction that documents the rationale for issuing the QALI in the contract documentation records.²³

However, DLA product specialists did not always maintain the electronic file or other evidence to support QALI submissions. In addition, the information system used to process QALIs did not capture or retain the date and time for QALI submissions.²⁴ One product specialist stated that the only way to capture and document the QALI transmittal would be to copy the product specialist on the QALI e-mail submitted to the DCMA, save a copy, and add it to the electronic contract file. A DLA business process analyst stated that it is possible to issue a QALI without creating a quality evaluation transaction and a transaction may exist without a QALI.

For example, DLA personnel awarded a contract for aircraft heating blankets used on the F/A-18 Hornet aircraft (tactical combat aircraft) to a dealer that agreed to obtain the parts from an approved source. DLA personnel assigned the DCMA

²² DLA Technical Quality Deskbook, appendix B32, "Quality Assurance Letter of Instruction (QALI)."

²³ The electronic transaction is a Quality Evaluation Program "ZT" transaction.

²⁴ DLA personnel use the DLA Enterprise Business System to process QALIs.

as the contract administrator and provided us with a QALI that DLA generated internally. However, DLA personnel did not have evidence that they issued the QALI to the DCMA, and DCMA personnel stated that they never received a QALI.

By not issuing the QALIs to DCMA personnel when required, DLA personnel are not complying with the DLA Quality Deskbook and are not providing information to assist DCMA personnel in conducting inspection and acceptance testing of aviation CSI. As a result, DCMA personnel could accept aviation CSIs that do not meet contract requirements.

DCMA officials informed us that DLA personnel were responsible for issuing QALIs and that DCMA personnel were not responsible for requesting QALIs for contracts awarded to dealers and distributors. DLA officials stated it was their understanding that DCMA personnel would contact DLA to obtain a QALI if they did not receive one for dealer and distributor awards. DLA officials stated that a memorandum of agreement was in place between the DLA and the DCMA regarding the administration of DLA contracts. However, the memorandum of agreement did not address the use of QALIs.

The DLA should establish a formalized process to ensure that its personnel issue QALIs to the DCMA and obtain acknowledgment of the DCMA's receipt for aviation CSI awards. In addition, the DLA should revise the memorandum of agreement between the DLA and the DCMA to clarify responsibilities and ensure the use of QALIs for all dealer and distributor awards.

Defense Logistics Agency Personnel did Not Consistently Perform Compliance Reviews on All Critical Safety Item Purchases

The DLA quality leadership did not provide oversight to ensure that its personnel independently and consistently conducted compliance reviews on all aviation CSI contracts after award. The DLA Quality Deskbook requires a 100percent compliance review of monthly CSI purchases. The DLA established standard operating procedures for the CSI contract review process.²⁵ As part of the review, DLA business process analysts review whether DLA personnel awarded the contract to an approved source, and whether the records management system contains a CSI checklist, QALI transaction, and other supporting data to ensure that CSI contracts reflect the technical requirements that the ESA established for the CSI.²⁶ The procedures specify that DLA personnel should document contract

²⁵ DLA Standard Operating Procedure ABAT-04, "Critical Safety Item Contract Review Process," September 26, 2016.

²⁶ DLA Records management is the official DLA repository for electronic records.

findings monthly to include missing CSI checklists, missing QALIs, and incorrect and missing data, and route the findings through the Deputy Director of Supplier Operations and the Director of the Supplier Operations OEM Directorate.

Our review of the standard operating procedures identified deficiencies. Specifically, the procedures did not address verification of the DLA Quality Deskbook requirement that, prior to awarding a contract to a dealer or distributor, DLA personnel must obtain traceability documentation showing that the prime contractor, OEM, or approved alternate source produced the items and that the items are unchanged in any way. In addition, the procedures only required verification that a QALI was present in the records management system for awards to dealers and distributors and did not require verification that DLA personnel actually issued the QALI to the DCMA.

In July 2018, DLA business process analysts stated that, because of resource limitations, they had not been reviewing 100 percent of DLA Aviation's CSI contract awards since October 2016. The business process analysts estimated that they were reviewing approximately 50 percent of DLA Aviation's CSI contract awards. In addition to concerns with the low number of compliance reviews, we identified concerns with the DLA's FY 2018 CSI compliance review methodology and results. Because of potential gaps identified during our audit, DLA Aviation management indicated that the DLA Aviation established an in-process review team to assess its CSI contract review process.

DLA Aviation Had Low Numbers of FY 2018 Compliance Reviews and Inconsistent Methodology for Conducting Reviews

During our audit of DLA Aviation's FY 2018 CSI compliance review results, we identified concerns regarding the low number of contracts reviewed and the inconsistent methodology that DLA personnel used to conduct the reviews. DLA personnel provided a universe of 3,045 aviation CSI contract awards subject to review and all compliance reviews performed for the first 9 months of FY 2018. The results showed that DLA personnel only performed compliance reviews on 326 (11 percent) of the awards for the period examined.

The results of the 326 compliance reviews identified 257 (78 percent) potentially noncompliant awards. The DLA personnel who reviewed the awards cited one or more deficiencies, including awards to non-approved sources, missing CSI award checklists, and missing QALIs. The aviation CSI compliance review results lacked supporting details, and only one review referred to corrective action. The high number of potentially noncompliant awards raised concerns to us regarding the methodology DLA personnel used to conduct the compliance reviews and the accuracy of the reported conclusions. Therefore, we requested details supporting

the results for eight reviews. DLA personnel did not provide support from the initial reviews but instead re-performed the reviews to determine whether DLA personnel made the award to approved sources and whether CSI checklists and QALIs supported the awards.

The results of the reviews re-performed because of this audit differed significantly from the conclusion reported in the original reviews. For example, the original reviews identified that the DLA awarded six of the eight contracts to unapproved sources. The re-performed reviews determined that DLA personnel made six awards to dealers and distributors and two awards directly to approved sources. In addition, during the re-performed reviews, personnel were only able to locate one CSI award checklist for the eight contracts and no QALIs for the six contracts that required one.

The In-Process Review Team Results From the Defense Logistics Agency

During the audit, DLA personnel took action to assess the DLA's CSI contract review process and provided the following response to our inquiries.

The DoDIG (DoD Inspector General) review helped reveal potential gaps in Aviation CSI findings/reporting. Whereas the CSI contract findings were still being conducted, reporting such results were not in accordance with the SOP ABAT-04. As a result, DLA Aviation established a CSI IPT (in-process review team) and assessed and enriched our CSI review processes in an effort to improve visibility, identification, and CSI discrepancies and their subsequent reporting.

DLA personnel performed a 100-percent compliance review of CSI contracts the DLA Aviation supply chain awarded in August and September 2018. The results did not identify any awards to unapproved sources but identified deficiencies, including awards without completed QALIs, missing CSI checklists, inadequate or missing traceability on dealer and distributor and surplus awards, and missing CSI contract clauses. The cited deficiencies were consistent with those we identified.²⁷ DLA Aviation officials stated that they were working with DLA Headquarters personnel to modify the compliance review process and planned to adjust their CSI reporting practices to ensure that they present CSI compliance review results to key stakeholders during monthly business execution meetings.

The DLA should improve and implement the controls over the compliance reviews of CSI contract awards and enforce the requirement for DLA personnel to conduct compliance reviews of all aviation CSI contract awards and prioritization of the reviews of aviation CSI awards to dealers and distributors. The DLA should also

²⁷ We did not audit the results of the compliance review DLA Aviation conducted during the audit.

update DLA Standard Operating Procedure ABAT-04 to require verification of traceability documentation for awards to dealers and distributors and issuance of QALIs to the DCMA and provide oversight and recurring training to ensure completion of the compliance reviews on a consistent basis in accordance with the updated procedures.

The Defense Contract Management Agency and Defense Logistics Agency Provided Evidence of Product Conformance

Because of the control weaknesses associated with its aviation CSI purchases, the DLA could not validate that approved sources manufactured the aviation CSIs for 31 contracts awarded to dealers and distributors. Therefore, we obtained inspection and acceptance results from the DCMA for 27 contracts and requested the DLA take additional steps for 4 contracts to verify product conformance.

Evidence Obtained From the Defense Contract Management Agency

Because of the DLA's control weaknesses over its aviation CSI purchases, we obtained the DCMA's product examination results for the 27 of the 31 contracts for which DLA personnel assigned the DCMA as the contract administrator but did not prepare or issue the required QALI. DCMA personnel provided evidence that they properly inspected and accepted the aviation CSI for the 27 contracts.²⁸

For example, DLA personnel awarded a contract for hose assemblies used on the V22 Osprey aircraft to a distributor that agreed to obtain the parts from an approved source. DLA personnel assigned the DCMA as the contract administrator and provided us with a QALI that DLA prepared. However, DLA personnel did not have evidence that they issued the QALI to the DCMA, and DCMA personnel stated that they never received a QALI. Therefore, we obtained the DCMA's inspection and acceptance results, which included an invoice certified by a DCMA quality control representative, verifying the sale of the hose assemblies from the approved source to the distributor.

²⁸ Evidence included product examination results, receiving reports, and certificates of conformance from the approved manufacturer.

Evidence Obtained From the Defense Logistics Agency

We obtained additional evidence from the DLA Aviation during the audit for 4 of the 31 contracts. For two contracts, DLA personnel assigned the DCMA as the contract administrator but did not issue QALIs and DCMA personnel did not have evidence that they inspected and accepted the aviation CSIs. For two other contracts, DLA personnel did not assign the DCMA as the contract administrator.

For the first contract, DLA personnel awarded a contract for swivel and link assemblies (fuel system components) used on the V22 Osprey aircraft to a dealer that agreed to obtain the parts from an approved manufacturer. DLA personnel assigned the DCMA as the contract administrator. DLA personnel could not provide evidence that they issued a QALI and DCMA personnel stated that they never received a QALI. In addition, DCMA personnel could not provide evidence that they inspected and accepted the parts. We provided details on this item to DLA Aviation and requested they verify that the parts conformed with the contract requirements. DLA Aviation obtained the approved manufacturer's signed and certified certificate of conformance showing that the authorized source provided the swivel and link assemblies to the dealer.

For a second contract, DLA personnel awarded a contract for bell cranks used on Navy aircrew systems oxygen regulators to a dealer that agreed to obtain the parts from an approved manufacturer. DLA personnel assigned the DCMA as the contract administrator. DLA personnel did not provide evidence that they issued a QALI and DCMA personnel acknowledged that they did not receive a QALI. In addition, DCMA personnel could not provide evidence that they inspected the material to ensure that the dealer obtained it from the approved source. We provided details on this item to DLA Aviation and requested they verify that the parts conformed with the contract requirements. DLA Aviation requested that DLA Distribution Depot Susquehanna conduct a stock screening, and depot personnel pulled the stock and verified that the approved source manufactured it.

For a third contract, DLA personnel awarded a contract for temperature bellows (fuel control system components) used on the CH-53 Helicopter (heavy lift transport helicopter) to a distributor that agreed to obtain the parts from an approved manufacturer. DLA personnel assigned DLA Aviation as the contract administrator instead of the DCMA and therefore did not require the DCMA's inspection. We provided details on this item to DLA Aviation and requested they verify that the parts conformed to the contract requirements. DLA Aviation provided evidence to show that the distributor obtained the temperature bellows from the approved source.

For a fourth contract, DLA personnel awarded a contract for shaft output clutches used on German CH-53 helicopter to a dealer that obtained the surplus material from an approved source. Prior to awarding the contract for the surplus material, DLA personnel obtained traceability documentation and the Navy ESA's approval. However, DLA personnel assigned DLA Aviation as the contract administrator instead of the DCMA and therefore did not require the DCMA's inspection. DLA personnel stated that the DLA product specialist verified traceability by cross-referencing a picture of the packaging label from the surplus offer, which indicated an exact product that the Navy-approved source manufactured under a traceable Government contract. DLA personnel stated that the Navy ESA verified the traceability and approved the purchase without adding any additional testing requirements. DLA personnel also stated that the customer inspected and accepted the items and had not submitted any product quality deficiency reports. We obtained sales order data showing that the DLA issued the stock in FY 2017. We then researched the DoD Product Data Reporting and Evaluation Program information system and verified that DLA customers had not submitted product quality deficiency reports for the shaft output clutches on the contract.

Control Weaknesses Over Aviation Critical Safety Item Purchases Could Impact Warfighter Life and Safety

Because of the control weaknesses over its aviation CSI purchases, the DLA did not issue QALIs and could not validate that approved sources manufactured the parts for 31 contracts awarded to dealers and distributors. In addition, DLA personnel awarded a contract for aviation CSI to a source that the Service ESA had not approved and another contract for surplus material that the Service ESA did not approve. As a result, the DLA could purchase nonconforming parts, which creates life and safety concerns for the warfighter.

The Service ESAs code items as aviation CSIs because a malfunction could cause a catastrophic or critical failure resulting in the loss of or serious damage to the aircraft or weapon system and cause personal injury or loss of life. Therefore, the DLA must establish and maintain strong controls over its aviation CSI purchases to prevent nonconforming parts from entering the DoD supply chain and risking warfighter safety.

The DLA should perform a review of the problems in this report, identify responsible personnel, and initiate as appropriate any administrative actions warranted by the review. In addition, the DLA needs to implement the applicable corrective actions resulting from this report across all DLA supply chains that purchase aviation CSIs.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Defense Logistics Agency Director improve and implement controls over purchases of aviation critical safety items at the Defense Logistics Agency Aviation Supply Chain to address the problems in this report and:

- a. **Establish procedures for the completion and review of Defense Logistics Agency Form 13, “Critical Safety Items and Special Procedures Code Items Award Checklist.”**

Defense Logistics Agency Comments

The DLA Acquisition Director, responding for the DLA Director, agreed with the recommendation, stating that the DLA updated DLA Form 13 and clarified areas of ambiguity identified during the audit. The Director also stated that procedures and instructional slides for completion and review of DLA Form 13 would be established by December 2019.

Our Response

Comments from the Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once the DLA provides documentation verifying it updated DLA Form 13 and established procedures and instructional slides for its completion.

- b. **Provide oversight and recurring training to ensure Defense Logistics Agency personnel accurately complete critical safety item award checklist requirements including:**
 - **Verifying contract award to an approved source.**
 - **Preparing quality assurance letters of instruction and assigning the Defense Contract Management Agency as the Contract Administrator.**
 - **Obtaining traceability documentation to adequately trace aviation critical safety items from dealers and distributors to approved sources.**

Defense Logistics Agency Comments

The DLA Acquisition Director, responding for the DLA Director, agreed with the recommendation, stating that based on the actions taken in response to Recommendation 1.a, contracting officers will ensure accurate completion of

critical safety item award checklists. The Director also stated that personnel would complete workforce training on the updated DLA Form 13 by March 2020. In addition, the Director stated that DLA Technical Quality published Critical Item Management training to all Product Specialists through the DLA Learning Management System in October 2019, with a requirement for initial completion by January 2020 and annual refresher training thereafter.

The Director also stated that during the audit, DLA Aviation Technical Quality Policy provided refresher training that specifically addressed findings identified during the DoD OIG interviews with product specialists. Also during the audit, the DLA Aviation Procurement Policy group released a memorandum reminding personnel of the requirement to obtain and verify traceability to approved sources when acquiring aviation critical safety items from dealers and distributors.

Our Response

Comments from the Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once the DLA provides documentation verifying it established adequate oversight and developed and provided training to ensure accurate completion of critical safety item award checklist requirements.

- c. Develop a formalized process to ensure that personnel issue quality assurance letters of instruction to the Defense Contract Management Agency for aviation critical safety item contracts and retain evidence of receipt acknowledgement in the contract file.**

Defense Logistics Agency Comments

The DLA Acquisition Director, responding for the DLA Director, agreed with the recommendation, stating that the DLA is in the process of updating its Technical Quality Deskbook to address the issuance of QALIs to DCMA and the retention of DCMA receipt acknowledgement with a scheduled completion date of February 2020.

Our Response

Comments from the Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once the DLA provides documentation verifying it updated its Technical Quality Deskbook to address the issuance of QALIs to DCMA and the retention of DCMA receipt acknowledgement.

- d. Revise the memorandum of agreement between the Defense Logistics Agency and the Defense Contract Management Agency to clarify responsibilities and ensure the use of quality assurance letters of instruction for all awards to dealers and distributors.**

Defense Logistics Agency Comments

The DLA Acquisition Director, responding for the DLA Director, partially agreed with the recommendation, stating that while the DLA agrees with the intent of the recommendation, the memorandum of agreement between the DLA and DCMA is not the appropriate vehicle to clarify responsibilities and ensure the use of QALIs for all awards to dealers and distributors. Through implementation of Recommendations 1a, 1b, and 1c, the DLA would satisfy the intent of this recommendation to ensure that the DCMA receives the necessary QALIs for awards to dealers and distributors.

Our Response

Comments from the Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once the DLA provides documentation verifying it adequately implemented Recommendations 1a, 1b, and 1c.

Recommendation 2

We recommend that the Defense Logistics Agency Director improve and implement the controls over the independent compliance reviews of aviation critical safety item contract awards at the Defense Logistics Agency Aviation Supply Chain and:

- a. Enforce compliance reviews of all aviation critical safety item contract awards and prioritization of the reviews of aviation critical safety items purchased from dealers and distributors.**

Defense Logistics Agency Comments

The DLA Acquisition Director, responding for the DLA Director, agreed with the recommendation, stating that the implementation of Recommendations 1.a and 1.b will result in initial compliance reviews of all aviation safety items contract awards at various levels. The Director also stated that as a secondary compliance review, the DLA would use statistical sampling to determine a random sampling size of contract files to audit in the post award review period each month. The results of the secondary compliance reviews, scheduled to start in January 2020, will be presented to key stakeholders during monthly business execution meetings.

Our Response

Comments from the Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once the DLA provides documentation verifying it adequately implemented Recommendations 1.a and 1.b for initial compliance reviews and implemented secondary compliance reviews using a statistical sampling methodology.

- b. Update Defense Logistics Agency Standard Operating Procedure ABAT-04 to require verification of traceability documentation and issuance of quality assurance letters of instruction to the Defense Contract Management Agency for awards to dealers and distributors and provide oversight and recurring training to ensure completion of the compliance reviews on a consistent basis in accordance with the updated procedures.**

Defense Logistics Agency Comments

The DLA Acquisition Director, responding for the DLA Director, agreed with the recommendation, stating that DLA Aviation is revising ABAT-04, which will address the requirement on verification of traceability documentation and issuance of QALIs to the DCMA for awards to dealers and distributors. The Director also stated that DLA Aviation would provide oversight and recurring training to ensure completion of the compliance reviews on a consistent basis in accordance with the updated procedures mentioned in Recommendation 2.a. The revision is scheduled to be completed by January 2020.

Our Response

Comments from the Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once the DLA provides documentation verifying it adequately revised ABAT-04 and provided oversight and recurring training to ensure completion of the compliance reviews on a consistent basis in accordance with the updated procedures mentioned in Recommendation 2.a.

Recommendation 3

We recommend that the Defense Logistics Agency Director review the problems in this report, identify responsible personnel, and initiate as appropriate any administrative actions warranted by the review.

Defense Logistics Agency Comments

The DLA Acquisition Director, responding for the DLA Director, agreed with the recommendation, stating that as part of the process of determining corrective actions to address the report recommendations, DLA Aviation and DLA Headquarters personnel reviewed the deficiencies cited and the involvement and actions of staff involved. The Director also stated that the DLA determined that individual administrative actions were not warranted.

Our Response

Comments from the Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once the DLA provides documentation verifying it adequately reviewed the deficiencies cited and the involvement and actions of staff involved to determine that individual administrative actions were not warranted.

Recommendation 4

We recommend that the Defense Logistics Agency Director implement the applicable corrective actions resulting from this report across all Defense Logistics Agency Supply Chains that purchase aviation critical safety items.

Defense Logistics Agency Comments

The DLA Acquisition Director, responding for the DLA Director, agreed with the recommendation, stating that as a result of this audit, the DLA reviewed applicable processes and guidance and implemented changes to policies and procedures as necessary to correct the issues cited at DLA Aviation. The Director also stated that DLA Acquisition would issue an exhortatory procurement letter to all supply chains to announce the changes and direct enterprise-wide adoption, as applicable, by February 2020.

Our Response

Comments from the Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once the DLA provides documentation verifying it reviewed applicable processes and guidance and implemented changes to policies and procedures as necessary to correct the issues cited at DLA Aviation and issued an exhortatory procurement letter to all supply chains to announce the changes and direct enterprise-wide adoption, as applicable.

Appendix A

Scope and Methodology

We conducted this performance audit from May 2018 through October 2019 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.

We reviewed the following.

- Public Law 108-136, “National Defense Authorization Act for Fiscal Year 2004,” section 802, “Quality Control In Procurement of Aviation Critical Safety Items and Related Services,” November 24, 2003
- Secretary of the Navy Instruction 4140-2/Air Force Instruction 20-106/Department of the Army Pamphlet 95-9/Defense Logistics Agency Instruction 3200.4/Defense Contract Management Agency Instruction Critical Safety Item, “Management of Aviation Critical Safety Items,” January 25, 2006
- DLA “Technical and Quality Policy and Procedures Deskbook,” appendix B15 “Critical Item Management (CIM): Critical Safety Items (CSI),” October 27, 2016
- Defense Logistics Acquisition Directive, Revision 5, December 29, 2017
- DLA Standard Operating Procedure ABAT-04, “Critical Safety Item Contract Review Process,” September 26, 2016
- Air Force Materiel Command and DLA “AF/DLA Performance Based Agreement (PBA) for Product Support Engineering (PSE),” November 22, 2017

We contacted personnel from the following DoD organizations.

- DLA Headquarters, DLA Aviation, DLA Land and Maritime
- DCMA (headquarters and multiple field offices)
- Army, Navy, and Air Force ESAs

We obtained a universe of stock numbers coded as aviation CSI from the Army, Navy, and Air Force as of July 2018. The universe obtained from each Service also contained the CAGE codes for the approved sources for each of the CSIs. We combined the Services’ stock numbers and CAGE codes to create a universe of 74,166 unique aviation CSIs and associated approved sources.

We obtained and reviewed a universe of 11,427 contracts, valued at \$423.4 million, for aviation CSI that the DLA Aviation supply chain awarded in FY 2017. We focused on FY 2017 because the supporting data was more readily available for recent contract awards. In addition, the data was closer to the July 2018 universe data on CSIs and approved sources. We also focused on FY 2017 contract awards because they provided a better opportunity to stop any nonconforming parts from entering the DoD supply chain.

We compared the universe of 11,427 DLA Aviation CSI contract awards from FY 2017 to the universe of Service-approved sources for the associated CSIs, and identified 2,565 contract awards for 1,318 unique stock numbers for which the CAGE code for the contractor receiving the award was not present in the universe of Service-approved CSI sources. From this universe of 2,565 contract awards, we used nonstatistical methods to select a sample of 93 contract awards for review. Upon reviewing the supporting documentation, we determined that DLA personnel cancelled eight contracts after award. Therefore, we focused on a sample of 85 contracts for aviation CSIs.

The nonstatistical sample consisted of 85 CSI contract awards valued at \$37.5 million. Our methodology focused on company names, contract awards with a value greater than \$500,000, contracts solicited using full and open competition procedures, and contracts for which the Services did not list any approved sources.

We reviewed each sampled CSI contract award to determine whether DLA personnel purchased the CSI from a Service ESA-approved source when required. For CSI contract awards that did not require Service ESA approval for the source, we determined whether the DLA had previously purchased the CSIs from the source without experiencing any quality issues. If DLA personnel had not previously purchased the CSI from the source, we determined whether they included sufficient quality provisions in the contract, such as a first article test requirement. We interviewed DLA product specialists, acquisition and contracting specialists, and business process personnel involved with awarding and reviewing the aviation CSI purchases. We obtained and reviewed documentation supporting the contract awards, including required CSI contract award checklists, traceability documentation, requests for engineering support, and QALIs. For contract awards that required the DLA to issue a QALI to the DCMA, we obtained and reviewed inspection and acceptance documentation from DCMA personnel to determine the extent of their inspections of our sampled CSIs.

We examined the completeness and accuracy of CSI award checklists associated with sampled contracts that the DLA awarded to dealers and distributors. We focused on these checklists because these contract awards require additional

scrutiny to ensure the dealers and distributors obtained the material an approved source. We considered the checklist deficient if acquisition and product specialists did not check required boxes or checked boxes but did not complete the associated steps for the type of aviation CSI purchase.

Use of Computer-Processed Data

We used computer-processed data from the DLA Enterprise Business System to perform this audit. We obtained data on FY 2017 DLA Aviation CSI contract awards. We compared the data to the Service ESA's lists of aviation CSIs. To test the reliability of the data, we interviewed DLA Aviation quality assurance, logistics operations, acquisition, and contracting personnel. In addition, we obtained the contracts for our sampled contract numbers and verified the accuracy of the cited contract information for our sample items. We determined that the computer-processed data were sufficiently reliable for our purposes.

Prior Coverage

No prior coverage has been conducted on DLA Aviation's purchases of aviation CSIs during the last 5 years.

Appendix B

DLA Critical Safety Item Award Checklist

| CRITICAL SAFETY ITEMS AND SPC ITEMS AWARD CHECKLIST | | | | | Prescribed by: TQ Deskbook, Appendix B15 Sponsor: J3 |
|--|------------------|----------------|-------------------|-------------------|--|
| PART I - HEADER | | | | | |
| ALRE | AMC/AMSC | REI/TDR NUMBER | MATERIAL NUMBER | | |
| MATERIAL GROUP | | AMPL | CSI PART NUMBER | | |
| PR NO. | SOLICITATION NO. | | OUTLINE AGREEMENT | OUTLINE # | |
| PURCHASE ORDER | | SPC CODE | DELIVERY ORDER | | |
| PIC CODE | | QCC CODE | FAT | | |
| FAT WAIVED SOURCES | | | | PLT | |
| REI/TDR EXP DATE | TDP REQUIRED | TDP EXP | MDS EXP | CSI LAST BUY DATE | |
| PART II - PRESOLICITATION PRODUCT SPECIALIST/EQUIPMENT SPECIALIST | | | | | |
| The Product Specialist/Equipment Specialist shall verify all that apply: | | | | | |
| <input type="checkbox"/> Package requirements are incorporated (classification tab - packaging sub tab). | | | | | |
| <input type="checkbox"/> For SPC 01 ALRE; CAGE and Part Number in the TDR/REI are in agreement with the AMPL. | | | | | |
| <input type="checkbox"/> AMPL (CAGE and Part Number) and Service CSI database are in agreement. | | | | | |
| <input type="checkbox"/> Item is coded Fully Competitive (AMSC of G). | | | | | |
| <input type="checkbox"/> Sources listed on source control drawings must be validated. | | | | | |
| <input type="checkbox"/> Approved sources via DLA Form 339, DLA Form 1912 and Naval Air Depot Request For Engineering Information (R-E-I) can be used as a supporting documents for purchase/delivery order award. | | | | | |
| <input type="checkbox"/> All Quality Assurance/Testing requirements have been updated and identified in Material Master. Technical Data current and certified in accordance to the Service PBAs. | | | | | |
| <input type="checkbox"/> No adverse quality history exists (i.e. Quality Notification (QN), Engineering Investigation (EI), Material Deficiency Report (MDR)). | | | | | |
| <input type="checkbox"/> ARMY CSI ONLY DD Form 1423 (Serialization / TAMMS-A) has been loaded into DMS, incorporated in solicitation / award, or confirmation from PS that it is not required. | | | | | |
| <input type="checkbox"/> Pre Award Survey participation is required (ALRE SPC01) and scheduled <input type="checkbox"/> N/A | | | | | |
| _____ Product Specialist/Equipment Specialist Signature | | | | | |
| DLA FORM 13, MAR 2015 | | | Page 1 of 4 | | POF (DLA) |

DLA Critical Safety Item Award Checklist (cont'd)

| CRITICAL SAFETY ITEMS AND SPC ITEMS AWARD CHECKLIST | | Prescribed by: TQ Deskbook, Appendix B15 Sponsor: J3 |
|--|--|--|
| PART III - PREAWARD ACQUISITION SPECIALIST | | |
| The Acquisition Specialist shall verify the following: | | |
| <input type="checkbox"/> | The following clauses were included in the award and solicitation in accordance with DLAD 11.304-90 (a)(b)(c): | |
| <input type="checkbox"/> | 52.211-9005, Conditions for Evaluation and Acceptance of Offers for CSI. | |
| <input type="checkbox"/> | 52.211-9006, Changes in Contractor Status, Item Acquired and/or Manufacturing Process/Facility-CSI. | |
| <input type="checkbox"/> | 52.211-9007, Withholding of Material Review (MRB) Authority-CSI. | |
| <input type="checkbox"/> | 252.209-7010 "Critical Safety Item". | |
| <input type="checkbox"/> | INCOTERMS: | |
| ALRE CAI and CSI: | | |
| <input type="checkbox"/> | 52.246-9005 NOTE TO CONTRACTOR FOR INSPECTION (ALRE) | |
| <input type="checkbox"/> | 52.209-9001 SOURCE APPROVAL- AIRCRAFT LAUNCH AND RECOVERY EQUIPMENT DLAD | |
| <input type="checkbox"/> | Awardee will furnish surplus material deemed acceptable and approved by the ESA. | |
| Clauses not required: | | |
| <input type="checkbox"/> | Award is a delivery order and clauses are incorporated in basic award. | |
| <input type="checkbox"/> | Award is a delivery order against a preexisting outline agreement and Contractor is exempt from CSI clauses or is on the NAVAIR/ARMY waiver/exemption list. | |
| <input type="checkbox"/> | Award is a delivery order against a Service BOA and DLAD clauses are not required. | |
| <input type="checkbox"/> | Award is to a source granted waiver of DLAD 52.211-9006 and 52.211-9007 per NAVAIR/ARMY. | |
| <input type="checkbox"/> | Awardee is an approved CSI source. | |
| <input type="checkbox"/> | Awardee CAGE code: _____ | |
| PART IV - EVALUATION/PENDING AWARD PRODUCT SPECIALIST/EQUIPMENT SPECIALIST | | |
| <input type="checkbox"/> | QALI not required due to award to approved source with no adverse quality history. | |
| <input type="checkbox"/> | If awardee is a dealer or distributor: Adequate documentation that the company is an authorized dealer for the OEM is in the file. Clauses 52.246-9000 Certificate of Quality Compliance (COQC) is included in award. Traceability documentation reviewed prior to award and required to be presented at inspection in the QALI. (For Army send traceability documentation to: AE-K-TTS@amrdec.army.mil) | |
| <input type="checkbox"/> | QALI required for surplus and dealer/distributors. | |
| <input type="checkbox"/> | QALI required per ALRE TDR/REI. | |
| <input type="checkbox"/> | QALI sent to DCMA by the Product Specialist/Equipment Specialist after the Acquisition Specialist verifies funding of award and included in RM. | |
| <input type="checkbox"/> | FAT is required for this procurement. Refer to Classification Product Assurance tab for First Article requirements. | |
| <input type="checkbox"/> | FAT is not required for this procurement in accordance with TQ Deskbook, Appendix B08, Product Testing. Documented all appropriate comments in EBS, Material Master, Internal Comments. | |
| <input type="checkbox"/> | DLA received ESA concurrence to waive FAT per DLA 339 case # _____ | |
| <input type="checkbox"/> | Post Award Conference Required (ALRE SPC01). | |
| <input type="checkbox"/> | Other: _____ | |
| <div style="display: flex; justify-content: space-between; font-size: small;"> DLA FORM 13, MAR 2015 Page 2 of 4 PDF (DLA) </div> | | |

DLA Critical Safety Item Award Checklist (cont'd)

| | | |
|---|--|--|
| CRITICAL SAFETY ITEMS AND SPC ITEMS AWARD CHECKLIST | | Prescribed by: TQ Deskbook, Appendix D15 Sponsor: JJ |
| PART V - SIGNATURES | | |
| <p>This checklist has been reviewed and signed by the individuals cited below, as appropriate.</p> <hr/> <p>Product Specialist/Equipment Specialist (Signature and Date)</p> <hr/> <p>Product Specialist/Equipment Specialist Review Official (Signature and Date)</p> <hr/> <p>Acquisition Specialist (Signature and Date)</p> <hr/> <p>Contracting Officer (Signature and Date) One Level Above Contracting Officer (Signature and Date)</p> | | |
| <p>NOTE: In accordance with DLAD 11.302-91(a)(13), award approval is required one level above the Contracting Officer to award; except that fully automated awards do not require this approval if the system is programmed to only permit a fully automated award to be made to an approved source cited in the AMPL who is offering an exact product cited in the AMPL.</p> <p>NOTES</p> | | |
| DLA FORM 13, MAR 2015 | | Page 3 of 4 PDF (DLA) |

DLA Critical Safety Item Award Checklist (cont'd)

| CRITICAL SAFETY ITEMS AND SPC ITEMS AWARD CHECKLIST | |
|---|--|
| Prescribed by: TQ Deskbook, Appendix B15 Sponsor: JS | |
| INSTRUCTIONS | |
| Part I - Header: | |
| 1. ALRE - Indicate if the item is an ALRE | 13. SPC Code - Select applicable code |
| 2. AMC/AMSC - Enter current AMC/AMSC of material | 14. Deliver Order - Enter DO number if applicable |
| 3. REI/TDR - Enter REI/TDR number if applicable | 15. PIC Code - Enter correct place of inspection code |
| 4. Material Number - Enter NSN/NIIN/LSN | 16. QCC Code - Enter correct quality control code |
| 5. Material Group - Enter Material Group number | 17. FAT - Indicate if FAT is required |
| 6. AMPL - Enter Approved Sources from listed in the AMPL | 18. FAT Waived Source - Enter approved waived source(s) for FAT requirement |
| 7. CSI Part Number - Enter correct part number | 19. PLT - Indicate if PLT is required |
| 8. PR No. - Enter PR number checklist is being filled out for | 20. REI/TDR Exp Date - Enter expiration date |
| 9. Solicitation No. - Enter current solicitation number | 21. TDP Required - Indicate if TDP is required |
| 10. Outline Agreement - Indicate if item is on an outline agreement | 22. TDP Exp - Enter TDP expiration date |
| 11. Outline # - Enter current outline agreement number if applicable | 23. MDS Exp - Enter the MDS expiration date stated within Basic Data 1, if dates do not exist, contact PDS |
| 12. Purchase Order # - Enter PO number if applicable | 24. CSI Last Buy Date - Enter last DLA CSI buy for material |
| Part II - Presolicitation Product Specialist/Equipment Specialist: The Product Specialist/Equipment Specialist is required to review and verify each statement within this section. Upon verification, mark all applicable boxes. Once this section is complete, sign the form and forward to the Preaward Acquisition Specialist. | |
| Part III - Preaward Acquisition Specialist: The Acquisition Specialist is required to review and verify each statement within this section. Upon verification, the Acquisition Specialist will mark all applicable boxes. | |
| Part IV - Evaluation/Pending Award Product Specialist/Equipment Specialist: Upon receiving the checklist from the Acquisition Specialist, the Product Specialist/Equipment Specialist will review and mark each applicable statement. The Product Specialist/Equipment Specialist will complete all required steps, including the preparation of the QALI, FAT reviews, etc. Once the Product Specialist/Equipment Specialist has completed this section, sign the document below and forward the checklist to the Product Specialist/Equipment Specialist Supervisor for review and signature. | |
| Part V - Signatures: Upon receipt of all required signatures, a copy of the completed checklist must be filed in Records Management. | |
| <div style="display: flex; justify-content: space-between;"> DLA FORM 13, MAR 2015 Page 4 of 4 PDF (DLA) </div> | |

Management Comments

Defense Logistics Agency



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

NOV 6 2019

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL (ACQUISITION,
CONTRACTING, AND SUSTAINMENT)

SUBJECT: Response to Office of Inspector General Draft Report "Audit of the Defense Logistics Agency's Purchases of Aviation Critical Safety Items" (Project No. D2018-D000AG-0153.000)

DLA appreciates the opportunity to review and comment on the entirety of the report. We concur with the report's overall recommendation for the DLA to review the need for changes to the acquisition process of Aviation critical safety items.

The point of contact for this audit is [REDACTED] DLA Office of the Inspector General, [REDACTED]


MATTHEW R. BEEBE
Director, DLA Acquisition

Attachment:
Individual responses to each of the report recommendations

Defense Logistics Agency (cont'd)

For Recommendation 1 of the report, the Department of Defense Inspector General recommends that the Defense Logistics Agency Director improve and implement controls over purchases of aviation critical safety items at the Defense Logistics Agency Aviation Supply Chain to address the problems in this report and:

Recommendation 1.a: Establish procedures for the completion and review of Defense Logistics Agency Form 13, "Critical Safety Items and Special Procedures Code Items Award Checklist."

DLA's Response to recommendations 1.a: Concur. DLA Form 13 was updated in June 2019 as a result of this audit and the revision clarified areas of ambiguity identified during the audit. Procedures and instructional slides for completion and review of Form 13 will be established by December 2019.

Recommendation 1.b: Provide oversight and recurring training to ensure Defense Logistics Agency personnel accurately complete critical safety item award checklist requirements including:

- Verifying contract award to an approved source.
- Preparing quality assurance letters of instruction and assigning the Defense Contract Management Agency as the Contract Administrator.
- Obtaining traceability documentation to adequately trace aviation critical safety items from dealers and distributors to approved sources.

DLA's Response to recommendations 1.b: Concur. With the updated Form 13 and the to-be-published procedures described in 1.a, contracting officers will ensure that the critical safety item award checklists are accurately completed. Workforce training on the updated Form 13 will be completed by March 2020. In June 2019, the following actions took place:

- DLA Aviation TQ Policy provided refresher training at a TQ Seminar and specifically addressed findings identified during DOD IG interviews with Product Specialists (PS).
- DLA Aviation Procurement Policy group released a Broadcast Acquisition Memorandum (BAM) reminding personnel of the requirement to obtain and verify traceability to approved sources when acquiring aviation critical safety items from dealers and distributors, as stated in DLA Aviation Acquisition Workforce Guidelines (DAAWG) 9.270 9G.

Furthermore, the DLA Technical Quality (TQ) published Critical Item Management training to all Product Specialists via DLA's Learning Management System in October 2019, with a requirement for initial completion by January 2020 and annual refresher training thereafter.

Recommendation 1.c: Develop a formalized process to ensure that personnel issue quality assurance letters of instruction to the Defense Contract Management Agency for aviation critical safety item contracts and retain evidence of receipt acknowledgement in the contract file.

DLA's Response to recommendations 1.c: Concur. DLA is in the process of updating its Technical Quality Deskbook Enterprise Standard Operating Procedure (eSOP) to address the issuance of QALIs to DCMA and the retention of DCMA receipt acknowledgement. The eSOP is scheduled to be completed by February 2020.

Defense Logistics Agency (cont'd)

Recommendation 1.d: Revise the memorandum of agreement between the Defense Logistics Agency and the Defense Contract Management Agency to clarify responsibilities and ensure the use of quality assurance letters of instruction for all awards to dealers and distributors.

DLA's Response to recommendations 1.d: Partially concur. While DLA agrees with the intent of the recommendation, the MOA between DLA and DCMA is not the appropriate vehicle to clarify responsibilities and ensure the use of QALIs for all awards to dealers and distributors. Through implementation of Recommendations 1a, 1b, and 1c, DLA would satisfy the intent of this recommendation to ensure that DCMA receives the necessary QALIs for awards to dealers and distributors. Therefore, we request this recommendation be removed.

For Recommendation 2 of the report, the Department of Defense Inspector General recommends that the Defense Logistics Agency Director improve and implement the controls over the independent compliance reviews of aviation critical safety item contract awards at the Defense Logistics Agency Aviation Supply Chain and:

Recommendation 2.a: Enforce compliance reviews of all aviation critical safety item contract awards and prioritization of the reviews of aviation critical safety items purchased from dealers and distributors.

DLA's Response to recommendations 2.a: Concur. First-level compliance review of all aviation safety items contract awards will be done at various levels with the implementation of Recommendations 1.a and 1.b. As a secondary compliance review, DLA will use a standard statistical sampling formula with a confidence level of 95% and a confidence interval of 5 to determine a random sampling size of contract files to audit in the post award review period each month. Results of the secondary compliance reviews will be presented to key stakeholders during monthly business execution meetings. The first round of secondary review utilizing this statistical sampling method will start in January 2020.

Recommendation 2.b: Update Defense Logistics Agency Standard Operating Procedure ABAT-04 to require verification of traceability documentation and issuance of quality assurance letters of instruction to the Defense Contract Management Agency for awards to dealers and distributors and provide oversight and recurring training to ensure completion of the compliance reviews on a consistent basis in accordance with the updated procedures.

DLA's Response to recommendations 2.b: Concur. DLA Aviation is in the process of revising the DLA Aviation ABAT-04, which will address the requirement on verification of traceability documentation and issuance of QALIs to the DCMA for awards to dealers and distributors, and provide oversight and recurring training to ensure completion of the compliance reviews on a consistent basis in accordance with the updated procedures mentioned in 2.a. The revision is scheduled to be completed by January 2020.

Recommendation 3: The Department of Defense Inspector General recommends that the Defense Logistics Agency Director review the problems in this report, identify responsible personnel, and initiate as appropriate any administrative actions warranted by the review.

Defense Logistics Agency (cont'd)

DLA's Response to recommendations 3: Concur. As part of the process of determining corrective actions to address the report recommendations, DLA Aviation and DLA Headquarters personnel have reviewed the deficiencies cited and the involvement and actions of staff involved. All results, findings, and corrective actions related to these efforts have been briefed to senior leadership throughout the engagement. Based on this activity, DLA has determined that individual administrative actions are not warranted.

Recommendation 4: The Department of Defense Inspector General recommends that the Defense Logistics Agency Director implement the applicable corrective actions resulting from this report across all Defense Logistics Agency Supply Chains that purchase aviation critical safety items.

DLA's Response to recommendations 4: Concur. As a results of this audit, DLA has reviewed applicable processes and guidance and implemented changes to policies and procedures as necessary to correct the issues cited at DLA Aviation. DLA Acquisition will issue an exhortatory procurement letter (PROCLTR) to all supply chains to announce the changes and direct enterprise-wide adoption, as applicable. The PROCLTR is expected to be issued by February 2020.

Acronyms and Abbreviations

- CAGE** Commercial and Government Entity Code
- CSI** Critical Safety Item
- DCMA** Defense Contract Management Agency
- DLA** Defense Logistics Agency
- ESA** Engineering Support Activity
- OEM** Original Equipment Manufacturer
- QALI** Quality Assurance Letter of Instruction

Glossary

Commercial and Government Entity Code. A five-digit identifier number assigned to suppliers of various Governmental agencies.

Dealers and Distributors. Those not formally sanctioned are organizations that sell, convey, or otherwise transfer a product (not its own) to another party. The dealers and distributors perform no manufacturing or testing and may sell a manufacturer's product without the manufacturer's knowledge.

Design Control Activity. With respect to an aviation CSI, represents the system's command of a Military Department that is specifically responsible for ensuring the airworthiness of an aviation system or equipment that uses the item.

DoD Product Data Reporting and Evaluation Program Information System. A Navy-hosted system that DLA personnel and the DLA's customers use to report and track product quality deficiency reports.

First Article Test. Determines whether a contractor can furnish a product that conforms to all contract requirements for acceptance prior to the regular production on the contract.

Product Quality Deficiency. A defect or nonconforming condition, which limits or prohibits the item from fulfilling its intended purpose

Stock Number. A 13-digit number that consists of a 4-digit supply classification code and a 9-digit national item identification code that DoD organizations use to manage inventory items.

Traceability. Evidence that traces an item from the dealers and distributors back to the approved manufacturing source.

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U.S. DEPARTMENT OF DEFENSE

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For more information about DoD OIG reports or activities, please contact us:

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