



ACQUISITION  
AND SUSTAINMENT

THE UNDER SECRETARY OF DEFENSE  
3010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3010

SEP - 6 2019

The Honorable Chuck Grassley  
Chairman  
Committee on Finance  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

Thank you for your August 1, 2019 letter to the Secretary of Defense, regarding your concerns about the F-35 Joint Strike Fighter. I am responding on behalf of the Secretary.

Enclosed is the Department of Defense (DoD) response addressing your inquiries about the implementation of recommendations from the following recent DoD Office of the Inspector General F-35-related audits:

- Audit of F-35 Ready-For-Issue Spare Parts and Sustainment Performance Incentive Fees (DODIG-2019-094); June 13, 2019, and
- Audit of Management of Government-Owned Property Supporting the F-35 Program (DODIG-2019-062); March 13, 2019.

Sincerely,

Ellen M. Lord

Enclosure:  
As stated

cc:  
The Honorable Ron Wyden  
Ranking Member

**Congressional Letter dated August 1, 2019**

**DEPARTMENT OF DEFENSE RESPONSE TO CONGRESS ON F-35 JOINT STRIKE  
FIGHTER (F-35) TECHNICAL ISSUES, DELAYS AND EXORBITANT COSTS**

- 1. DOD concurred with DOD OIG's recommendations in both reports. When does the Department expect to complete implementation of those recommendations?**

**DOD RESPONSE:** After reviewing and concurring with both audits, the Department tasked the appropriate DOD offices to review the DOD OIG reports and then coordinate with the F-35 Joint Program Office (JPO) to take specific, measurable, and appropriate actions to address the findings cited in both audits.

Specific to the Department of Defense Office of the Inspector General (OIG) *Audit of Management of Government-Owned Property Supporting the F-35 Program*, (DODIG-2019-062); March 13, 2019, the F-35 JPO is reconciling all F-35 program government-furnished property to ensure the program has a baseline property record. The F-35 JPO will complete the population and validation of the Accountable Property System of Record (APSR) by 2022.

The APSR, when fully populated, will include fully integrated interfaces with contractor and government information systems, including the Autonomic Logistics Information System (ALIS), which will enable a complete accounting of all F-35 government-owned property. F-35 contract vehicles now contain Contract Data Requirement Lists that require the F-35 contractor to provide the appropriate data required for tracking and accountability in the APSR. In addition to the stand-up of the APSR system, the program is, in a concurrent effort, conducting property inventory baseline work in two phases: (1) Support Equipment/Plant Equipment estimated to be completed by the end of 2019 and (2) Spares/Depot baseline activities expected to be completed in May 2020.

Specific to the DOD OIG *Audit of F-35 Ready-for-Issue Spare Parts and Sustainment Performance Incentive Fees*, (DODIG-2019-094); June 13, 2019, a number of the recommended actions are either complete or are well underway. This includes language currently in place for the F-35 Annual Sustainment contract and to be included in all future contracts. The Annualized contracts state: "The Contractor shall ensure each spare that is supplied to the retail environment is ready for issue; to include ensuring an EEL (Electronic Equipment Log) is available for EEL-required replenishment spares and parts exchanged with Suppliers for repair purposes." This carries a financial ramification due to the potential inability to deliver a ready for installation (RFI) component on time. The Department is also addressing the DOD OIG recommendations by incorporating the actions in the detailed Plan of Actions and Milestones (POAM) of the Life Cycle Sustainment Plan (LCSP), dated January 31, 2019. The LCSP POAM supply chain success element integrates the DOD implementation of these recommendations to improve F-35 supply chain accountability.

In addition to these contract improvements, a number of critical activities are ongoing in support of the DOD OIG recommendation in the above report to direct the lead Contracting Officer's Representative (COR) to assign COR oversight responsibilities at all F-35 sites and

to collect contractor performance data from the CORs and the Defense Contract Management Agency (DCMA). In March 2019, the Director, F-35 Logistics and Sustainment, signed a memorandum requiring the Services to appoint organic military and/or civilian personnel to ensure the program has adequate contractor oversight at all CONUS and OCONUS F-35 sites.

Further, the Services are formulating plans for appointing organic CORs for each of their current and future site standups. This will ensure the F-35 Program has a COR at each site across the F-35 Enterprise. The F-35 JPO will coordinate with the Services to ensure all CORs receive training on JPO-approved contractor oversight procedures, to include training on the use of the new electronic Quality Assurance Surveillance Plan software. The U.S. Air Force (USAF) indicates COR training will be completed in FY 2021. The U.S. Navy (USN) and the U.S. Marine Corps (USMC) are still evaluating the exact training timeline but will produce a parallel plan for COR training. Until the Services have CORs in place, F-35 JPO CORs will conduct oversight.

**2. Is there any way to restructure future F-35 sustainment contracts to require Lockheed to incur the cost of fixing NRFI parts improperly provided to DOD?**

**DOD RESPONSE:** Yes. The F-35 JPO identified this specific requirement prior to the audits as an area for improvement. The F-35 JPO has inserted specific contract language in the current sustainment contract to address RFI parts requiring EELs. The F-35 JPO also added similar language to the FY 2019/2020 Initial Spares contract. All future contracts will have these requirements, and the JPO will continue to look for opportunities to strengthen and leverage the government's position. Additionally, the JPO is pursuing a consideration package that would require compensation and direct cost penalty for delivering parts with non-conforming EELs.

**a. What DOD personnel are taking part in negotiating the next F-35 sustainment contract?**

**DOD RESPONSE:** Senior civilian contract specialists manage day-to-day negotiations and report weekly to the F-35 Program Senior Executive Leadership. The F-35 Director of Logistics and Sustainment/F-35 Product Support Manager (Senior Executive Service, Tier II) also monitors and addresses specific issues prior to reaching a contractual agreement with either Lockheed Martin or Pratt & Whitney. In addition, the F-35 JPO interfaces with USAF and USN Integration Offices in support of contract negotiation efforts.

**b. What steps has the DOD taken to ensure that personnel are complying with FAR requirements and ethics standards to ensure fair, impartial negotiations in the best interests of the United States?**

**DOD RESPONSE:** F-35 JPO leadership requires all program office personnel to maintain high ethical standards and to place the interests of the United States and the United States taxpayer first. The program also benefits from a professional and highly trained group of contract specialists supported by a dedicated, full-time legal staff. The F-35 JPO relies on this skilled contract workforce coupled with professional legal

oversight to ensure the program adheres to FAR requirements while negotiating fair and reasonable contracts in the best interest of the United States.

**3. Does DOD have any mechanism for verifying Lockheed's self-reported losses? If not, why not?**

**DOD RESPONSE:** Yes. The F-35 JPO team ensures the Original Equipment Manufacturer (OEM) manages and reports damaged or lost assets in accordance with DOD policy and incorporates Defense Federal Acquisition Regulation Supplement (DFARS) clause 252.245-7002, *Reporting Loss of Government Property*, on all acquisition contracts for flow-down to lower tier suppliers. Under clause 252.245-7002, the OEM must process all lost or damaged assets to DCMA using the Government eTool Loss, Theft, Damaged, and Destroyed application.

For each lost or damaged piece of government property, the OEM prepares a loss/damage form and submits the form to the Prime Contractor. Once submitted, the DCMA Property Administrator conducts an evaluation. If DCMA finds sufficient evidence of contractor or subcontractor liability, DCMA will then submit the case to the JPO F-35 Contracting Officer for a final liability determination. For all property accountable to F-35 contracts, the OEM follows procedures subject to audit by DCMA, further ensuring overall accountability of F-35 government furnished property.

**4. Does DOD intend to conduct a full audit of its Government Furnished Property and other inventory related to the F-35?**

**DOD RESPONSE:** Yes. The F-35 JPO, with the cooperation and support of the U.S. Services, DCMA and the Department, is conducting a complete physical inventory of all F-35 government-owned property, which will be completed in May 2020. This inventory will include spares, support equipment, depot material and test equipment, and plant tooling and test equipment.

**5. Does DOD intend to develop and implement a system to verify and track the parts it receives from Lockheed? If not, why?**

**DOD RESPONSE:** Yes. The F-35 leadership selected the Defense Property Accountability System as the APSR. The F-35 JPO team has since developed a multi-phased program plan for the implementation of the APSR that leverages the Air Force Government Furnished Material-Accounting Implementation Guide, Integrated Master Schedule, and sample performance work statement. At the completion of the APSR implementation, the JPO will track all assets from acceptance and receipt to disposition in accordance with DODI 5000.64, Accountability and Management of DOD Equipment and Other Accountable Property.

**6. Does the F-35 Program Office intend to appoint a component property lead and an accountable property officer per OIG's recommendation and as required by DOD Instruction 5000.64? If so, how will the persons selected to fill these roles be chosen?**

**DOD RESPONSE:** Yes. The F-35 Program Executive Officer has appointed a component property lead, who in turn, has appointed the first F-35 Accountable Property Officer.

As the Department continues to drive property accountability practice improvements in alignment with DOD policies (i.e., DODI 5000.64), the USD(A&S) signed the Lead Service Designations for F-35 Product Support memo on June 25, 2019 (copy attached). This memo designates the Department of the Air Force and Department of the Navy to assist the F-35 Product Support Manager (PSM) in development and implementation of a comprehensive product support strategy to achieve desired outcomes. This enables the respective Services to appoint component property leads (in compliance with DODI 5000.64) to establish and maintain a controlled environment for property accountability and an effective system of internal controls for F-35 government-owned property.

**a. How will DOD ensure these officials improve oversight of F-35 program, specifically regarding the acquisition of RFI spare parts?**

**DOD RESPONSE:** The appointment letters for each Component Property Lead and Accountable Property Officer cite specific responsibilities and specific requirements to ensure adequate policies and procedures are in place to implement DODI 5000.64 and improve the overall acquisition and management of RFI spare parts for the F-35 program. These policies and procedures must:

- Require all accountable government property acquired through purchase, capital lease, donation or otherwise obtained be managed through its lifecycle in accordance with DODI 7000.14-R and the requirements of the applicable appointment letter.
- Require electronic or hard-copy logs of system transactions, suitable for audit.
- Assign authority to establish and enforce appropriate associated internal controls.
- Require the application of exchange/sale authority within the structure of Section 503 of Title 40, U.S.C.
- Require coordination on the annual report of use of exchange/sale authority as directed by Federal Management Regulation 102-39.
- Establish and maintain the JPO's accountable property and financial records for government property, regardless of whether the property is in the immediate control or possession of the individual or JPO.
- Develop physical inventory plans and procedures, schedule physical inventories, and assist in their completion in accordance with DODI 5000.64.
- Certify a proper inventory of government property assigned to a unit or organization. Perform a joint physical inventory (with the gaining organization) when transferring the organization's property account as required. Properly execute and sign the required resulting documentation (e.g., DD Form 200, "Financial Liability Investigation for Property Loss").

- Designate custodial areas within an accountable area and appoint property custodians, in writing, for each custodial area designated. Issue custody receipts or similar documents for all property assigned to an individual or organization.
- Evaluate culpability upon the report of a property loss. Report and recommend appropriate action to the Commander, Commanding Officer, or Officer in Charge.
- Monitor the acquisition, storage, utilization, and disposition of property. Identify underutilized, impaired, or obsolete property and take appropriate action to increase utilization or ensure disposition.
- Validate the proper and unique identification of property in the APSR is in accordance with DODI 8320.04, DFARS 252.211-7003, and DODI 5000.64. Upon finding discrepancies, provide notification to the responsible entity for the item.
- Utilize electronic transactions wherever practicable. Ensure transfers are in accordance with Enclosure 3, Section 3 of DODI 4161.02.
- Enable Item Unique Identifier (IUID) for identification, tracking, and management in accordance with DODI 8320.03 and DODI 8320.04.

**7. Has anyone been held accountable for the mismanagement/loss of over \$2 billion of government property?**

**DOD RESPONSE:** The F-35 Program Office disputes that there was mismanagement/loss of over \$2 billion of government property. The DOD IG report identified \$2.1 billion of Contractor-valued government property in their systems, not the loss of \$2 billion of government property. F-35 JPO management of government property was consistent with the Program Acquisition Strategy until 2012. Subsequently, the F-35 JPO transitioned to a government-managed sustainment approach.

Prior to 2012, the prime contractor was responsible for parts management under Total Systems Performance and Integration Responsibility, as described in the Acquisition Strategy and their contracts. The expectation was that there would be a performance based logistics approach where the contractor managed property, with the exception of support equipment and engines that the JPO was managing and non-pooled property delivered to the Services. After 2012, the program began efforts to come into compliance with policy to include: defining and cataloguing, applying appropriate markings, and accounting for and auditing government property, to include a significant backlog of contractor-acquired property and property already delivered in the previous seven low-rate initial production lots.

The F-35 JPO has made consistent progress since including: creation of a marking strategy for existing and future property to be IUID compliant, selection of an APSR with an implementation plan, planning for the transition of contractor acquired property to government furnished equipment, and establishment of an inventory plan for all government-

owned property to populate the APSR. Additionally, the F-35 Program Senior Executive Leadership staffed the responsible offices for these actions and initiatives with highly competent program managers who, together with Department leadership, are committed to the accountability of all F-35 government property.

**a. Who was initially responsible for appointing a DOD component property lead as required by DOD Instruction 5000.64?**

**DOD RESPONSE:** By DOD instruction, the DOD component in charge of the program is responsible for appointing a DOD component property lead. The joint nature of the F-35 Program led to no single component being solely responsible for F-35 property and consequently left the program to manage property without the requisite authority. To address this issue, the USD(A&S) signed the Lead Service Designations for F-35 Product Support memo on June 25, 2019 (attached). This memo designates the Department of the Air Force and the Department of the Navy to assist the F-35 PSM in development and implementation of a comprehensive product support strategy to achieve desired outcomes. This enables the respective Services to appoint component property leads in compliance with DODI 5000.64 to establish and maintain a controlled environment for property accountability and an effective system of internal controls for F-35 government-owned property.

**b. Who was in charge of supervising the Contract Officer's Representatives?**

**DOD RESPONSE:** There are many types of CORs on the program. The CORs report to the Procuring Contracting Officer and ultimately the Director of Contracts, F-35 Program. The F-35 Logistics and Sustainment Team supervises the activities of the CORs across the F-35 field sites.

**8. Does DOD intend to better equip personnel to identify Not Ready For Issue (NRFI) parts prior to accepting shipment? If not, why?**

**DOD RESPONSE:** Yes. There are clear processes followed to identify and catalog NRFI parts. The F-35 JPO has effectively distributed policy direction and provided additional training to Maintenance Personnel/ALIS Administrators/logistic specialists through the F-35 Logistics and Sustainment Team. The F-35 JPO leadership will continue to oversee delivery of RFI spare parts and strive for opportunities to improve contractor oversight, as highlighted by DOD IG Audits.

In order to assist commanders with risk-based decision making for operating aircraft under their command, the JPO issued a memo in October 2018 that expanded authorities of warfighting logisticians, supply, and maintenance personnel in order to enable the return of aircraft to flying status in a more expedient manner. The memo authorizes appropriate commanders, as determined by the Services, and airworthiness authorities to authorize specific actions. For the U.S. Services, the O-6 level is appropriate, and the assigned Technical Airworthiness Authority official within the wing or equivalent is appropriate. However, this does not constitute authority to deviate from Common Maintenance Standards, Service, Partner, Foreign Military Sales (FMS) policy, or from the Autonomic Decision

System. Further, this does not absolve the responsible U.S. Government or industry partners from continuing to take relevant actions to address underlying issues.

As appropriate, the memo allows downgrade of EELs for airworthy assets, provided the following conditions are met:

- (1) That airworthy assets have markings, paperwork, or electronic artifacts verifying the asset's serviceability that provide the verified and documented capability of the air system in which a component is being installed to safely attain, sustain, and terminate flight in accordance with (IAW) approved usage and limits.
- (2) Appropriate Commanders may install Airworthy assets with EEL conflicts, which are not resolvable locally, up to the maximum of the earliest life limited component affected by existing Service, Partner and FMS Country air worthiness and maintenance standards. Operational checks must be performed IAW applicable Joint-Service Technical Data.





THE UNDER SECRETARY OF DEFENSE  
3010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3010

JUN 25 2019

MEMORANDUM FOR SECRETARY OF THE AIR FORCE  
SECRETARY OF THE NAVY  
PROGRAM EXECUTIVE OFFICER, F-35 LIGHTNING II  
PROGRAM OFFICE

SUBJECT: Lead Service Designations for F-35 Product Support

In support of the F-35 current and future Global Support Solution (GSS), I hereby designate the Department of Air Force as lead Service for provisioning and cataloging of parts unique to the F-35A and those parts common to all variants of the F-35. I make this same designation to the Department of Navy for parts unique to the F-35B and F-35C. I make these designations in accordance with authority granted in Title 10 U.S.C. Chapter 145, Sections 2451 and 2452 and based on the predominant military user of each F-35 variant.

The referenced statutes authorize the Department of Defense (DoD) to develop a single catalog system and a related DoD Standardization Program for supplies, assign responsibility for cataloging and standardization to military departments, and emphasize the use of the supply catalog in all supply functions within DoD, from determination of requirements through disposal.

Assignment of lead Services for provisioning and cataloging of parts is consistent with effective and efficient use of DoD resources. This guidance ensures that the Defense Logistics Agency will assign only one identification number for each item to be used for all supply functions from purchase to final disposal, and reinforces parts standardization.

Lead Service assignments will assist the F-35 Product Support Manager (PSM) in fulfilling Title 10 U.S.C. 2337 responsibilities to develop and implement a comprehensive product support strategy and to achieve desired product support outcomes. The F-35 product support strategy is anchored on the seven principles of being responsive, market-based, scale-driven, fostering accountability, transparency, lean and customer centric. The F-35 PSM and lead Services will collaborate to develop an optimal strategy for future sustainment of the F-35, considering hybrid government and commercial solutions, as needed. To support this strategy, the F-35 Joint Program Office will acquire and provide access to technical data that lead Services determine necessary to conduct provisioning and complete cataloging.

My point of contact for this action is Lt Col Shonry Webb, ODASD(Logistics), [shonry.o.webb.mil@mail.mil](mailto:shonry.o.webb.mil@mail.mil), DSN 372-5217, commercial 571-372-5217.

Ellen M. Lord

ATTACHMENT:  
As referenced in DoD Response