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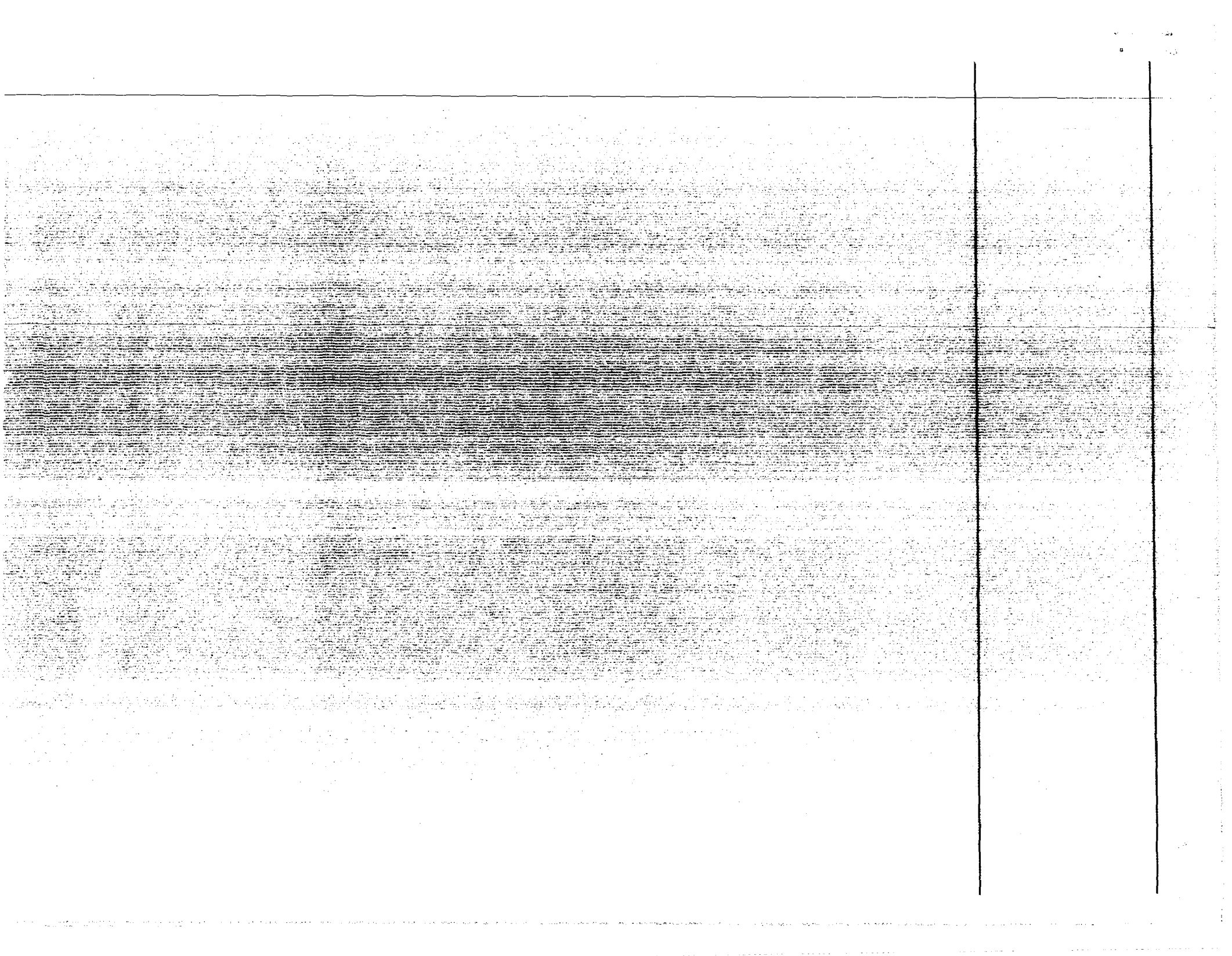
Report to the Chairman, Subcommittee
on Legislation and National Security,
Committee on Government Operations,
House of Representatives

November 1989

INDUSTRIAL BASE
Adequacy of
Information on the
U.S. Defense Industrial
Base



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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November 15, 1989

The Honorable John Conyers, Jr.
Chairman, Subcommittee on Legislation
and National Security
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

On October 17, 1988, your Subcommittee requested that we evaluate certain aspects of the federal government's data collection and coordination efforts related to the U.S. defense industrial base. You requested that we obtain information on (1) the Department of Defense's (DOD) efforts to improve data collection on and analysis of the defense industrial base, including DOD dependencies on foreign sources for critical items in weapon systems ("foreign dependencies"), (2) federal agencies' efforts to address the need for better coordination regarding the data bases and models that are available, and that decisionmakers should be aware of, on defense industrial base matters, (3) agency views on significant data-related problems regarding the defense industrial base, and (4) consultation procedures between DOD and the Department of Commerce regarding the negotiation and renegotiation of Memorandum of Understanding (MOU) relating to research, development, or production of defense equipment. (See app. I.) As agreed, we are also providing certain information regarding the Joint Logistics Commanders' report, A Study of the Effect of Foreign Dependency, dated February 15, 1986. (See app. II.) Appendix III describes our objectives, scope, and methodology.

In recent years, a number of studies have surfaced an increasing concern about a growing dependence¹ on foreign sources for materials and components for our weapon systems. For example, our own earlier work on production capabilities and constraints in the defense industrial base demonstrated this dependence with respect to several weapons programs.² Other reports, including the Joint Logistics Commanders' report,

¹The November 1987 National Defense University report, U.S. Industrial Base Dependence/Vulnerability, defines three elements of foreign sourcing: (1) a foreign source is a source of supply, manufacture, or technology that is located outside the United States or Canada, (2) a foreign dependency refers to a source of supply for which there is no immediate available alternative in the United States or Canada, and (3) foreign vulnerability, related to foreign dependency, refers to a source of supply whose lack of availability jeopardizes national security by precluding the production, or significantly reducing the capability, of a critical weapon system.

²Assessing Production Capabilities and Constraints in the Defense Industrial Base (GAO/PEMD-85-3, Apr. 4, 1985).

cite similar problems. In October 1988, the Defense Science Board noted that globalization of defense markets has resulted in weapon systems that depend on foreign sources not only for raw materials, but also for manufactured products. According to the Board, the most visible examples of this dependence include tactical missiles, such as the Maverick; Sidewinder; Sparrow; and Tube-Launched, Optically Tracked, Wire-Guided (TOW) missiles.

Results in Brief

Although evidence of DOD's foreign dependence for critical items in certain weapon systems exists, it is impossible to measure the overall impact or extent of such dependence because DOD has no reliable system to identify foreign dependencies in parts, components, and technologies essential to defense production. Some efforts underway are intended to systematically collect and analyze industrial base data, including the extent of foreign dependency. However, these efforts have been slow in developing and have not been adequately justified to receive the necessary support. Also, there is no system in place for increasing federal policymakers' awareness of or access to information on existing data bases and models on industrial base matters.

DOD's current ad hoc approach to defense industrial base data collection and analysis can provide information on general industry sectors and foreign dependencies through special studies. For example, the previously mentioned Joint Logistics Commanders' study reviewed 13 DOD weapon systems and found dependencies in 8 of them with severe problems in 6. The study defined dependencies as serious logistics support problems affecting the combat capability of the United States because of the unavailability of a foreign sourced item. According to this study, these dependencies could result in a total cut-off of the production of these items as early as 2 months into a war mobilization effort for a period lasting from 6 to 14 months.

However, the ad hoc approach is inefficient and of limited effectiveness for several reasons. First, it provides only limited visibility into foreign dependencies at lower subcontracting levels, even though, according to DOD, these levels are a major source of technology development in the United States, and it is at these levels that we face a significant decline in industrial competitiveness. Second, the ad hoc approach does not facilitate the identification of acquisition strategies so that DOD would be in a proactive position to know which domestic sources need to be maintained for particular items and most prudently exercise its authority to award contracts noncompetitively when necessary to maintain domestic


production sources. Third, the ad hoc approach does not shorten DOD's decision-making process for acquiring weapon systems, subsystems, and components by facilitating market research as a more systematic approach would. Obtaining systematic information would improve DOD's ability to identify potential sources for important items and technologies. This information is specifically useful when DOD is determining what it needs to buy and preparing contract specifications. Fourth, DOD officials stated that reliance on ad hoc data collection, which is based on varying methodologies, puts DOD in a reactive role and limits its ability to identify trends in critical industrial sectors.

As requested, we did not obtain official comments on this report. However, we discussed our findings with officials from DOD, the Department of Commerce, the Federal Emergency Management Agency, and the Office of Management and Budget, and have included their views where appropriate.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time, we will send copies to the Chairmen, Senate and House Committees on Armed Services and Senate Committee on Governmental Affairs. Copies will also be sent to the Secretaries of Commerce, DOD, and the Treasury; the Directors of the Federal Emergency Management Agency and the Office of Management and Budget; and to other interested parties.

This report was prepared under the direction of Mr. Paul F. Math, Director of Research, Development, Acquisition, and Procurement Issues, who may be reached on (202) 275-8400 if you or your staff have any questions. Other major contributors to this report are listed in appendix IV.

Sincerely yours,



Frank C. Conahan
Assistant Comptroller General

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Abbreviations

DPA	Defense Production Act
DINET	Defense Industrial Network
DOD	Department of Defense
MOU	Memorandum of Understanding
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
ROCS	Resolution of Capacity Shortfall
FEMA	Federal Emergency Management Agency

Adequacy of Official Information on the U.S. Defense Industrial Base

This appendix summarizes DOD's current efforts to improve data collection on and analysis of the defense industrial base, including foreign dependencies; federal agencies' efforts to address the need for better coordination regarding the data bases and models that are available on defense industrial base matters; agency views on significant data related problems; and the consultation procedures between DOD and the Department of Commerce regarding MOU negotiations.

Current Efforts to Improve Data Collection and Analysis

Although evidence of DOD's dependence on foreign sources for critical items in certain weapon systems exists, it is not possible to measure the overall impact or extent of such dependence because DOD has no reliable system to identify foreign dependencies in parts, components, and technologies essential to defense production.

Two major efforts, the Defense Industrial Network (DINET) and the Army/Census Bureau project, are intended to improve data collection and analysis of the defense industrial base, including foreign dependencies. Other efforts, when completed, are also intended to provide visibility regarding foreign dependencies at subcontractor levels. These include a review of the "Subcontract Report of Foreign Purchases," DD Form 2139, and a review of DOD's industrial production base analysis process, one aspect of which will address data collection on foreign sourcing.

DINET

The DINET project is an effort to provide accurate assessments of the production base essential to critical weapon systems and achieve a more responsive, competitive industrial base. DINET is intended to provide information and analysis on acquisition, trade, foreign direct investment, current economic trends, critical military technology, industrial capabilities and military requirements data, and reliance on foreign sources. DINET is also intended to integrate selected data available from DOD and other federal agencies to provide analysts, planners, and decisionmakers with (1) access to more complete, accurate, and timely information regarding the industrial base, (2) a perspective on DOD's total industrial requirements, (3) the ability to relate end item requirements to components, parts, and materials, (4) better visibility regarding the critical lower subcontracting levels of production, and (5) identification of foreign vulnerabilities (a source of supply whose lack of availability jeopardizes national security by precluding the production, or significantly reducing the capability of a critical weapon system).

DOD started the DINET project in 1985 and expects it to be completed in 1993. DINET's total estimated cost ranges from \$7 million to \$29 million, depending on the alternatives selected. There are 30 alternatives to choose from, including, for example, a display of the relationship of parts, components, and assemblies for a given end item produced by prime contractors, subcontractors, and suppliers to give DINET users a vertical view of major assemblies. DINET has been funded to date through special studies for a total of \$1.4 million.

DINET project officials stated that DOD cannot fulfill its mission to assure the maintenance of adequate industrial base capabilities to meet peacetime and emergency military needs without a system such as DINET. However, they also cited limitations that DINET needs to overcome. For example, they said data collection is both difficult and time-consuming because (1) DOD components, including the three military services, have varying formats, standards, and definitions for data and (2) data sources for industrial capacity and foreign dependency at the plant level are either non-existent or fragmented among many sources whose reliability is questionable. Another limitation they cited is that each military service uses its own data bases regarding mobilization. For example, a report prepared for the Office of the Secretary of Defense (OSD) states that during a recent exercise to evaluate DINET as a crisis management tool to analyze industrial mobilization responses during a crisis, each service responded to simulated mobilization problems using its own systems, generally without regard to the effects its decisions would have on other services' requirements.

Army/Census Bureau Project

DOD identified another recent attempt at systematic data collection—the Army/Census Bureau survey. This effort was intended, among other things, to obtain information on U.S. manufacturers' ability to expand their production capacity and on foreign dependency. It was also intended to provide statistically valid information and be linked to DINET. The Army, acting on DOD's behalf, agreed with the Census Bureau in 1987 to add a supplement to Census' Shipments to Federal Government Agencies survey, which is conducted every 5 years. The survey is sent to a sample of approximately 7,000 establishments in 84 U.S. industries. The supplement was intended to obtain broad information about the prevalence of foreign sourcing for DOD procurements. DOD officials stated that this survey supplement would (1) minimize the need for special studies by federal agencies, (2) give visibility not just to a relatively

few critical industries, but to the whole subtler structure, and (3) provide consistency of methodology that would assist in the development of trends important in the monitoring of industries.

The Census Bureau submitted the proposed survey supplement to the Office of Management and Budget (OMB) in February 1988, after holding informal consultations with industry. The Paperwork Reduction Act of 1980, as amended, requires that agencies submit all information collection requests to OMB for review. Under the act, OMB assesses information collection requests in terms of the burden they pose to the public. Industry representatives strongly opposed the proposed survey on the grounds that the DOD supplement was burdensome, costly to industry, and duplicative of parts of DD Form 2139. OMB, citing the Census Bureau's inadequate consultation with industry in devising the survey, did not approve it. OMB also said Census' justification was inadequate. Census withdrew the information collection request from OMB's review in May 1988.

The Census submitted a revised draft of the survey supplement to three industry associations for comment in the fall of 1988. While two of the associations found the survey burdensome, one supported it, stating that it would provide vital information if completed accurately. Due to Army budget constraints, however, further action on the survey was halted in March 1989. A decision on whether to resubmit the DOD survey supplement to OMB has been postponed until 1992, when the next Shipments to Federal Government Agencies survey will be made.

Subcontract Report of Foreign Purchases

Information on DOD subcontract awards to foreign sources is limited. The only existing DOD system for collecting this information is DD Form 2139, which is designed to determine the dollar value and extent of subcontracting from "offshore" (foreign) sources.

The reliability of the data collected using this form is questionable. For instance, under certain conditions government prime contractors and subcontractors are contractually required to submit DD Form 2139 for foreign sourced subcontracts exceeding \$25,000 awarded to their first tier subcontractors. DOD officials said that some contractors did not report their offshore subcontracts on DD Form 2139 as required by the

contract clause in section 252.204-7005 of the Defense Federal Acquisition Regulation Supplement.¹ This statement was based on a limited survey of contractors' compliance with these reporting requirements. That is, OSD's Office of Foreign Contracting sent a letter to the top 100 prime contractors informing them of the requirements and found that 36 of the 100 companies had submitted this form. However, these results according to the DOD officials (1) do not necessarily reflect the percentage of companies that were contractually required to submit the form and (2) do not mean these companies were in complete compliance concerning the foreign subcontract reporting requirements.

Further, DOD internal control mechanisms are not in place to provide DOD with a systematic validation mechanism for determining the level of noncompliance. DOD officials said they do little follow-up with the contractors because it would be a "monumental task." Other DOD officials said that they plan to review and revise DD Form 2139 to make it a valuable source of data on foreign sources, particularly if it is linked to DINET.

Program officials stated that the only use of DD Form 2139 data is to publish defense trade balance figures on the amount of offshore activity for the 19 countries with which the United States has Reciprocal Procurement MOUs. Reciprocal Procurement MOUs are bilateral agreements that provide an umbrella framework under which "buy-national" restrictions, import duties, and taxes are waived by participating countries to facilitate acquisition of standardized defense equipment.

An OSD senior negotiator of MOUs told us that if defense trade balance data were accurate, they could be useful in monitoring the results of these MOUs, indicating the need to further investigate certain markets. For example, the balance of defense trade in favor of another country may signal that a market is closed to U.S. industries and that further investigation may be necessary to determine why.

In our opinion, not knowing how reliable DD Form 2139 data are and not having credible data may affect DOD's ability to make informed decisions on matters relating to the defense industrial base and the extent of foreign sourcing. In our 1983 report, Defense Department Subcontract-

¹Defense Federal Acquisition Regulation Supplement section 204.674 requires DOD contracting officers to include this clause in any prime contract for other than commercial items that is expected to exceed \$500,000. Prime contractors are required to include a similar provision in all subcontracts over \$100,000. These requirements do not apply to contracts or subcontracts for ores, natural gas, utilities, petroleum products and crudes, timber, or subsistence.

Level Reporting System (GAO/ID-83-30), we had reservations about whether the DD Form 2139 system, as planned and implemented at that time, would provide the information necessary to fully (1) monitor arms cooperation agreements with friendly governments or (2) identify foreign source procurement at the subcontracting level. Based on DOD officials' statements on the reliability of DD Form 2139, we still have these concerns.

Joint Production Base Analysis Working Group

As part of its broader effort to review and make proposals regarding DOD's industrial base planning and production base analysis process, DOD has established the Joint Production Base Analysis Working Group, among other things, to prepare guidelines to carry out a statutorily directed review of the capability of the defense industrial base to develop, produce, maintain, and support each major defense acquisition program. The group plans to revise several mechanisms to collect data on production capabilities, including foreign sourcing information. This effort is in the very early stages of development.

No Coordinated System to Increase Federal Policymakers' Awareness of or Access to Defense Industrial Base Data

Several agencies are involved in attempts to coordinate information on existing data bases and models that provide visibility regarding the general health of the defense industrial base, and to some extent, regarding foreign dependencies. Officials at DOD and the Federal Emergency Management Agency (FEMA) said it would be beneficial if information concerning such data bases and models were coordinated and shared among agencies to help emergency managers and policymakers in making timely and informed decisions. They stated that even though there is a "sea of data" on defense industrial base matters, there is no system for collating and organizing the data, and for making it accessible to government policymakers.

Agency officials cited two current efforts to improve coordination on defense industrial base data collection: FEMA's Executable Software System and Commerce's Emergency Preparedness Data Base.

FEMA's Executable Software System

In 1988, FEMA developed a prototype for an automated inventory of data bases and models dealing with emergency management and the defense industrial base in the federal community. The inventory package is called the Executable Software System. FEMA held two sessions in 1988 where agencies shared information on the data bases and models related to emergency management and industrial base matters. Based on these

sessions, approximately 100 data bases were described and entered into the prototype. FEMA officials said a third meeting has been postponed, however, due to FEMA's lack of funds and recent reorganization. No implementation date has been set for the Executable Software System. According to FEMA officials, a lack of participation from other agencies has also slowed the progress of the Executable Software System. After the initial response in 1988, FEMA received less than 20 additional data base descriptions. FEMA officials estimated that less than 50 percent of the existing data bases have been identified.

Commerce's Emergency Preparedness Data Base

Commerce, in coordination with other federal departments and agencies, has developed a prototype for an Emergency Preparedness Data Base. This effort is in response to a September 1987 National Security Council request that Commerce take a lead role in developing a plan for an industrywide assessment of the production capabilities of defense and essential civilian sectors. An interagency committee² approved the Emergency Preparedness Data Base prototype, a pilot program that currently includes data on 7 critical industries and will be extended to cover 21 critical industries. It is intended to be used to assist emergency managers in determining what industrial resources are available in emergency situations. For example, the prototype for the seven industries contains data to help estimate an industry's ability to survive a disaster and produce in the aftermath. Such data includes geographic locations of different industries, production equipment vulnerability and survivability, and dependence on foreign sources for raw materials and production equipment.

Data Coordination Related to Subcontractors

Although data are available on the general health of the defense industrial base, there is a lack of reliable data regarding production at various subcontractor levels. And, what is available is collected on an ad hoc basis. We noted some efforts to coordinate assessments of the consequences of foreign sourcing. For example, Commerce's Office of Industrial Resource Administration and the Navy are working on a project to identify industrial capabilities and foreign dependencies relating to critical parts of three major Navy weapon systems. Another example is the previously mentioned Joint Logistics Commanders' report on foreign dependency.

²This committee's membership includes the Department of Commerce, DOD, Energy, FEMA, Labor, the National Security Council, and Treasury.

On request, FEMA provides other agencies with its economic analyses of foreign dependencies based on one of its economic models, the Resolution of Capacity Shortfall (ROCS) system. The ROCS system compares defense production requirements and import capacity estimates and takes into account the political viability of obtaining items from a foreign source in the event of a national security emergency. According to FEMA officials, the ROCS system addresses foreign dependencies to the extent that data are available, but due to the lack of data on subtier levels of production, it cannot directly address the consequences of foreign sourcing at these levels. According to a FEMA official, both DOD and Commerce draw on the ROCS system's economic analyses and FEMA has used its model to respond to congressional requests pertaining to the consequences of foreign sourcing.

Agency Views on Significant Data Related Problems

The Defense Production Act (DPA) of 1950, as amended, gave the President a wide range of authorities to strengthen the mobilization base, produce military goods, control and stabilize the economy, and in general, mobilize the country's resources in support of a war effort. In general, DOD, Commerce, and FEMA stated that DPA gives the President broad authority to determine what kinds of data are to be collected and to share the data or otherwise coordinate matters related to the data. However, FEMA and DOD cited what they consider significant data related problems.

FEMA

FEMA officials said that to ensure the timely completion of their Executable Software System, clear presidential or congressional language is needed to direct agencies to cooperate with FEMA. In addition, FEMA officials stated that they need sufficient resources to implement the Executable Software System. However, other agency officials, including the National Security Council, believe that FEMA's authority as addressed in Executive Order 12656 is sufficient to complete its automated inventory effort.

DOD

DOD stated that a "very important issue" related to the authority to collect data is the authority to mandate that persons provide the data and that it be accurate. In this regard, DOD pointed out that section 705 of DPA authorizes the President to obtain from any person, by subpoena if necessary, information relevant to the administration of DPA.

The President has delegated authority under section 705 to the Commerce Department's Bureau of Economic Analysis for the purpose of preparing a report required by DPA. DOD officials stated that they are not aware of any delegation of section 705 authority to DOD. Some OSD program officials stated that such a delegation of authority would assist DOD in obtaining accurate responses from contractors and subcontractors on surveys, such as the proposed Army/Census Bureau survey supplement.

Consultation Between DOD and Commerce on MOU Negotiations

Commerce and DOD officials stated that before enactment of section 824 of the National Defense Authorization Act, fiscal year 1989,³ there were minimal consultations between DOD and Commerce about MOUs relating to research, development, or production of defense equipment. Since enactment of this law, DOD and Commerce have begun using interim consultation procedures so that Commerce can provide input into DOD's industrial base impact assessments. In addition, DOD established procedures for internally coordinating its assessment of the effects of MOUs on the defense industrial base.

The interim procedures established by DOD and Commerce include the following:

- OSD gives Commerce an Industrial Base Factors Analysis and a technology security risk assessment (prepared by the DOD project officer), the proposed MOU, and the MOU program summary;
- Commerce submits to OSD its written assessment and recommendations; and
- OSD considers the data received from Commerce along with its own data and finalizes its industrial base assessment. DOD officials said that between January 6, 1989, and October 19, 1989, DOD forwarded 47 MOUs to Commerce for comment and DOD received comments on 20 of the MOUs.

Although Commerce officials said the interim procedures were a significant improvement over the lack of consultation before the fiscal year 1989 authorization act was enacted, they requested modifications related to their involvement in various aspects of the negotiations and the time that DOD allows Commerce to fully assess the impact of these negotiations.

³This section states that in the negotiation and renegotiation of each MOU relating to research, development, or production of defense equipment, the Secretary of Defense should (1) assess the effect of the MOU on the defense industrial base and (2) regularly solicit and consider information or recommendations from Commerce with respect to the effect of the MOU on the U.S. industrial base.

Appendix I
Adequacy of Official Information on the U.S.
Defense Industrial Base

In response to requested modifications, DOD and Commerce drafted a new proposal for consultation procedures on all MOUs for research, development, or production of defense equipment. The proposal, which refines and formalizes the interim consultation procedures, is being considered as the basis for an interagency agreement between DOD and Commerce. The proposed procedures would (1) give Commerce full access to all OSD information relating to the MOU, (2) include Commerce as an adviser in MOU negotiations, (3) establish a time frame for Commerce to provide its written industrial base assessment to OSD, and (4) require that DOD consult with Commerce before initiating or concluding MOU negotiations. While these procedures are being informally used, as of October 9, 1989, this agreement had not been finalized. According to a Commerce official, they still are not satisfied with the information DOD is providing. According to DOD, the law does not specify the kind of information DOD should provide to Commerce and it does not require a written agreement.

Analysis of 1986 Joint Logistic Commanders' Report

The Joint Logistics Commanders' 1986 report, A Study of the Effect of Foreign Dependency, reviewed 13 DOD weapon systems and found dependencies¹ on foreign sources in 8 of them with severe problems in 6. According to the study, these dependencies could result in a total cut-off of the production of these items as early as 2 months into a war mobilization effort for a period lasting from 6 to 14 months. The 13 weapon systems reviewed included the F-16 and F-18 aircraft, Advanced Helicopter Improvement Program, M-1 Tank, Combined Effects Munitions, the AN/SSQ-53B sonobuoy, the Sparrow missile, the 5-ton trunk, M483 improved conventional munitions, the AV-8B Harrier aircraft, the AR-5 aircrew chemical protective suit, the AN/ALO-131 electronics countermeasures pod, and 25K and 40K loaders for cargo aircraft.

Methodology Used to Identify Foreign Dependency

According to the report, the first task in doing this study was to collect data on foreign sourced procurements and foreign dependency because this information was not readily available. Information was obtained from previous studies and interviews with officials from federal agencies, trade associations, military procurement and planning organizations, defense manufacturers, and managers of weapon systems and logistics items.

To obtain information regarding the lower subcontractor/vendor levels, for 12 of the 13 weapon systems reviewed, the project team performed a limited survey of the market structure supporting the systems. That is, for each of the 12 systems, program officials were asked to identify 5 subsystems and components at the next lower production tier meeting certain criteria² and this identification continued through the lower production tiers down to the level of basic materials. For the other system, the Sparrow missile, a complete vertical tier analysis was done.³

The project team determined the nature and scope of the dependencies on foreign sources for the critical items identified in the weapon systems

¹ A foreign dependency, as defined in this study, is an immediate, serious logistics support problem that affects the combat capability of the United States because of the unavailability of a foreign sourced item.

² Each subsystem or component had to be (1) complex enough so that the program officials were unable to categorically state that it did not contain any foreign manufactured items and (2) critical enough to production, and complex enough to produce, so that its loss would pose serious problems in meeting production schedules.

³ A vertical tier analysis identifies critical items acquired from foreign sources for an individual weapon system down through the tiers of suppliers and evaluates possible production constraints at each level.

**Appendix II
Analysis of 1986 Joint Logistic
Commanders' Report**

selected for review through the data collection effort, and subsequent analysis. This analysis included reviewing the foreign sourced items, analyzing the reasons foreign sources were used, and tracing these reasons to a particular government or corporate acquisition policy.

Objectives, Scope, and Methodology

The Legislation and National Security Subcommittee, House Committee on Government Operations, requested on October 17, 1988, that we begin an evaluation relating to the adequacy of official information on the U.S. defense industrial base. We were asked in subsequent conversations with the Subcommittee staff to focus our efforts on the following objectives:

- Determine whether reliable systems exist to identify foreign dependencies (that is, U.S. dependencies on foreign sources) relating to industries or technologies essential to defense production, including dependencies on lower tier industries that support defense prime contractors, and if such systems do not exist, identify efforts that are underway to develop them.
- Examine the extent of coordination regarding defense industrial base data collection and use among various government agencies, including FEMA's coordination efforts and the extent of such coordination for assessing the consequences of foreign sourcing of weapon systems and components.
- Obtain the views of the National Security Council, DOD, Commerce, and FEMA on whether any significant data related problems exist.
- Assess Commerce's participation in negotiations between DOD and foreign governments of MOUs that may result in foreign offset agreements adversely affecting U.S. industries.
- Analyze the 1986 Joint Logistics Commanders' report, A Study of the Effect of Foreign Dependency, to identify the weapon systems reviewed and methodology described that was used to identify dependency on foreign sources.

In response to these requests, we

- interviewed senior officials at DOD, Commerce, FEMA, OMB, the Department of the Treasury, and National Security Council responsible for the defense industrial base and related areas to obtain their views and other information on the subject requested;
- reviewed documents relating to DOD's ongoing efforts to improve data collection and analysis of foreign dependencies;
- reviewed FEMA's documents related to its proposed automated inventory of data bases and models dealing with emergency management and the defense industrial base, and assessed the extent of coordination among various agencies of the data bases and models, including those relating to the consequences of foreign sourcing;
- reviewed Commerce's documents related to its data base prototype on emergency preparedness and assessed the status of this effort;

Appendix III
Objectives, Scope, and Methodology

- discussed with representatives from the National Security Council, DOD, Commerce, and FEMA (1) lines of authority related to data collection and use, based on the DPA of 1950, as amended, and related executive orders and (2) significant data related problems;
- obtained documentation on and assessed the interim procedure established by DOD and Commerce to solicit Commerce's information and recommendations on the impact of MOUs on the U.S. industrial base;
- analyzed the 1986 Joint Logistics Commanders' report, A Study of the Effect of Foreign Dependency; and
- obtained advice and assistance from leading experts on defense issues.

Our work was performed in accordance with generally accepted government auditing standards between December 1988 and June 1989.

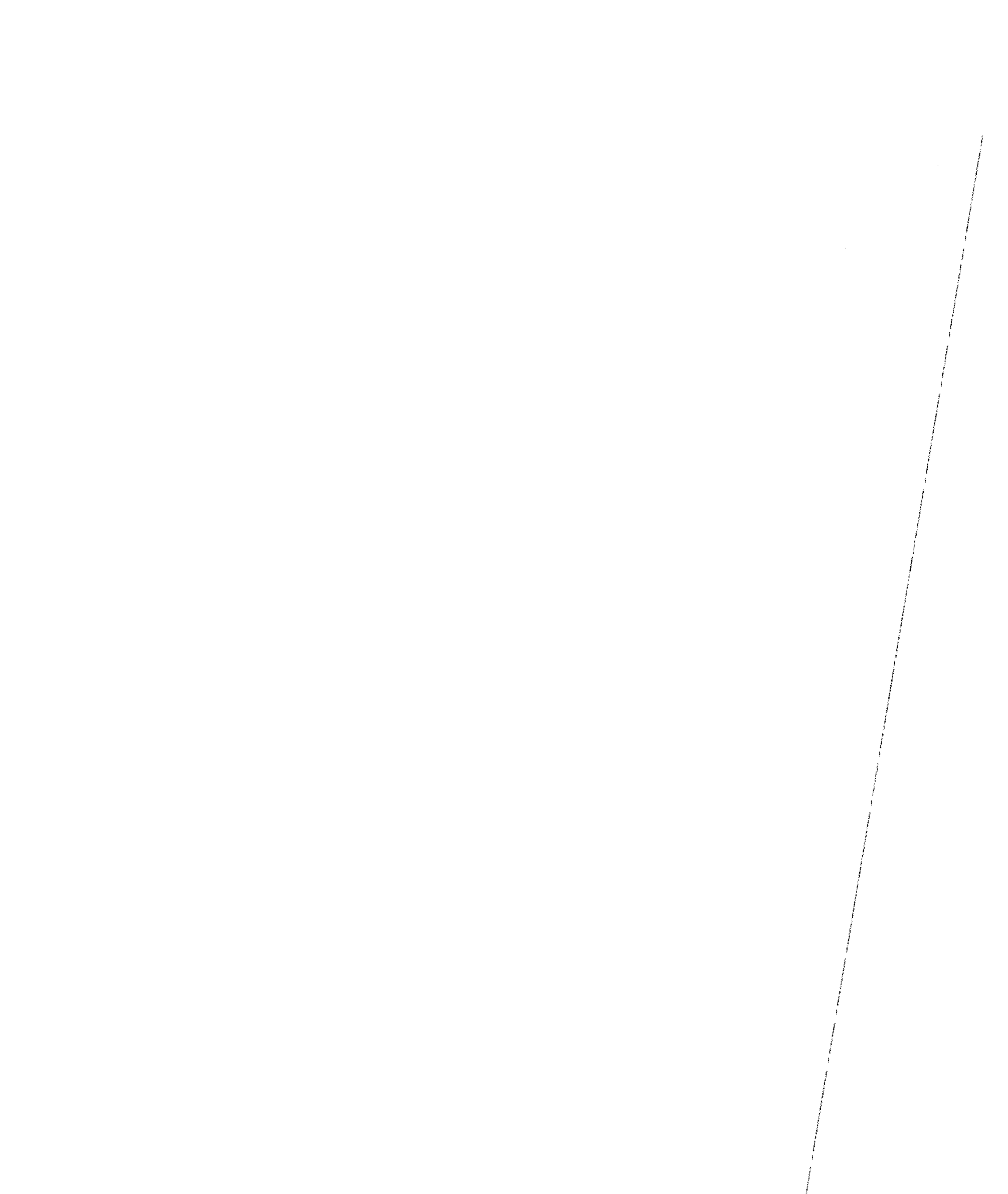
Major Contributors to This Report

**National Security and
International Affairs
Division, Washington,
D.C.**

Michael E. Motley, Associate Director, Research, Development,
Acquisition, and Procurement Issues
Kevin Tansey, Assistant Director
Rosa M. Johnson, Evaluator-in-Charge
Ernest Doring, Evaluator
Michele Mackin, Evaluator
Charles W. Perdue, Economist
Celia Thomas, Economist

**Office of General
Counsel**

William T. Woods, Assistant General Counsel



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