

GAO

Briefing Report to Congressional Requesters

October 1986

PROCUREMENT

Limited Data on DOD's Parts Breakout Program



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

National Security and  
International Affairs Division

B-214275

October 10, 1986

The Honorable Lowell Weicker  
Chairman, Committee on Small Business  
United States Senate

The Honorable Dale Bumpers  
Ranking Minority Member  
Committee on Small Business  
United States Senate

You requested that we examine the results of the Department of Defense's (DOD's) Replenishment Parts Breakout Program implemented under the Defense Acquisition Regulation (DAR) Supplement No. 6 (breakout regulation) and address a number of specific points including determining the status of the universe of parts subject to breakout and trends in competition.

In March 1986, as requested, we provided a briefing to the Committee's Procurement Policy Counsel and agreed that we would gather data only at the DOD headquarters level and not independently verify the accuracy of the data in the reports provided by DOD.

We were unable to satisfy all objectives outlined in your request because (1) DOD, the services, and the Defense Logistics Agency (DLA) were unable to provide complete data, (2) reporting systems did not give a complete or clear picture of program efforts and results, (3) the services provided inconsistent data, and (4) there was no requirement for reporting data on small business participation in the program.

The information below provides background on the DOD's Replenishment Parts Breakout Program, information on two problem areas regarding the current breakout regulation, and a brief summary of data obtained in response to your questions. A more detailed description of the DOD's Breakout Program is contained in appendix I while specific data in response to your questions is in appendix II. Appendix III describes our objectives, scope, and methodology.

BACKGROUND

Government buyers may face problems in attempting to competitively purchase spare parts or otherwise be assured of obtaining a fair and reasonable price. In some instances, a spare part must be purchased from the prime contractor before suitable technical data (for example, engineering drawings necessary for a company to manufacture the spare parts) is available which could be provided to potential offerors interested in competing for the spare part contracts.

To improve this situation, DOD established its Breakout Program in an attempt to reduce the cost of spare parts for weapon systems by breaking out the procurement of these spare parts from the original contractor. Special teams at each service or DLA facility screen (technically review) spare parts as early as possible to identify those of high-dollar value and to determine the optimum procurement methods, particularly, the potential for competition or direct purchase from the actual manufacturer. The result of the screening process of a spare part is the assignment of an acquisition method code (AMC) (1, 2, 3, 4, or 5) defined as follows.<sup>1</sup>

- AMCs 1 and 2 indicate that a spare part can be competed (2 is used if competed for the first time).
- AMCs 3 and 4 indicate that the spare part can be acquired directly from the actual manufacturer who may be the prime contractor (4 is used if the spare part is designated for the first time).
- AMC 5 indicates the spare part can be acquired only from the prime contractor even if the technical data indicates the part comes from a source other than the prime contractor.

Breakout is considered to have occurred when a spare part previously coded AMC 5 is screened and is then either purchased from the actual manufacturer (AMCs 3 and 4) or through competition (AMCs 1 and 2), the preferred method.

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1DAR Supplement No. 6, DOD Replenishment Parts Breakout Program sets forth procedures to screen and code spare parts.

BREAKOUT CODING AND REPORTING PROBLEMS

During our review, service and DLA officials expressed concern about problems with the breakout regulation including the coding of parts and the reporting of breakout results. In discussing these problems with DOD officials, we were notified on July 7, 1986, that DAR Supplement No. 6, the breakout regulation, was going to be revised and all sections were subject to review.

AMC Coding

The breakout regulation requires that AMCs 3 and 4 be used when a part is acquired directly from the actual manufacturer. However, the breakout regulation defines the actual manufacturer as the design control activity. The design control activity may or may not add any value to a part especially when the part is physically produced by a subcontractor. We believe DOD needs to consider including in its revised regulation a coding system which clearly differentiate between parts purchased from the physical producer and parts purchased from the design control activity that does not physically produce the part.

Reporting of Breakout Data

The breakout regulation does not contain adequate instructions on how to prepare breakout reports and how to compute reportable savings and costs. As a result, each service and DLA use their own methods, thus causing reported results to be inconsistent. We agree with the Army that DOD should consider including uniform instructions in its revised breakout regulation for preparing breakout reports and reporting savings and costs.

The breakout regulation requires the reporting of data on parts purchased in a fiscal year which may have been screened in prior fiscal years. It does not require the reporting of the number of parts screened in a fiscal year. We agree with the Air Force that DOD should consider including instructions in its revised breakout regulation for the reporting of the number of parts screened in addition to the number of parts purchased. This will enable users of breakout data to determine how many parts were screened in the fiscal year in addition to the number of parts purchased that may have been screened in prior years.

Summary of Answers to the Specific Questions

Your request included five questions on the Breakout Program covering fiscal years 1983 through 1985. Officials in DOD, the services, and DLA stated that there were problems in providing the data you requested. Although some data exists, it was not enough to draw a complete picture of the trends in the Breakout Program for fiscal years 1983 through 1985. Limited data was available on what AMCs were assigned to the parts actually purchased in those years and no information was available on small business participation. Because of this and other limits noted above, we were unable to provide trend data or the detailed assessments asked for, especially on questions 2 through 5. However, we did gather some data as it relates to question 1 and it is summarized below. More detailed data in response to questions 1 through 5 is provided in appendix II.

Question 1 requested information on the number of parts subject to breakout including competition and their estimated annual buy value. Parts coded AMC 5 are subject to breakout to AMCs 1, 2, 3, and 4. Parts coded with AMCs 3 and 4 could eventually transition to AMCs 1 or 2. Because of incomplete data, a DOD-wide assessment cannot be performed of the overall trends for the parts purchased. According to a DLA official, DLA did not prepare and report this data to DOD because of a lack of staff. Table 1 shows the value of parts purchased by each of the services in fiscal years 1984 and 1985.

Table 1: Value of Parts by AMCs  
Purchased by the Services

<u>Service</u>	<u>AMC</u>	<u>Fiscal year 1984</u>		<u>Fiscal year 1985</u>	
		<u>Amount</u> (billions)	<u>Percent</u> <u>of</u> <u>total</u>	<u>Amount</u> (billions)	<u>Percent</u> <u>of</u> <u>total</u>
Army	AMC 1+2	\$1.136	50.6	\$1.243	49.9
	AMC 3+4	.848	37.8	1.010	40.5
	<u>AMC 5</u>	<u>.261</u>	<u>11.6</u>	<u>.241</u>	<u>9.7</u>
	Total	\$2.245	100.0	\$2.494	100.0 <sup>a</sup>
Air Force	AMC 1+2	\$1.569	38.3	\$1.419	36.3
	AMC 3+4	2.331	57.0	2.255	57.7
	<u>AMC 5</u>	<u>.191</u>	<u>4.7</u>	<u>.234</u>	<u>6.0</u>
	Total	\$4.092 <sup>a</sup>	100.0	\$3.907 <sup>a</sup>	100.0
Navy	AMC 1+2	\$ .824	26.4	\$1.416	30.9
	AMC 3+4	2.246	71.9	3.092	67.5
	<u>AMC 5</u>	<u>.053</u>	<u>1.7</u>	<u>.071</u>	<u>1.5</u>
	Total	\$3.123	100.0	\$4.579	100.0 <sup>a</sup>
Total	AMC 1+2	\$3.529	37.3	\$ 4.078	37.1
	AMC 3+4	5.425	57.4	6.357	57.9
	<u>AMC 5</u>	<u>.505</u>	<u>5.3</u>	<u>.546</u>	<u>5.0</u>
	Total	\$9.459	100.0	\$10.981	100.0
		=====	=====	=====	=====

<sup>a</sup>Figure does not add due to rounding.

Question 1 also asked for data on fiscal years 1984 and 1985 Breakout Program savings and costs. DOD reported that gross savings for the Breakout Program were \$347 million and \$414 million in fiscal years 1984 and 1985 respectively. However, the gross savings reported for fiscal year 1985 was understated by about \$133 million because the Air Force did not provide final data until after the report was submitted to the Congress. In regard to costs of the Breakout Program,

DOD, the Army, and the Air Force did not have estimates. The Navy estimates the cost of the Breakout Program was \$25.6 million in fiscal year 1984 and \$46.8 million in fiscal year 1985. DLA estimates that the cost of the Breakout Program was \$0.7 million in fiscal year 1984 and \$1.5 million in fiscal year 1985.

Officials of the Office of the Secretary of Defense, the Army, Navy, Air Force, and DLA were given an opportunity to read and informally comment on a draft of the briefing report. We made adjustments where necessary based on their comments and they agreed that the facts were fair and complete. As requested by your representative, we did not obtain formal agency comments.

Unless you announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the briefing report. At that time we will send copies to interested parties and make copies available to others upon request. If you have any questions, or if we can be of further assistance, please contact me at 275-4587.

Paul F. Math

A handwritten signature in black ink, appearing to read "Paul F. Math". The signature is stylized with a large, sweeping initial "P" and "M".

Associate Director



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## ABBREVIATIONS

AMC Acquisition Method Code  
AMSC Acquisition Method Suffix Code  
DAR Defense Acquisition Regulation  
DIDS Defense Integrated Data System  
DLA Defense Logistics Agency  
DLSC Defense Logistics Services Center  
DOD Department of Defense  
NSN National Stock Number  
OSD Office of the Secretary of Defense

DOD'S BREAKOUT PROGRAM

The government procurement of spare parts is guided by policies and regulations designed to achieve a number of objectives, including (1) obtaining a quality product to support the weapon system to enable it to perform its mission, (2) promoting full and open competition, and (3) ensuring that the government pays a fair and reasonable price for its purchases. The procurement of spare parts poses unique problems to achieving these goals. When a weapon system is first purchased by the government, the initial supply of spare parts (provisioning spare parts) is generally purchased with the system. Replenishment parts are purchased after provisioning, for stock or for use in maintenance, overhaul, and repair.

BREAKOUT PROGRAM INTENDED TO ADDRESS  
SPARE PARTS PROCUREMENT PROBLEMS

Government buyers may face problems in attempting to competitively purchase parts or otherwise be assured of obtaining a fair and reasonable price. In some instances, a part must be purchased from the prime contractor before suitable technical data (for example, engineering drawings necessary for another company to manufacture the part) is available for potential offerors interested in competing for spare part contracts. In addition, the buyers may be unsure of the existence or status of other factors which may impede their efforts to compete the spare parts, for example, (1) the government's legal right to use the available technical data, (2) the identity of the actual manufacturing contractor, and (3) any special testing or manufacturing processes required.

To improve this situation, the DOD established its "Breakout Program" in 1963 and issued a joint service regulation in 1969. The regulation reflected DOD's attempt to reduce the cost of spare parts for weapon systems by breaking out the procurement of these spare parts from the original contractor. This program is intended to screen spare parts as early as possible to (1) identify those of high-dollar value (as a minimum, those of \$10,000 in annual buy value), (2) determine what factors may impede a successful breakout (for example, legal rights to data), and (3) determine the optimum procurement methods, particularly the potential for competition or direct purchase from the manufacturer.

In June 1983 DOD replaced the 1969 regulation with its DAR Supplement No. 6, DOD Replenishment Parts Breakout Program. This

regulation sets forth procedures to screen (technically review) and code spare parts to give contracting officers information regarding technical data and sources of supply to meet the government's minimum requirements, as well as the opportunity to make decisions in the preaward and award phases and to competitively acquire spare parts. Spare parts may receive full or limited screening when a weapon system is purchased with its provisioning parts or later when replenishment parts are needed.

The full screening procedures involve 65 review steps and are divided into the following phases:

- data collection, including historical data, data on known sources for the part, data on the organization or contractor having design control, and technical data on the part;
- data evaluation, including a determination of (1) the currency, completeness, and accuracy of the technical data package, (2) the government's right to use the technical data, and (3) the feasibility of the government purchasing needed technical data;
- data completion, including acquiring the missing elements of information to reach a determination on both adequacy of the technical data package and restrictions on the legal rights to the data;
- technical evaluation, including a determination of the (1) development status of the part, (2) design stability, (3) performance characteristics, (4) effect on the safety of personnel using the system the part is put into, and (5) the reliability of the system;
- economic evaluation, including the identification and estimation of breakout savings and costs; and
- supply feedback, including determining if there is sufficient time to compete the part before the part is needed.

Limited screening does not require extensive legal review and is appropriate when the full screening process cannot be completed for a part in sufficient time to support an immediate buy requirement. If limited screening does not result in competition and the part is a high value part with a high annual buy forecast, full screening procedures must be initiated as soon as possible.

The individual spare parts are assigned National Stock Numbers (NSNs)<sup>1</sup> and subsequent purchases of the spare part are made as needed. The result of the screening process is the assignment of an acquisition method code (AMC 1, 2, 3, 4, or 5) and a single acquisition method suffix code (AMSC) which is a letter (A through Z).

AMC 5 indicates the spare part can be acquired only from the prime contractor although the technical data indicates the part comes from a source other than the prime contractor. Breakout is considered to have occurred when a spare part previously coded AMC 5 is screened and is then either purchased from the actual manufacturer (AMCs 3 or 4) or through competition (AMCs 1 or 2), the preferred method. AMCs 3 and 4 indicate that the spare part can be acquired directly from the actual manufacturer who may be the prime contractor (4 is used if the spare part is designated for the first time). AMCs 1 and 2 indicate that a spare part can be competed (2 is used if competed for the first time). The AMSCs are letter suffix codes that provide a further rationale for the status of the spare part, including technical data availability, special tests, or manufacturing processes. These codes are recorded in the government's procurement data recording system.

The breakout regulation states that the identification, selection, and screening of spare parts for breakout shall be made as early as possible to determine the technical and economic considerations of the opportunities for breakout to competition or direct purchase. DOD prefers breakouts which result in competition; however, this may not be possible for a number of reasons, for example, if the design control activity has proprietary data rights or if special test or production facilities available only from one contractor are needed. Emphasis is placed on those spare parts offering the greatest opportunity for breakout and potential savings. The regulation uses an annual or immediate buy value of \$10,000 as a general guideline for breakout potential; however, the services and DLA use their own threshold and may attempt to screen as many spare parts as resources permit even if the value is lower than the guideline.

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<sup>1</sup>NSN is a number assigned by the Defense Logistics Services Center in the provisioning stage of a weapon system to all items repetitively purchased by DOD and others.

### Breakout Program responsibilities

The Office of the Deputy Assistant Secretary of Defense for Logistics in the Office of the Secretary of Defense (OSD), Office of the Assistant Secretary of Defense for Acquisition and Logistics, exercises authority for direction and management of the DOD Replenishment Parts Breakout Program, including the establishment and maintenance of implementing regulations.

The breakout regulation states that contracting officers responsible for the acquisition of replenishment parts shall consider the AMC and AMSC when developing the list of sources to be solicited and the method of contracting.

The Defense Logistics Services Center (DLSC) (1) receives and disseminates AMCs and AMSCs for each NSN to all appropriate government activities and (2) records the AMCs and AMSCs in the data bank of NSN item information.

DOD activities responsible for the assignment of AMCs and AMSCs transmit assigned codes for each NSN to DLSC.

### Reporting

The Army, Navy, Air Force, and DLA are required to individually provide to OSD the Replenishment Parts Acquisition Report (714 Breakout Report). This report shows the number and value of spare parts purchased during a fiscal year categorized by the 5 AMCs (AMCs 1 through 5) and in total.

### DOD REFORMS TO CORRECT SPARE PARTS PROBLEMS

The Secretary of Defense announced initiatives in 1983 to improve the procurement of spare parts. The Spares Program Management Office was created in December 1984 to coordinate and integrate DOD's spare parts initiatives. These initiatives are designed to address the longstanding spares acquisition and management problems. The objectives are to reduce the cost of spare parts by increasing competition and to eliminate other barriers to the efficient and cost effective acquisition and management of spares. According to DOD, the program has been effective in reducing the overpricing of spare parts. Among DOD's initiatives,

- 5,800 new positions have been added in support of procurement and spares reform;
- training has been expanded; and

-- more managerial emphasis has been placed on cost effectiveness in procurement.

DOD provided two reports to the Congress, Spare Parts Management Problems and Spare Parts Management Reforms, dated March 11 and 12, 1986, respectively which provide information on DOD's breakout efforts. Table I.1 shows DOD's efforts to screen parts based on Breakout Program data in the reports.

Table I.1: DOD Breakout Program Screening Results

<u>Breakout Program action</u>	<u>Fiscal year 1984<sup>a</sup></u>	<u>Fiscal year 1985<sup>b</sup></u>
Number of parts screened	211,000 <sup>c</sup>	250,000 <sup>c</sup>
Number of parts broken out for purchase from the actual manufacturer (AMCs 3+4)	57,000	51,000
Number of parts identified for competition (AMCs 1+2)	48,000	54,000

<sup>a</sup>The fiscal year 1984 figures are not complete because the Air Force did not provide a complete estimate of its screening efforts.

<sup>b</sup>The fiscal year 1985 figures are not complete because the Air Force and DLA did not provide complete estimates of their screening efforts.

<sup>c</sup>This includes both full and limited screening.

The reports stated that:

-- DOD now has 2,250 personnel assigned to over 750 competition advocate offices. Competition advocate offices are maintained throughout all DOD components at the agency level and in each procurement activity as a resource to help the heads of DOD components with acquisition responsibilities to achieve competition. Heads of these activities, through the competition advocates, are to arrange for their components to plan competition early in the acquisition process and challenge actions that may result in an inappropriate noncompetitive procurement.



- The Breakout Program is the most effective program that DOD has established to improve competition.
- Federal acquisition regulations now require contracting officers to include provisions in requests for proposals that require contractors to identify the spare parts they do not manufacture or do not add significant value to. With this information, breakout decisions can be made during spares provisioning.
- DOD is increasing its resources for procuring and maintaining technical data.
- DOD is addressing proprietary rights to ensure that unwarranted claims of such rights do not prevent competition. Its buying activities are using approaches such as publishing competition catalogues, holding competition fairs, making personal contact with businesses to invite additional competition, and encouraging buyers and other procurement personnel involved in the procurement process to put more emphasis on improving competition.

#### LIMITED DATA ON THE BREAKOUT PROGRAM

Officials in DOD, the services, and DLA stated that there were problems in providing the data requested by the Committee on the Breakout Program, especially on small business participation. Although some data exists, it is not enough to draw a complete picture of the trends in the Breakout Program for fiscal years 1983 through 1985. However, information is available on how all spare parts in the inventory are currently coded with AMCs and AMSCs and shows that about 16 percent of the spare parts was purchased in fiscal year 1985. Breakout data on spare parts actually purchased is incomplete because 714 Breakout Reports are not submitted by DLA. According to DLA officials, they do not have sufficient staff to prepare the reports.

The actual effort to screen a spare part takes place prior to the purchase of the part. A segment or all of this screening effort may take place in one fiscal year while the remainder, if any, of the screening effort and the purchase of the part may take place in the following fiscal year. Statistics on the number of parts screened and the number of parts purchased under a given AMC may not be reported in the same period, making it difficult to distinguish between breakout efforts and breakout results. DOD's reports to the Congress on spare parts contain some information on breakout efforts, but it is incomplete because the Air Force and DLA did not provide complete

information on their screening efforts.

### PROBLEMS WITH THE BREAKOUT REGULATION

During our review, we discussed a number of problems with the breakout regulation, including coding and reporting problems with OSD, the services, and DLA officials. On July 7, 1986, we were notified by an OSD official that DAR Supplement No. 6, the breakout regulation, was going to be revised, with all sections subject to review.

#### Coding problems

The intent of the Breakout Program is to break the part away from the prime contractor who adds little or no value to the part and procure the part from the actual manufacturer or from the successful offeror in a competitive procurement. The breakout regulation requires that AMCs 3 and 4 be used when a part is acquired directly from the actual manufacturer. However, the breakout regulation defines the actual manufacturer as the design control activity which may or may not add any value to a part especially when the part is physically produced by a subcontractor. In our 1984 report,<sup>2</sup> we stated that we did not believe the design control activity should be the criteria for designating which contractor is the actual manufacturer. We stated that use of the actual manufacturer term should generally exclude design control activities that subcontract for parts which have a stable design and are essentially finished parts. In these situations, design control is a minor function. We concluded that correcting this situation was important because the definitions inhibited breakout efforts by confusing procurement personnel and other users of breakout data by not differentiating between the physical producer and the design control activity that may not add any value to the part. DOD is currently proposing to change the definitions of (1) actual manufacturer and (2) AMCs 3 and 4. DOD is proposing to define the actual manufacturer as the activity that performs the physical fabrication of the part in-house. AMCs 3 and 4 will be issued as codes when the part is acquired directly from the actual manufacturer or the design control activity (AMC 4 if the part is so designated for the first time). DOD is also considering assigning special suffix codes with parts coded AMC 3 or 4 to differentiate between parts purchased from (1) a contractor that physically produces the part in-house and (2) a

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<sup>2</sup>Analysis of Selected Sections of DOD's Revised Breakout Regulation (GAO/NSIAD-84-138), June 19, 1984.

contractor that serves as the design control activity. We believe DOD needs to consider including in its revised breakout regulation a coding system which clearly differentiates between parts purchased from a physical producer and parts purchased from a design control activity that does not physically produce the part.

In addition, the breakout regulation permits only one AMC and one AMSC to be assigned to a spare part. Air Force officials believe that this causes problems because the assigned AMSC does not necessarily describe all the problems surrounding the spare part or it may only describe a minor problem and not the major problem. For example, AMSC A indicates that the government's rights to use the data in its possession is questionable and AMSC K indicates that the part must be produced using a certain type of casting process. A part with both of these characteristics is only allowed to have one AMSC assigned. A DLA official noted that multiple AMSCs or a single AMSC that contains multiple circumstances are needed to adequately describe the circumstances surrounding a spare part. Air Force officials also believe that the combinations of AMCs and AMSCs need to be restructured. For example, AMSC N indicates that the production of a part requires special test facilities. However, the breakout regulation only permits AMCS N to be used with AMCs 1 or 2 even though special test facilities may be a problem with parts coded AMCs 3, 4, or 5. We believe that in revising the breakout regulation DOD needs to consider these situations where (1) only one AMSC can be used even though there are multiple factors affecting a part and (2) the regulation only permits certain AMSCs to be used with certain AMCs even though the circumstances show that the AMSC could be assigned to other AMCs.

### Reporting problems

The 714 Breakout Report shows the number and value of AMC-coded parts purchased in a fiscal year. Air Force officials stated that the report needs to be revised to show the parts screened and coded, not just those purchased. DLA officials agreed with the Air Force. We believe that DOD should consider showing both (1) the number of parts screened whether or not they are purchased and (2) the number of parts purchased after being screened.

Army officials stated that the breakout regulation is policy oriented and does not contain adequate procedures for preparing the 714 Breakout Report required by the breakout regulation. We believe that DOD needs to provide more detailed information on preparing the report to insure consistency among the services and DLA.

Army officials believe that the breakout regulation should include instructions on how to compute savings and costs. We believe that DOD needs to consider the need for instructions on computing reportable savings and costs to insure consistency in the data reported by the services and DLA.

ANSWERS TO THE COMMITTEE'S QUESTIONSCOMPILED FROM INFORMATIONPROVIDED BY DOD, THE SERVICES, AND DLA

Questions 1(a) and (b) What is the number of parts subject to breakout and their estimated annual buy value? What is the number of parts broken out for competition and their annual buy value?

Answer 1(a) and (b) There are two populations of spare parts that can be considered subject to breakout. In each of these two populations parts coded AMC 5 are subject to breakout to AMCs 1, 2, 3, and 4. Parts coded with AMCs 3 and 4 could eventually transition to AMCs 1 or 2.

- The first universe of parts subject to breakout is the total population of over 4 million different parts used by the services and DLA and recorded in the Defense Logistics Services Center's (DLSC) data system. New parts are added to the system while parts in the system that have not had any activity for at least 5 years are purged from the inventory.
- The second universe, a subset of the total parts recorded in the data system, is the much smaller population of spare parts that are actually purchased within a fiscal year. In fiscal year 1985, about 16 percent of the total parts were purchased.

The Population of Parts  
Recorded in the Data System

The DLSC maintains the Defense Integrated Data System (DIDS) which contains information on almost all items purchased by the government, including NSNs and breakout codes. The total population of spare parts in DIDS and reported in the DLSC IMSS-11 report increased by 6.5 percent between fiscal years 1983-85, from 4.169 million to 4.441 million.

For the past 3 fiscal years, the uncoded group, AMC 0,<sup>1</sup> has been the largest in the total population of spare parts recorded in the system; however, it has been decreasing as a percentage of all parts in the system. The AMC 0 group has decreased from 52.8 percent of all parts in fiscal year 1983 to 37.4 percent of all parts in fiscal year 1985. The remainder of the total population (those coded with AMCs 1, 2, 3, 4, and 5) has increased from 47.2 percent in fiscal year 1983 to 62.6 percent of the population in fiscal year 1985. Table II.1 shows the changes in the AMCs between fiscal years 1983 and 1985.

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<sup>1</sup>An OSD Breakout Program official stated that DOD does not know why these parts are not coded but among the probable causes are (1) parts were below the screening threshold when they were purchased, (2) parts were last purchased as provisioning parts and procurement activities were only screening replenishment parts, and (3) procurement activities had not caught up in coding their backlog of parts.

Table II.1: Number of Spare Parts Coded in the Defense Integrated Data System and the Percentage of Total, Fiscal Years 1983 - 1985

<u>Fiscal year</u>	<u>AMC</u>	<u>Number of parts</u>	<u>Percent<sup>a</sup></u>
1983	AMC 0	2,200,427	52.8
	AMC 1+2	616,064	14.8
	AMC 3+4	1,108,062	26.6
	<u>AMC 5</u>	<u>244,439</u>	<u>5.9</u>
Total		<u>4,168,992</u>	<u>100.0</u>
		=====	=====
1984	AMC 0	1,819,248	42.1
	AMC 1+2	755,025	17.5
	AMC 3+4	1,479,016	34.2
	<u>AMC 5</u>	<u>265,277</u>	<u>6.1</u>
Total		<u>4,318,566</u>	<u>100.0</u>
		=====	=====
1985	AMC 0	1,658,724	37.3
	AMC 1+2	820,676	18.5
	AMC 3+4	1,683,333	37.9
	<u>AMC 5</u>	<u>278,627</u>	<u>6.3</u>
Total		<u>4,441,360</u>	<u>100.0</u>
		=====	=====

<sup>a</sup>Figures may not add due to rounding.

#### AMSCs

AMSCs are coded A through Z to further describe the procurement status of a part in such areas as manufacturing processes and availability and ownership of data rights. In addition, the number zero (0) is used to classify items in reports that have not been assigned an AMSC (AMSC 0).

Most of the AMSCs account for less than 1 percent of the total population. Table II.2 shows the change between fiscal year 1983 and fiscal year 1985 for the uncoded group and the 7 AMSCs which accounted for the largest share of the total population.

Table II.2: Principal Acquisition Method Suffix Codes Used (AMSCs)

AMSC	Percent of total population	
	Fiscal year 1983 <sup>b</sup>	Fiscal year 1985 <sup>b</sup>
0 (no AMSC assigned)	59.0	40.1 <sup>a</sup>
H (The government does not have the data to purchase the part from other than the current source.)	10.0	26.3
G (The government has unlimited rights to the technical data and the data package is complete.)	7.7	10.6
L (The annual buy value of this part falls below the screening threshold of \$10,000, but it has been screened for known sources.)	10.5	9.6
C (This part requires engineering source approval by the design control activity in order to maintain the quality of the part.)	3.5	4.8
T (Acquisition of this part is controlled by qualified products list procedures.)	2.4	2.9
B (Acquisition of this part is restricted to sources specified on "source control," "altered items," or "selected item" drawings and documents.)	0.8	1.1
P (The rights to use the data needed to purchase this part from additional sources are not owned by the government and cannot be purchased.)	0.9	1.1

<sup>a</sup>The percentage of parts not coded with an AMSC is larger than the number of parts not coded with an AMC. For example, in fiscal year 1985, the number without an AMC was 37.3 percent.

<sup>b</sup>The other AMSCs individually accounted for less than 1 percent of the total population of parts. Several AMSCs are reserved and presently not used (AMSCs I, O, and X).



Population of parts actually purchased

The second population of parts subject to breakout would include only those parts actually purchased. Table II.3 shows that only a small percentage of the NSNs managed by the services were actually purchased in fiscal year 1985.

Table II.3: Number of NSNs Managed and Purchased by Each Service in Fiscal Year 1985

<u>Service</u>	<u>NSNs managed</u>	<u>NSNs purchased<sup>a</sup></u>	<u>Percent</u>
Army	320,186	43,774	13.7
Air Force	892,623	90,399	10.1
Navy	609,226	104,375	17.1
DLA	<u>2,472,817</u>	<u>446,115</u>	<u>18.0</u>
Total	4,294,852 <sup>b</sup> =====	684,663 =====	15.9

<sup>a</sup>These statistics were provided by the individual services in their 714 Breakout Reports. DLA did not submit a 714 Breakout Report but used this number in another report to OSD.

<sup>b</sup>The Defense Logistics Services Center reported that the total population of parts in its Defense Integrated Data System was about 4.4 million.

The following section discusses the breakout status of the parts actually purchased for each service and DLA.

Army

Table II.4 shows the number of AMC-coded parts and Table II.5 shows their value for Army purchases in fiscal years 1984 and 1985. The Army data shows that the proportion of parts coded for competition (AMC 1 and 2) has increased from 50.4 percent to 53.3 percent while their proportionate value has decreased from 50.6 percent to 49.9 percent.

Table II.4: Number of Parts by AMCs Purchased by the Army

<u>AMC</u>	<u>Fiscal year 1984</u>		<u>Fiscal year 1985</u>	
	<u>Number of parts</u>	<u>Percent of total</u>	<u>Number of parts</u>	<u>Percent of total</u>
AMC 1+2	20,283	50.4	23,325	53.3
AMC 3+4	13,951	34.7	16,622	38.0
AMC 5	6,003	14.9	3,827	8.7
Total	40,237	100.0	43,774	100.0
	=====	=====	=====	=====

Table II.5 Value of Parts by AMCs Purchased by the Army

<u>AMC</u>	<u>Fiscal year 1984</u>		<u>Fiscal year 1985</u>	
	<u>Amount (millions)</u>	<u>Percent of total</u>	<u>Amount (millions)</u>	<u>Percent of total</u>
AMC 1+2	\$1,135.550	50.6	\$1,243.355	49.9
AMC 3+4	848.241	37.8	1,009.649	40.5
AMC 5	261.326	11.6	240.580	9.6
Total	\$2,245.117	100.0	\$2,493.584	100.0
	=====	=====	=====	=====

Air Force

Table II.6 shows the number of AMC-coded parts and Table II.7 shows their value for Air Force purchases in fiscal years 1984 and 1985. The Air Force data shows that the proportion of parts coded for competition has increased from 34.8 percent to 35.2 percent while their proportionate value has decreased from 38.4 percent to 36.3 percent.

Table II.6: Number of Parts by AMCs  
Purchased by the Air Force

<u>AMC</u>	<u>Fiscal year 1984</u>		<u>Fiscal year 1985</u>	
	<u>Number of parts</u>	<u>Percent of total</u>	<u>Number of parts</u>	<u>Percent of total</u>
AMC 1+2	33,240	34.8	31,785	35.2
AMC 3+4	56,589	59.2	54,055	59.8
AMC 5	<u>5,725</u>	<u>6.0</u>	<u>4,559</u>	<u>5.0</u>
Total	95,554 <sup>a</sup>	100.0	90,399 <sup>a</sup>	100.0
	=====	=====	=====	=====

<sup>a</sup>If a part is purchased under more than one AMC (for example, a part is purchased under AMC 5 at the beginning of the year and after a successful breakout effort is subsequently purchased under AMC 3 later in the year), the Army and the Navy count the part twice in their totals. The Air Force counts the part once in the total. For consistency, the totals in this table are the sum of all the individual AMC entries as reported on the 714 Breakout Report including those parts counted more than once in the totals because they were purchased under more than one AMC. The Air Force reported totals of 89,799 in fiscal year 1984 and 87,448 in fiscal year 1985.

Table II.7: Value of Parts by AMCs  
Purchased by the Air Force

<u>AMC</u>	<u>Fiscal year 1984</u>		<u>Fiscal year 1985</u>	
	<u>Amount (millions)</u>	<u>Percent of total<sup>a</sup></u>	<u>Amount (millions)</u>	<u>Percent of total</u>
AMC 1+2	\$1,569.461	38.4	\$1,418.666	36.3
AMC 3+4	2,330.777	57.0	2,254.816	57.7
AMC 5	<u>191.413</u>	<u>4.7</u>	<u>233.864</u>	<u>6.0</u>
Total	\$4,091.651	100.0	\$3,907.346	100.0
	=====	=====	=====	=====

<sup>a</sup>Figures may not add due to rounding.

Navy

Table II.8 shows the number of AMC-coded parts, and table II.9 shows their value for Navy purchases in fiscal years 1984 and 1985. The Navy data shows that the proportion of parts coded for competition has increased from 24 percent to 29 percent while their proportionate value has increased from 26.4 percent to 30.9 percent.

Table II.8: Number of Parts by AMCs  
Purchased by the Navy

<u>AMC</u>	<u>Fiscal year 1984</u>		<u>Fiscal year 1985</u>	
	<u>Number of parts</u>	<u>Percent of total</u>	<u>Number of parts</u>	<u>Percent of total</u>
AMC 1+2	24,918	24.0	30,235	29.0
AMC 3+4	75,368	72.7	70,365	67.4
AMC 5	<u>3,458</u>	<u>3.3</u>	<u>3,775</u>	<u>3.6</u>
Total	103,744	100.0	104,375	100.0
	=====	=====	=====	=====

Table II.9: Value of Parts by AMCs  
Purchased by the Navy

<u>AMC</u>	<u>Fiscal year 1984</u>		<u>Fiscal year 1985</u>	
	<u>Amount (millions)</u>	<u>Percent of total</u>	<u>Amount (millions)</u>	<u>Percent of total<sup>a</sup></u>
AMC 1+2	\$ 823.752	26.4	\$1,416.469	30.9
AMC 3+4	2,245.535	71.9	3,091.765	67.5
AMC 5	<u>53.353</u>	<u>1.7</u>	<u>70.540</u>	<u>1.5</u>
Total	\$3,122.640	100.0	\$4,578.774	100.0
	=====	=====	=====	=====

<sup>a</sup>Figures may not add due to rounding.

DLA

DLA did not provide any data for fiscal years 1984 and 1985.

Question 1(c) What is the number and annual buy value of those parts broken out that were subsequently awarded competitively to large and small business?

Answer 1(c) Officials in DOD, the Army, Air Force, Navy, and DLA all stated that this information was not available.

Question 1(d) What are the fiscal year 1984 and 1985 Breakout Program savings attributed to competition, buying direct from the original equipment manufacturer, or other reasons and the estimated cost of the program for each year?

Answer 1(d) DOD reported to the Congress that fiscal year 1984 gross savings for all spare parts initiatives amounted to \$1.249 billion and costs totaled about \$81 million for a net savings of \$1.168 billion. The \$81 million cost figure did not include the Air Force which DOD estimated to be an additional \$20 million. DOD reported that gross savings attributable to the Breakout Program were about \$347 million. DOD did not have an estimate of the costs associated with the Breakout Program.

DOD reported to the Congress that fiscal year 1985 gross savings for all spare parts initiatives amounted to \$1.473 billion and costs totaled \$161 million for a net savings of \$1.312 billion. DOD estimated the Breakout Program produced gross savings of \$414 million. This estimate was understated as it did not include all savings associated with the Air Force Breakout Program. Table II.10 is a summary provided by DOD supporting the \$414 million estimate showing the individual estimates provided by the services and DLA. Table II.11 is a summary of the cost estimates provided by the services.

Table II.10: Estimated Fiscal Year 1985 Savings and Cost Avoidances for the Services and DLA

<u>Services</u>	<u>Estimated savings and cost avoidances (millions)</u>
Army	\$190.2
Navy	193.2
Air Force	17.4 <sup>a</sup>
DLA	<u>13.2</u>
Total	\$414.0 =====

<sup>a</sup>After the report had been submitted to the Congress, the Air Force reported net savings and cost avoidances of \$150.1 million for fiscal year 1985.

Table II.11: Estimated Fiscal Year 1985 Costs for the Services and DLA

<u>Services</u>	Estimated <u>costs</u> (millions)
Army	\$ (a)
Air Force	(b)
Navy	46.8 <sup>c</sup>
DLA	<u>1.5<sup>d</sup></u>
Total	\$ 48.3 =====

<sup>a</sup>The Army did not have an estimate of the costs of the Breakout Program. However, it estimated the costs for all spare part initiatives, including breakout, was \$31.2 million for fiscal year 1984 and \$38 million for fiscal year 1985.

<sup>b</sup>The Air Force did not have an estimate of the costs of the Breakout Program; however, it estimated the costs for all spare part initiatives, including breakout, was \$21.2 million in fiscal year 1985.

<sup>c</sup>The Navy estimates the cost of the Breakout Program was \$25.6 million in fiscal year 1984.

<sup>d</sup>DLA estimates that the costs of the Breakout Program were \$0.7 million in fiscal year 1984.

Question 1(e) What is the methodology used by each service to compute savings and costs related to the Breakout Program?

Answer 1(e) The DOD breakout regulation contains instructions for estimating breakout savings and direct cost offsets during the economic evaluation phase of the breakout screening process for an individual part. The estimates are derived before the purchase of a part. DOD periodically requests the services and DLA to provide data on Breakout Program savings and costs. However, DOD has no regulations describing the methodology to be used in determining reportable savings and costs of the Breakout Program on parts actually purchased.<sup>2</sup> Therefore, the services and DLA have developed their own methodologies to determine savings and costs associated with purchases. We requested the services and DLA to provide an overview of their respective methodologies; however, we could not determine if these methodologies were actually used by procurement activities because our review was limited to headquarters units as agreed with your representative.

#### Savings

DOD does not have a regulation describing procedures for determining and reporting savings due to breakout efforts,<sup>3</sup> and as a result, the services and DLA use their own methodologies which are not consistent.

Army uses a computerized system to determine reportable savings which considers quantity variations and inflation and applies a weighted average of the prior 3 years of purchase

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<sup>2</sup>The DOD breakout regulation contains instructions for estimating savings during the breakout screening process for an individual part. However, the estimates are derived before the purchase of a part.

<sup>3</sup>The breakout regulation does describe how to perform an economic feasibility study for a part before screening efforts are completed and before the part is purchased. An estimate is made of the remaining program life value of the part and the remaining program life buy value is multiplied by a savings factor (either 25 percent or one determined under local conditions) to obtain the expected future savings.



prices. However, in its 1985 report to DOD on spare parts,<sup>4</sup> the Army stated:

". . .the tracking and identification of cost avoidances are of concern. Actions to develop more accurate audit trails on claimed cost avoidance have been taken. . . . An important note to be considered is that the Army continues to find difficulty in arriving at a clear and accurate cause and effect relationship between application of initiatives and cost avoidances achieved. For example, cost avoidances brought about through a coding and screening action today will not result in cost avoidance until the item is purchased. Relating a specific coding action to a specific cost avoidance is a challenging task . . . the cost avoidances reflected in this report should be carefully considered to assess their suitability before offsetting future year budgets . . . the methodologies used in arriving at the macro level management indicators reflected in this report do not contain the degree of sophistication to be used as a reliable budget tool."

According to Air Force officials, the savings and cost avoidance for breakout resulting in competition is calculated by comparing the changes in unit prices for individual items procured competitively.

According to Navy officials, the methods in NAVSUPINST 4200.77 are used to determine reportable savings on purchased parts. The Navy methodology adjusts old purchase prices for inflation using standard DOD inflation factors. The Navy only uses the current contract award quantity to project savings.

DLA does not have a regulation on computing reportable savings on purchased parts and does not use a specific formula to compute savings. Generally, savings are computed by taking the difference between (1) the last prebreakout price and (2) the post-breakout prices for all procurements for a calendar year beginning with the first procurement after breakout. Savings are adjusted for the effects of inflation and quantity variation on some of the parts.

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<sup>4</sup>Spare Parts Data for Reports to the Congress for Fiscal Year 1985, prepared by the Army Materiel Command.

Costs

DOD does not have a regulation describing how costs of the Breakout Program should be determined and reported by the services and DLA.<sup>5</sup> The services and DLA reported to OSD that costs related to improving the procurement of spare parts included personnel and awards, training, and automatic data processing; however, cost figures for the Breakout Program were not reported separately from other initiatives such as value engineering. The services and DLA did not provide detailed data on how these costs were determined. Army officials stated that they do not have a regulation describing the procedures for estimating reportable costs; they only have an estimate of the total spares program of which they estimated that 1/3 to 1/2 are breakout related. The Air Force did not provide detail on its costs. Navy officials stated that costs reported for its program are for personnel and contractor support on a program basis. DLA officials stated they do not have a regulation describing the methodology for computing reportable costs. They also stated that the program costs are primarily personnel.

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<sup>5</sup>The breakout regulation describes the estimated cost factors which must be considered in determining if it is economically advantageous to break out an individual part. These estimated costs include (1) direct costs, including government tooling, test equipment, qualification testing, quality control, and purchase of rights in data and (2) the costs associated with a new inventory item, for example, catalog costs, bin opening costs, new management costs, technical data costs, and repair tools and test equipment costs.

Question 2 What are the trends in competition and small business participation (stratified by commodity codes or other methods to the extent possible)?

Answer 2 We could not establish the trends because DOD, the services, and DLA do not have information on small business participation in the Breakout Program stratified by commodity codes or other methods.

We were also unable to assess trends in competition by commodities because DOD does not have summary data for commodity groupings. Information was available (1) for fiscal years 1984 and 1985 only for the Army and the Air Force and (2) for fiscal year 1984 only for the Navy. A Navy official stated that the Navy did not submit data for fiscal year 1985 because it had difficulties in categorizing its data by the commodity categories. A DLA official stated that DLA has not prepared any data on commodity groupings because it lacked the staff necessary to prepare the reports. Because of these data limitations it is not possible to assess competitive trends; however, we have included the data that was provided by DOD.

Before June 13, 1986, the breakout regulation required<sup>6</sup> that the services and DLA report purchases of spare parts categorized by 10 breakout commodity groupings on the 714 report. These commodity groupings are listed below.

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<sup>6</sup>On June 5, 1986, the Deputy Assistant Secretary of Defense (Logistics and Material Management) requested that the DAR Council authorize the military services and DLA to immediately discontinue reporting breakout data according to "commodity category" on the 714 report. The reasons for requesting the DAR Council to authorize this change were (1) OSD did not use these categorized data and saw no prospect for doing so in the future, (2) the requirement on the services and DLA to break the data into these categories put an unnecessary work load on the services and DLA who were doing this only for the 714 report, and (3) the requirement to do this was delaying the receipt at OSD of the remainder of the rest of the report, which is used at the OSD level. On June 13, 1986, the DAR Council rescinded the requirement for reporting data by commodity category on the 714 report.

<u>Number</u>	<u>Commodity category name</u>
1	Airframe structural components
2	Aircraft engine related parts
3	Aircraft subsystems, accessories, and components
4	Guided missile components and related parts
5	Mechanical miscellaneous
6	Vehicle components and related parts
7	Weapon components and related parts
8	Ammunition components and parts
9	Electrical, electronic, and communication equipment
10	Other (all items not in the above nine categories with some exclusions such as construction materials, chemicals, textiles and clothing, agricultural supplies, fuels, and minerals)

Army

Army procurements totaled \$2.245 billion in fiscal year 1984 and \$2.494 billion in fiscal year 1985. Table II.12 shows that in both fiscal years, category 6, vehicle components, had the largest share of Army expenditures, 18.28 percent and 19.74 percent, respectively. Of this, 76.61 percent and 69.27 percent, respectively, were competitive.

Table II.12: Army Spare Part Procurements  
Categorized by Breakout Commodity Groups

<u>Breakout commodity code</u>	<u>FY 84</u>		<u>FY 85</u>	
	<u>Percent of total dollars</u>	<u>Percent competi- tive AMCs 1+2</u>	<u>Percent of total dollars</u>	<u>Percent competi- tive AMCs 1+2</u>
1 Airframe	2.74	35.92	2.86	39.04
2 Aircraft engine	9.53	15.90	5.87	37.24
3 Aircraft subsyst.	14.02	27.82	15.81	21.04
4 Missile component	9.18	18.26	7.50	24.27
5 Mechanical misc.	3.79	51.35	3.77	58.70
6 Vehicle component	18.28	76.61	19.74	69.27
7 Weapon component	15.34	72.02	15.53	48.35
8 Ammunition comp.	0.02	54.55	0.07	54.76
9 EE&C Equip.	17.15	55.24	16.55	65.86
10 Other	9.95	60.50	12.30	57.57
Total	100.00	50.58	100.00	49.86
	=====		=====	

Air Force

For the Air Force, the data shows that procurements totaled \$4.092 billion in fiscal year 1984 and \$3.907 billion in fiscal year 1985. Table II.13 shows that in both fiscal years the category 2, aircraft engines, had the largest share of expenditures, 31 percent and 29.62 percent, respectively. Of this, 34.70 percent and 29.52 percent were competitive. The second largest category was "other." The Air Force did not have an explanation of what was in "other" which would account for its size.

Table II.13: Air Force Spare Part Procurements  
Categorized by Breakout Commodity Groups

Breakout commodity code	FY 84		FY 85	
	Percent of total dollars	Percent competi- tive AMCs 1+2	Percent of total dollars	Percent competi- tive AMCs 1+2
1 Airframe	10.38	56.43	10.30	67.22
2 Aircraft engine	31.00	34.70	29.62	29.52
3 Aircraft subsyst.	9.19	35.65	11.82	21.47
4 Missile component	2.86	17.77	2.25	45.52
5 Mechanical misc.	8.10	34.74	5.52	44.39
6 Vehicle component	1.06	53.28	0.80	43.29
7 Weapon component	0.00	0.00	0.00	0.00
8 Ammunition compo.	1.00	32.55	1.37	25.13
9 EE&C Equip.	14.67	27.31	14.68	27.52
10 Other	<u>21.74</u>	<u>47.14</u>	<u>23.64</u>	<u>41.87</u>
Total	100.00 =====	38.36	100.00 =====	36.31

Navy

For Navy, the data shows that procurements totaled \$3.123 billion in fiscal year 1984. The Navy does not have data for fiscal year 1985. Table II.14 shows that in fiscal year 1984 category 9, electronic and communications parts and components, had the largest share of expenditures, 34.31 percent. Of this, 19.68 percent was competitive.

Table II.14: Navy Spare Part Procurements  
Categorized by Breakout Commodity Groups

<u>Breakout commodity code</u>	<u>FY 84</u>	
	<u>Percent of total dollars</u>	<u>Percent competi- tive AMCs 1+2</u>
1 Airframe	20.16	27.62
2 Aircraft engine	17.90	17.90
3 Aircraft subsyst.	14.19	36.61
4 Missile component	1.10	47.68
5 Mechanical misc.	3.41	44.82
6 Vehicle component	0.36	17.97
7 Weapon component	2.13	33.74
8 Ammunition comp.	0.38	73.58
9 EE&C Equip.	34.31	19.68
10 Other	<u>6.05</u>	<u>41.96</u>
Total	100.00	26.38
	=====	

DLA

DLA did not provide data on breakout commodity groups.

Question 3 Obtain information on the items DOD classified below the breakout threshold level, including

- (a) their AMCs;
- (b) their AMSCs which designate factors that inhibit competitive procurements;
- (c) an aging as to when the parts entered the inventory, that is, before fiscal year 1980, fiscal years 1981 to 1983, fiscal years 1984, and fiscal year 1985, and if possible, by weapon system for fiscal year 1980 and subsequent years; and
- (d) a listing of those parts whose annual buy value exceeded \$10,000 in either fiscal year 1984 or 1985.

Answer 3 We were unable to obtain the requested information because such data is not collected on parts which are classified below the breakout threshold level.

Question 4 Obtain data on the current backlog of parts subject to full breakout screening.

Answer 4 We obtained service and DLA estimates of the number of parts and the estimated time to screen these parts.

An Army official stated that at the expected full screening rate, about 6 years will be required to reduce the current backlog of 124,000 parts.

An Air Force official stated that the number of parts needing full screening is approximately 200,000 and this will be reached by 1989 or 1990.

Navy officials said that in fiscal year 1984, 25 percent of the required parts received full screening (5,189 parts valued at \$936 million) and in fiscal year 1985, 50 percent of the required parts received full screening (10,711 parts valued at \$1.005 billion). Navy officials estimate that in fiscal year 1986, 75 percent of the required parts will receive full screening (17,250 parts, no estimate of the value) and, in fiscal year 1987, 100 percent of the required parts will receive full screening (23,000 parts, no estimate of the value).

DLA did not have current estimates.



Question 5 Obtain a summary of the parts by weapon system subjected to a full screen review through September 30, 1985, that could not be broken out by the number of parts and their estimated fiscal year 1986 annual buy value. Obtain the reasons for nonbreakout and in reference to technical data, differentiate between insufficient versus physically available technical data. If classified not physically available, why was the data lost or never obtained?

Answer 5 Officials in DOD, the services, and DLA stated that they do not have this data readily available.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to conduct a broad review of the results of DOD's Replenishment Parts Breakout Program, DAR Supplement No. 6, and to obtain answers to specific questions concerning the status of the universe of parts subject to breakout, including trends in competition, small business participation, and other issues. Data on the breakout program was taken from various data systems within DOD including the two periodic spare parts reports specifically identified in the request: (1) the Defense Logistics Services Center report IMSS-11 and (2) the Replenishment Parts Acquisition Report (RCS DD-DR&E (Q&SA) 714).

In addition, we reviewed information, gathered data, and interviewed officials in OSD, the Army, Navy, Air Force, and DLA.

As agreed, we limited our data gathering to the headquarters level. Therefore, (1) we did not determine what records and data were maintained locally by individual procurement activities on the Breakout Program or on small business participation; (2) we did not sample the data to determine if it was accurate, current, and complete; and (3) we were unable to make an assessment of the methodologies that headquarters units stated were being used by local procurement activities in determining Breakout Program savings and costs.

Our review was performed in accordance with generally accepted government auditing standards and was made from February 1986 through August 1986.

(396417)

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