

GAO

Report to the Chairman, Subcommittee  
on National Security and Foreign  
Affairs, Committee on Oversight and  
Government Reform, House of  
Representatives

October 2008

# DEPARTMENT OF DEFENSE

## A Departmentwide Framework to Identify and Report Gaps in the Defense Supplier Base Is Needed





Highlights of [GAO-09-5](#), a report to the Chairman, Subcommittee on National Security and Foreign Affairs, Committee on Oversight and Government Reform, House of Representatives

### Why GAO Did This Study

The Department of Defense (DOD) relies on thousands of suppliers to provide weapons, equipment, and raw materials to meet U.S. national security objectives. Yet, increased globalization in the defense industry and consolidation of the defense supplier base into a few prime contractors has reduced competition and single-source suppliers have become more common for components and subsystems.

For this report, GAO (1) assessed DOD’s efforts to monitor the health of its defense supplier base, and (2) determined how DOD identifies and addresses gaps that might exist in its supplier base. To conduct its work, GAO reviewed supplier-base-related laws, regulations, and guidelines; met with officials from DOD’s Office of Industrial Policy, defense contractors, and other DOD officials; and surveyed 20 major DOD weapon acquisition program officials on potential supplier-base gaps.

### What GAO Recommends

GAO is recommending that DOD fully apply criteria to identify and monitor supplier-base concerns and create reporting requirements for when to elevate concerns about supplier-base gaps. DOD agreed to fully apply and publish criteria for elevating supplier-base concerns, but does not agree that formal reporting requirements are needed for prime contractors. We maintain that DOD needs a mechanism to ensure that information flows to the program office and higher levels within DOD as needed.

To view the full product, including the scope and methodology, click on [GAO-09-5](#). For more information, contact Ann Calvaresi-Barr at (202) 512-4841 or [calvaresibarra@gao.gov](mailto:calvaresibarra@gao.gov).

## DEPARTMENT OF DEFENSE

### A Departmentwide Framework to Identify and Report Gaps in the Defense Supplier Base Is Needed

#### What GAO Found

DOD’s efforts to monitor its supplier base lack a departmentwide framework and consistent approach. Its monitoring efforts generally respond to individual program supplier-base concerns or are broader assessments of selected sectors. As part of its supplier-base monitoring efforts, DOD has also previously identified lists of critical items—which according to DOD’s Office of Industrial Policy (Industrial Policy) do not reflect the dynamic changes that occur in industry, technology, and DOD requirements. While DOD recently established criteria for identifying supplier-base characteristics that could be problem indicators—such as sole-source suppliers and obsolete or emerging technologies—these criteria have primarily been applied to the missile and space sectors and have not been used to guide the identification and monitoring of supplier-base concerns for all sectors departmentwide.

DOD uses an informal approach to identify supplier-base concerns, often relying on the military services, program offices, or prime contractors to identify and report these concerns, including gaps or potential gaps. As no requirement for when to report such gaps to higher-level offices exist, knowledge of defense supplier-base gaps across DOD may be limited. While 16 of the 20 program officials GAO surveyed reported that they identified supplier gaps or potential gaps over the past 5 years, only 4 reported sharing this information with Industrial Policy. These gaps included obsolescence of components and items with only one available supplier. Program offices often relied on the prime contractor to identify and help address supplier-base gaps, and prime contractors and programs generally used their discretion as to when to report gaps to higher levels. As a result, Industrial Policy may not be receiving information to help it activate available tools, such as the authorities under the Defense Production Act, to mitigate supplier-base gaps.

**Programs Surveyed That Identified Obsolescence or Sole Sources within the Last 5 Years**

| Program  | Obsolescence | Sole source |
|--|--------------|-------------|
| AGM-114 Hellfire Air-to-Ground/Air-to-Air Guided Missile | X            | X           |
| B-2 Spirit Multi-Role Bomber                             | X            | X           |
| CH-53K Super Stallion Heavy-Lift Replacement Helicopter  | X            |             |
| F/A-18E/F Super Hornet Navy Fighter Attack Aircraft      |              | X           |
| F/A-22 Raptor Fighter Attack Aircraft                    | X            | X           |
| Joint Tactical Radio System—Ground Mobile Radio          | X            | X           |
| MQ-8B Navy Fire Scout Unmanned Helicopter                |              | X           |
| MQ-9 Reaper Armed Unmanned Aerial Vehicle                |              | X           |
| Patriot Advanced Capability Missile-3                    | X            | X           |
| RIM-162 NATO Evolved SEASPARROW Missile System           | X            | X           |
| RQ-4 Global Hawk Unmanned Aerial Vehicle                 |              | X           |
| Space-Based Infrared System High (Satellite)             | X            | X           |
| Space Tracking Surveillance System (Satellite)           | X            | X           |
| UH-60 Black Hawk Tactical Transport Helicopter           |              | X           |
| V-22 Osprey Joint Service Tilt-Rotor Aircraft            | X            | X           |
| VH-71 Presidential Helicopter                            | X            | X           |

Source: GAO analysis of survey responses from and interviews with 20 selected DOD weapon program officials.

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United States Government Accountability Office  
Washington, DC 20548

October 7, 2008

The Honorable John F. Tierney  
Chairman  
Subcommittee on National Security and Foreign Affairs  
Committee on Oversight and Government Reform  
House of Representatives

Dear Mr. Chairman:

The Department of Defense (DOD) relies on thousands of suppliers to ensure that it has the weapons, supporting equipment, and raw materials that it needs to meet U.S. national security objectives and maintain U.S. military superiority. DOD's Patriot Advanced Capability-3 missile program alone depends on over 800 suppliers providing items ranging from screws to radio-frequency seekers. Increasing globalization in the defense industry has intensified debate over the use of foreign versus domestic suppliers and presents uncertainty over the ability of the United States to maintain military superiority in critical technology areas. Further, as the defense supplier base has consolidated into a few prime contractors, competition has been reduced and single source suppliers have become more common for components and subsystems. DOD relies on its Office of the Deputy Under Secretary of Defense for Industrial Policy (Industrial Policy) to help ensure that it sustains an environment for a reliable, cost-effective, and sufficient supplier base.

In response to your interest in the ability of the defense supplier base to help DOD meet its national security and strategic objectives and DOD's visibility into its suppliers, we (1) assessed DOD's efforts to monitor the health of its defense supplier base, and (2) determined how DOD identifies and addresses gaps that might exist in its supplier base.

To conduct our work, we reviewed laws, regulations, and guidelines relating to the DOD supplier base. We met with officials from Industrial Policy, the military services, the Missile Defense Agency, selected DOD weapon program offices, the Defense Contract Management Agency, the Department of Commerce's Bureau of Industry and Security, four defense contractors, and an official from the Center for Strategic and International Studies. We also administered a questionnaire to a nongeneralizable sample of 20 DOD weapon acquisition program officials to determine whether these programs experienced any gaps in their supplier base and

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identify areas where these gaps exist.<sup>1</sup> We selected these 20 programs based on criteria including representation of the aerospace or electronics industries, a range of systems in terms of the sponsoring military service, varying stages in the acquisition life cycle, and size of their budgets. We conducted this performance audit from September 2007 through August 2008, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. For more on our scope and methodology, see appendix I.

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## Results in Brief

While DOD has made numerous efforts to monitor the defense supplier base, it lacks a departmentwide framework and consistent approach to identify and monitor conditions in the supplier base that could be indicators of problems and could result in reduced or nonavailability of needed items. DOD's efforts to monitor the supplier base have not been guided by established criteria that can be used and applied departmentwide. Rather, they generally respond to a supplier-base concern for an individual program or are broader assessments of selected sectors, such as DOD's congressionally mandated report on defense industrial base capabilities. In addition, DOD has previously identified lists of critical items as part of its supplier-base monitoring efforts. For example, in 2003, DOD created a classified list of the department's top 25 material readiness-shortfall items. However, according to Industrial Policy—the mission of which is to sustain an environment for a strong supplier base—static lists such as these do not reflect the dynamic changes that occur in industry, technology, and DOD requirements. Industrial Policy further stated that, because it is not feasible to monitor the entire supplier base, it must effectively target its monitoring resources. To do so, Industrial Policy has recently established criteria for identifying supplier-base characteristics that could be problem indicators, such as suppliers (1) that are sole source; (2) of certain technologies that are obsolete, enabling, or emerging; or (3) that have limited surge production capability. Industrial Policy has begun applying these criteria to the missile

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<sup>1</sup>In our questionnaire, we asked these 20 program officials, "Since fiscal year 2003, have any supply gaps or potential supply gaps (because of obsolescence, lack of suppliers, production delays, etc.) been identified through supplier-base information maintained by your program?"

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and space sectors, resulting in targeted monitoring and identification of supplier-base concerns in this sector, as well as mitigation efforts for specific concerns with two items—traveling-wave tubes and lithium-ion batteries. However, these criteria have not been used to guide the identification and monitoring of supplier-base concerns for all sectors departmentwide.

DOD uses an informal approach to identify supplier-base concerns, including gaps or potential gaps, often relying on the military services, program offices, or prime contractors to identify concerns in the defense supplier base, with no departmentwide requirements for when to report them to higher-level offices, such as the Office of the Secretary of Defense. As a result, Industrial Policy’s knowledge of defense supplier-base concerns across DOD may be limited. Sixteen of the 20 program officials we surveyed reported that they identified supplier gaps or potential gaps over the past 5 years, including obsolescence of component parts or technologies, diminishing manufacturing sources for components, and production challenges. In addition, 15 of the 20 program officials stated that for certain items only one supplier is available. Programs often relied on the prime contractor to identify and help address supplier-base gaps. However, prime contractors and program officials generally use their discretion in determining when to report supplier gaps to higher levels. According to program officials, there are generally no contractual requirements on when supplier-base concerns should be elevated from the prime contractor. Further, no DOD requirement exists on when supplier-base concerns should be elevated from the program office to higher levels within DOD, such as Industrial Policy. Seventeen of the 20 program officials we surveyed reported that they share information on general supplier-base concerns with their cognizant program executive officer, but only 4 reported sharing information on supplier gaps with Industrial Policy. As a result, Industrial Policy may not be receiving information to help it activate available tools to mitigate supplier-base gaps, such as the authorities under the Defense Production Act of 1950, as amended, which aim to ensure the availability of industrial resources to meet defense needs.

We are recommending that DOD fully apply criteria departmentwide to identify and monitor supplier-base concerns and that it also create and disseminate written requirements departmentwide for reporting potential concerns about supplier-base gaps to higher levels in DOD. In commenting on a draft of this report, DOD agreed to apply criteria to identify and monitor supplier-base concerns on a departmentwide basis and to disseminate written requirements for program offices to report supplier-

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base concerns to higher levels within DOD. DOD did not agree that similar formal reporting criteria or contractual mechanisms need to be established for prime contractors to report supplier-base concerns to the program office. DOD expects the prime contractor to maintain internal corporate metrics to evaluate the health and performance of their subcontractors and likewise expects program offices to maintain frequent and open communication with their prime contractors on supplier-base issues. However, given the large role that contractors play in monitoring the supplier base, including the identification of supplier-base concerns, we maintain that DOD needs a mechanism to facilitate the flow of information from prime contractors to program offices so they can raise concerns to higher levels within DOD when needed. This is particularly important for those concerns whose characteristics meet the criteria for making judgments regarding suppliers and components for DOD.

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## Background

DOD's primary representative for supplier-base issues is the Office of the Deputy Under Secretary of Defense for Industrial Policy (Industrial Policy). Its mission is to sustain an environment that ensures the industrial base on which DOD depends is reliable, cost-effective, and sufficient to meet its requirements. Industrial Policy defines reliability as suppliers providing contracted products and service in a timely manner; cost-effectiveness as the delivery of products and services at or below target costs; and sufficiency as suppliers delivering contracted products and services that meet prescribed performance requirements. DOD's Program Executive Officers manage a portfolio of programs related to weapon systems. DOD also relies on a cadre of military and civilian officials—known as program managers—to lead the development and delivery of individual weapon systems. Program managers or their designees interact with prime contractors who manage subcontractors to provide the final good or service to DOD. Currently, DOD relies primarily on about six prime contractors who manage thousands of subcontractors for DOD systems.

DOD has a variety of authorities, including laws, regulations, and an executive order, that govern its interaction with the defense supplier base. There are several key authorities available to DOD for maintaining information on its suppliers as well as ensuring a domestic capability for certain items, such as radiation-hardened microprocessors. In addition,

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the Department of Commerce has authority to assess the supplier base to support the national defense,<sup>2</sup> and has conducted 15 supplier-base assessments in the past 5 years, including studies on imaging and sensor technology. See appendix II for a description of selected key defense supplier-base authorities.

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## DOD Lacks a Framework and Consistent Approach for Monitoring Supplier-Base Concerns

Although DOD has undertaken a variety of efforts to monitor the defense supplier base, it lacks a framework and consistent approach to identify and monitor concerns in the supplier base. The military services, Industrial Policy, and other DOD components collect information about the health and viability of certain defense supplier-base sectors. However, DOD has not applied departmentwide criteria to determine supplier-base characteristics that could result in reduced or nonavailability of needed items. As part of its supplier-base monitoring efforts, DOD has previously created lists of specific items that are considered critical at a point in time, but lists such as these run the risk of becoming obsolete and do not focus on supplier-base characteristics that could guide identification of problems. To better target its monitoring resources, Industrial Policy recently established criteria for supplier-base characteristics that could be indicators of supply concerns. These criteria have primarily been applied to the missile and space defense sectors and have not been used to guide the identification and monitoring of supplier-base concerns for all sectors departmentwide.

The military services and other DOD components conduct studies on their respective suppliers, often in response to supplier concerns for individual programs. For example, the Army's Aviation and Missile Research, Development, and Engineering Center studies availability issues for Army missile and space programs, such as the availability of raw materials for these programs. The Air Force Research Laboratory conducts assessments that range from annual studies of key supply sectors to evaluations of the supplier base for individual components or materials, such as beryllium. Within the Navy, the Fire Scout vertical takeoff and unmanned aerial vehicle program had an industrial capability assessment conducted of its supplier base before it proceeded to the production phase of the program. Officials from the Missile Defense Agency told us they have dedicated staff to monitor the supplier base for each of the agency's 12 programs and

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<sup>2</sup>Exec. Order No. 12,656, *Assignment of Emergency Preparedness Responsibilities*, 53 Fed. Reg. 47,491 (1988).

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have contracted for support to help improve supply-chain management between the agency's program offices and their prime contractors.

The Secretary of Defense is required by legislation to report annually to Congress on the supplier base. Industrial Policy prepares these reports, which provide a broad analysis of supplier trends and summarize supplier-base studies performed by various DOD components. For example, Industrial Policy reports on the percentage of prime contracts with a value of \$25,000 or greater awarded to foreign suppliers.<sup>3</sup> In addition, Industrial Policy also intermittently reports on foreign reliance for selected weapon programs. For example, in both 2001 and 2004, Industrial Policy reported to Congress on overall foreign reliance for 8 and 12 selected weapon programs, respectively. Industrial Policy also reports annually on industrial capabilities, including a macro-level summary of DOD's seven supplier sectors<sup>4</sup> and a summary of capabilities assessments conducted within DOD—which totaled 47 in 2007. Industrial Policy also provides quarterly updates on the financial and economic metrics of various defense suppliers; convened a roundtable of companies to identify barriers to conducting business with DOD; chartered a cross-department work group to collaborate on tasks related to defense supplier-base challenges, such as sole sources of supply and barriers to competition; and conducted other activities to foster knowledge of the defense supplier base. To support supplier-base analyses by Industrial Policy and the military services, the Defense Contract Management Agency's Industrial Analysis Center conducts program- and sector-specific defense supplier-base studies, as well as conducting analysis to support DOD's studies of foreign reliance. While these multiple efforts have provided the various DOD components with information about specific suppliers, they have not provided a DOD-wide view of supplier-base characteristics that could be indicators of problems—in large part because the efforts are not guided by departmentwide criteria for identifying and monitoring supplier-base concerns.

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<sup>3</sup>The National Defense Authorization Act for Fiscal Year 2004 directs the Secretary of Defense to establish a program to assess the United States' dependency on foreign sources of supply and report annually on its assessment to the congressional Armed Services Committees. Pub. L. No. 108-136 § 812 (2003), as amended by the John Warner National Defense Authorization Act for Fiscal Year 2007, Pub. L. No. 109-364 § 841 (2006).

<sup>4</sup>DOD categorizes its supplier base into seven sectors: aircraft; command, control, communication, computers, and intelligence; ground vehicles; missiles; services; shipbuilding; and space.

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In addition, DOD has also developed lists of items deemed critical at a point in time as part of its supplier-base monitoring efforts. For example, in 2003, after insufficient visibility, planning, and programming led to shortages of several mission-essential items during Operations Iraqi Freedom and Enduring Freedom, the Joint Staff directed the military services, the Defense Logistics Agency, the Defense Contract Management Agency, and the Combatant Commanders to create a list of their respective top 20 “Critical Few” material readiness-shortfall items. Criteria for selecting items included those with high variances in wartime versus peacetime demand, military-unique characteristics without a commercial substitute, and limited industrial-base capacity. DOD developed a classified list of 25 items in 2003 that, according to officials, has not been updated. Similarly, an Army regulation<sup>5</sup> and Air Force directive<sup>6</sup> cite the development and use of “critical items lists.” However, officials from both services stated that the language in these authorities is outdated and the lists, if ever developed, are no longer used. According to Industrial Policy, lists such as these only capture items that are deemed critical at a point in time and, therefore, do not reflect changes in industry, technology, and DOD requirements.

The Air Force has initiated efforts to establish criteria to track supplier-base concerns. Specifically, the Air Force’s Space and Missile Systems Center, under direction from the National Security Space Office, established a Space Industrial Base Program in order to address issues affecting the Air Force’s ability to develop and deploy space systems. According to Air Force officials, this action was a result of DOD Directive 5101.2.<sup>7</sup> The center developed a method for identifying and tracking defense items with supplier-base concerns, defining such items as those whose loss or impending loss of manufacturers or suppliers has the potential to severely affect the program in terms of schedule, performance, or cost if left unresolved. Specifically, criteria for identifying and monitoring these items is based on supplier-base characteristics such as uneconomical production requirements, foreign-source competition, limited availability, or increasing cost of items and raw materials used in the manufacturing process. According to the Space and Missile Systems

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<sup>5</sup>*Army Regulation 700-90: Army Industrial Base Process* (2004).

<sup>6</sup>*Air Force Policy Directive 63-6: Industrial Base Planning* (1993).

<sup>7</sup>DOD Directive 5101.2, *DOD’s Executive Agent for Space* (2003), requires the Air Force to develop assessments and, where appropriate, recommend strategies to maintain the capability of the U.S. space industry to meet DOD needs.

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Center, based on the criteria it developed, it identified approximately 80 critical items in its space systems and coordinated with the Aerospace Corporation, a federally funded research and development center, to track the supplier base for these items.

According to Industrial Policy, the breadth of DOD's programs requires that it selectively monitor DOD's supplier base. In turn, to better target supplier-monitoring resources, Industrial Policy recently established criteria for identifying conditions that could be indicators of supplier-base concerns for certain defense items, deeming these items as "important." Its criteria for such important items include those produced by a sole source; used by three or more programs; representing obsolete, enabling, or emerging technologies; requiring long lead times to manufacture; or having limited surge-production capability. According to Industrial Policy, this internal effort grew out of DOD's development of its critical asset list,<sup>8</sup> and the organization uses the "important" designation to help it identify components and their suppliers that have the most potential to negatively affect production across program and service lines. However, while Industrial Policy uses these criteria, it is not aware of similar use by other DOD organizations. Industrial Policy has used these criteria to identify important components in the missile and space sectors, and has yet to use these criteria to guide the identification and monitoring of supplier-base concerns for all sectors departmentwide. According to Industrial Policy, the missile and space sectors have the preponderance of important items because they contain few commercial off-the-shelf components and a greater number of defense-unique components and, therefore, these sectors contain the most sole-source suppliers. According to Industrial Policy, these sectors are most likely to experience rapid production increases during times of conflict—another contributing factor. Examples of items identified in these sectors include thermal batteries, tactical missile rocket motors, lithium-ion batteries, and traveling-wave tubes. While still early in the process, Industrial Policy reported that it has used these criteria to help identify and work towards mitigating supplier-base concerns within the space and missile sectors. Specifically, the Defense

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<sup>8</sup>As called for in the National Infrastructure Protection Plan, DOD has developed a risk-management approach to identify critical assets in the defense supplier base needed to support mission-essential tasks. This effort is focused on a list, known as the Critical Asset List.

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Production Act Title III<sup>9</sup> was used to improve domestic manufacturing performance for two items deemed important—traveling-wave tubes and long-life lithium-ion batteries. In a separate effort, Industrial Policy stated it is collaborating with the Defense Logistics Agency’s National Defense Stockpile Center to create departmentwide criteria for the terms, “critical,” “strategic,” and “important” and expects the Defense Logistics Agency to report to Congress by the end of calendar year 2008 on the results of this effort.

As required by statute, in 2007 DOD established a Strategic Materials Protection Board to determine the need to provide long-term domestic supply of materials critical to national security to ensure that national defense needs are met, analyze risks associated with potential nonavailability of these materials from domestic sources, and recommend a strategy to the President to ensure domestic availability of these materials.<sup>10</sup> The Board has initially defined critical materials as those that perform a unique function for defense systems and have no viable alternative; DOD dominates the market for the material; and has significant and unacceptable risk of supply disruption if there are insufficient U.S. or reliable non-U.S. suppliers. However, the Board’s focus is to assess only the criticality of materials, such as specialty metals, not to identify and track critical defense items or components.

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<sup>9</sup>The Defense Production Act of 1950, as amended, aims to ensure the availability of industrial resources to meet national defense and national security needs. 50 U.S.C. App. §§ 2061 –2171.

<sup>10</sup>10 U.S.C. § 187.

**DOD Uses an Informal Approach to Identify Supplier-Base Concerns, with No Departmentwide Reporting Requirement on When to Elevate These Concerns**

DOD often relies on the military services, program offices, or prime contractors to identify supplier-base concerns, including gaps and potential gaps, with no departmentwide requirement for when to report these gaps to higher-level offices. Over the past 5 years, most program officials we surveyed faced gaps in their supplier base or had sole sources of supply for certain items. To address these supplier concerns, programs often relied on the prime contractors, which had more detailed knowledge of the supplier base, and left it to the contractor’s judgment to report gaps and take actions to address supplier challenges. Further, program officials reported that they generally use their discretion in determining when to report identified gaps and planned actions to higher DOD levels. As a result, DOD’s ability to know when a departmentwide approach is needed to mitigate these concerns may be limited.

**DOD Often Relied on Program Offices and Prime Contractors to Identify Supplier-Base Concerns in the Last 5 Years**

DOD often relies on its individual program offices to ensure that their respective supplier bases are sufficient. According to officials from Industrial Policy, individual program offices are to ensure that their supplier base is sufficient, and Industrial Policy would become involved only when supplier-base concerns might affect multiple programs or more than one military service, therefore requiring a corporate DOD approach. Most of the program officials we surveyed had supplier-base concerns in the last 5 years (see table 1). Specifically, 16 of the 20 program officials we surveyed reported facing supplier gaps or potential gaps, including obsolescence of component parts or technologies, diminishing manufacturing sources for components, and production challenges. In addition, 15 of the 20 program officials identified sole sources of supply for components of their weapon systems. Seventeen of the program officials we surveyed said these supplier-base concerns were identified by their prime contractors, which maintain detailed knowledge of the supplier base.

**Table 1: Programs Surveyed That Had Supplier Concerns within the Last 5 Years**

| Program  | Obsolescence | Diminishing source of supply | Production challenges <sup>a</sup> | Sole source |
|--|--------------|------------------------------|------------------------------------|-------------|
| AGM-114 Hellfire<br>Air-to-Ground/Air-to-Air<br>Guided Missile | X            |                              | X                                  | X           |
| B-2 Spirit<br>Multi-Role Bomber                                | X            |                              | X                                  | X           |

| <b>Program</b>  | <b>Obsolescence</b> | <b>Diminishing source of supply</b> | <b>Production challenges<sup>a</sup></b> | <b>Sole source</b> |
|---|---------------------|-------------------------------------|--|--------------------|
| CH-53K Super Stallion   | X                   |                                     |  |                    |
| Heavy-Lift Replacement Helicopter                               |                     |                                     |  |                    |
| F/A-18E/F Super Hornet  |                     |                                     | X  | X                  |
| Navy Fighter Attack Aircraft                                    |                     |                                     |  |                    |
| F/A-22 Raptor   | X                   | X                                   |  | X                  |
| Fighter Attack Aircraft   |                     |                                     |  |                    |
| JTRS-GMR  | X                   |                                     | X  | X                  |
| Joint Tactical Radio System                                     |                     |                                     |  |                    |
| Ground Mobile Radio   |                     |                                     |  |                    |
| LGM-30 Minuteman III  |                     |                                     | X  |                    |
| Ground-Launched Intercontinental Ballistic Missile (ICBM)       |                     |                                     |  |                    |
| MQ-8B Navy Fire Scout   |                     |                                     |  | X                  |
| Unmanned Helicopter   |                     |                                     |  |                    |
| MQ-9 Reaper   |                     | X                                   | X  | X                  |
| Armed Medium-to-High Altitude UAV                               |                     |                                     |  |                    |
| PAC-3   | X                   |                                     | X  | X                  |
| Patriot Advanced Capability Missile                             |                     |                                     |  |                    |
| Ground-Launched Missile Defense                                 |                     |                                     |  |                    |
| RIM-162 ESSM  | X                   | X                                   |  | X                  |
| NATO Evolved SEASPARROW Missile                                 |                     |                                     |  |                    |
| Surface Missile System  |                     |                                     |  |                    |
| RQ-4 Global Hawk  |                     | X                                   |  | X                  |
| High-Altitude Intelligence, Surveillance and Reconnaissance UAV |                     |                                     |  |                    |
| SBIRS High  | X                   | X                                   | X  | X                  |
| Space-Based Infrared System                                     |                     |                                     |  |                    |
| High-Altitude Satellite Missile Defense/Surveillance            |                     |                                     |  |                    |
| STSS  | X                   | X                                   |  | X                  |
| Space Tracking Surveillance System                              |                     |                                     |  |                    |
| UH-60 Black Hawk  |                     |                                     | X  | X                  |
| Tactical Transport Helicopter                                   |                     |                                     |  |                    |
| V-22 Osprey   | X                   | X                                   | X  | X                  |
| Joint Service Tilt-Rotor Aircraft                               |                     |                                     |  |                    |
| VH-71   | X                   |                                     | X  | X                  |
| Presidential Helicopter   |                     |                                     |  |                    |
| <b>Total</b>  | <b>11</b>           | <b>7</b>                            | <b>11</b>                                | <b>15</b>          |

Source: GAO.

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Notes: Data are from GAO's analysis of survey responses from and interviews with 20 selected DOD weapon program officials.

<sup>a</sup>Production challenges include reported production delays, production-capacity issues, and production outsourcing.

Many of the program officials we interviewed maintain frequent contact with their prime contractors and noted that this level of communication facilitates supplier-base knowledge. Specifically, 19 out of 20 program officials we surveyed said their prime contractor often identified and provided supplier-base information to them and that communication was frequent when a supplier-base concern arose. Program officials had varying degrees of knowledge of their supplier tiers—18 reported that they maintain knowledge of their program's supplier base at the prime-contractor level, while 9 maintained knowledge of the lowest-tier subcontractor of the supply chain. One program official noted that knowledge of the lower-tier suppliers is gained as issues arise, and another stated that knowledge of these lower tiers is based on assessed "criticality" to the program—which is defined on a program-by-program basis.

The four prime contractors that we interviewed about their own corporate insight into the supplier base noted that they had extensive internal corporate metrics to evaluate the health and performance of their subcontractors, which offered the companies a degree of visibility into their supply chains, from second-tier subcontractors to lower-tier suppliers of raw materials. For example, one of the prime contractors had software that allowed it to analyze and measure data on each supplier within its network.<sup>11</sup> It captured data on each supplier's performance based on the quality of its work and the delivery of its product, which resulted in a combined performance rating. Examples of other metrics tracked include supplier biography, report card results, trend analysis of performance ratings over a period of time such as a calendar year, and the combined performance rating of a part that a supplier manufactures for a particular system.

To address reported supplier gaps, program offices took a variety of actions. For example, actions to address supplier gaps in the area of obsolescence ranged from large-scale purchases, known as life-time buys,

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<sup>11</sup>Generally, due to the proprietary nature of the data maintained by the prime contractor on their subcontractors, the degree to which these data are shared with respective program offices varies.

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to initiating component redesign. In other instances the gap has not yet been solved. The Space Tracking Surveillance System program relies on one company to supply the base materials used to produce nickel-hydrogen batteries, which are critical to this program. However, this company plans to cease production of these batteries in 2009 or shortly thereafter; yet an alternate source of supply has not been identified. In another instance the Hellfire Missile program is working with the Army Program Executive Officer for Missiles and Space along with Industrial Policy to request a waiver to procure a chemical that is no longer produced in the United States from a company in China. The program is also exploring whether a Navy facility could produce the chemical in the quantities needed by this and other military programs that use this chemical.

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### Programs Lack Requirements for Elevating Supplier-Base Concerns to Higher DOD Levels

Program officials and prime contractors we spoke with stated that they use their discretion for when to report supplier-base concerns. Programs are not required to report supplier issues to their program executive officer or to higher levels within DOD, such as Industrial Policy, and most programs do not have contractual requirements with their prime contractor to direct when a supplier issue must be reported.

While program officials reported working closely with their prime contractors to address concerns once they were identified, program officials and prime contractors we spoke with told us that it is a judgment call as to when to report supplier-base concerns to higher levels within DOD. For example, for the 20 program officials we surveyed, 17 reported that they had shared information on supplier concerns with their cognizant program executive officer. However, only four programs, all of which faced supplier gaps in the last 5 years, reported sharing such information with Industrial Policy. Thirteen program officials we surveyed stated that no requirement exists for when their program office should report supplier-base concerns to higher levels within DOD.

Similarly, nine of 20 program officials told us that no requirement exists for what should trigger a prime contractor to report a supplier-base concern to them. One of these programs, the B-2 Spirit stealth bomber, is in the process of creating a requirement for when its prime contractor should notify it of supplier concerns. According to program officials, the Hellfire missile and Navy Fire Scout programs have imposed contractual requirements on their prime contractors to report any supplier concerns. Other program officials stated that while no formal requirement existed, there was an understanding between their prime contractor and the

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program office that any activity that will affect schedule, which could include supplier-base concerns, must be reported to the program office.

While addressing supplier gaps at the program- or program executive officer-level may be appropriate in many cases, program offices across the military services rely on the same supplier base in some instances. In such cases, concerns with these suppliers can become even more crucial if it is a sole-source supplier. For example, multiple DOD programs in the space sector rely on one provider for traveling-wave tube amplifiers needed for satellite navigation purposes.<sup>12</sup> According to officials from the Air Force's Space and Missile Systems Center, it closely tracks this supplier because any disruption in its production capability could adversely affect the cost, schedule, and performance of multiple space programs. In addition, officials from the Patriot Advanced Capability-3 missile program told us that production delays with its inertial measurement unit also affected the Army's Tactical Missile System program, as it uses this same unit from this company. However, DOD may not be aware of these types of cross-department concerns in other supplier-base sectors because it does not have a framework for programs to report information on supplier gaps and vulnerabilities for critical items.

In addition, Industrial Policy may benefit from receiving information on supplier gaps and vulnerabilities to help it achieve its mission to sustain an environment that ensures the industrial base on which DOD depends is reliable, cost-effective, and sufficient to meet its requirements. A framework for programs to report supplier-gap information could assist Industrial Policy's decisions on when to activate available tools to mitigate supplier-base concerns, such as the authorities under the Defense Production Act. As we recently reported in a review of Defense Production Act<sup>13</sup> use since its 2003 reauthorization, 25 DOD projects have received Title III funding over the past several years, totaling almost \$420 million in assistance. Almost half of the projects received funds in order to establish a domestic source of supply or to help alleviate dependence on sole sources of supply. Recent major projects include Radiation Hardened Microelectronics Capital Expansion and a Beryllium Industrial Base Production Initiative.

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<sup>12</sup>A traveling-wave tube is an electronic device used to amplify radio-frequency signals to high power, usually in an electronic assembly known as a traveling-wave tube amplifier.

<sup>13</sup>GAO, *Defense Production Act: Agencies Lack Policies and Guidance for Use of Key Authorities*, [GAO-08-854](#) (Washington, D.C.: June 26, 2008).

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## Conclusions

While DOD has a number of efforts to monitor its supplier base, these efforts lack a framework and set of characteristics to identify and track supplier-base concerns and allow for consistent reporting to higher levels within DOD, such as Industrial Policy. A failure to systematically identify and address supplier-base concerns could result in untimely discoveries of supply vulnerabilities, which could potentially affect DOD's ability to meet national security objectives. While DOD components, such as the Air Force's Space and Missile Systems Center, have taken action to identify and monitor supplier-base concerns, these efforts have been limited in scope or lacked departmentwide involvement. DOD has an opportunity to leverage the various efforts taken by its components into a departmentwide framework for identifying and monitoring supplier-base concerns. Considering the dynamic nature of the defense supplier base, this model could take into account recent efforts by Industrial Policy to establish characteristics that could be indicators of supply concerns. Further, by relying on individual program offices and their contractors to determine when it is appropriate to raise concerns, DOD cannot be assured that it is identifying all gaps that may need to be addressed at a departmentwide level. Until DOD establishes departmentwide characteristics for consistent identification and monitoring of supplier-base concerns and develops requirements for elevating supplier-base concerns—at both the contractor and program levels—it will continue to lack the visibility needed to oversee a robust supplier base.

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## Recommendations for Executive Action

We are recommending that the Secretary of Defense direct Industrial Policy, in coordination with the military services and other relevant DOD components, to consider the following two actions to identify and monitor the supplier base:

1. Leverage existing DOD efforts to identify criteria of supplier-base problems and fully apply these criteria to guide the identification and monitoring of supplier-base concerns throughout DOD.
2. Create and disseminate DOD-wide written requirements for reporting potential concerns about supplier-base gaps. These requirements should delineate when, and to what level, supplier-base concerns should be elevated and should take into account the two levels of reporting—prime contractors to program offices and program offices to higher levels in DOD.

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## Agency Comments and Our Evaluation

DOD provided comments on a draft of this report. DOD also provided technical comments, which we incorporated as appropriate. In commenting on our first recommendation, DOD concurred with the need to leverage existing DOD efforts to identify criteria of supplier-base problems and fully apply these criteria to guide the identification and monitoring of supplier-base concerns throughout DOD. DOD indicated that its ongoing Defense Acquisition Guidebook update presents a fitting and timely opportunity to institutionalize these criteria into departmental acquisition policy.

DOD partially concurred with our second recommendation, stating that while there is merit in having formal, published criteria for making judgments regarding when program offices should report supplier issues to Industrial Policy, similar formal reporting criteria or contractual mechanisms are not needed for prime contractors to report supplier-base concerns to the program office. DOD expects prime contractors to maintain internal corporate metrics to evaluate the health and performance of their subcontractors and likewise expects program offices to maintain frequent and open communication with their prime contractors on supplier-base issues. Our recommendation is for DOD to consider how best to facilitate the flow of this information between program offices and their prime contractors, regardless of whether it is through a contractual requirement or other means. This is particularly important given the large role that contractors play in monitoring the supplier base. While we found that almost all of the 20 program officials we surveyed relied on their prime contractors to provide supplier-base information, including identification of supplier-base concerns, there is no guidance to ensure that information is consistently elevated to the appropriate levels. As such, we maintain that a mechanism is needed to facilitate the flow of information from the prime contractor to the program office, and from the program office to higher levels within DOD—especially for those concerns whose characteristics meet the criteria for making judgments regarding suppliers and components for DOD.

We also provided a draft of this report to the Department of Commerce. The department reviewed the draft and provided no comments.

DOD's written comments are reprinted in appendix III.

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We are sending copies of this report to interested congressional committees; the Secretaries of Defense and Commerce; and the Director, Office of Management and Budget. In addition, this report will be made available at no charge on the GAO Web site at <http://www.gao.gov>.

Please contact me at (202) 512-4841 or [calvaresibarra@gao.gov](mailto:calvaresibarra@gao.gov) if you or your staff have any questions concerning this report. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Others making key contributions to this report are listed in appendix IV.

Sincerely yours,

A handwritten signature in black ink that reads "Ann Calvaresi Barr". The signature is written in a cursive style with a large initial "A" and a long, sweeping underline.

Ann Calvaresi-Barr  
Director  
Acquisition and Sourcing Management

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# Appendix I: Scope and Methodology

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To assess Department of Defense (DOD) efforts to monitor its defense supplier base and identify and address gaps that might exist in its supplier base, we reviewed relevant laws and regulations, such as sections of Title 10, U.S. Code, the DOD 5000 series, National Security Space Acquisition Policy 03-01, and the Defense Production Act of 1950, as amended. We also met with officials and reviewed documents from multiple DOD components as well as defense companies, to discuss efforts, policies, and guidance. We met with officials from DOD's Office of the Deputy Under Secretary of Defense for Industrial Policy (Industrial Policy) to review its processes and actions for monitoring the defense supplier base. We also discussed with Industrial Policy its role in preparing and submitting the Annual Industrial Capabilities Report to Congress. We met with the Defense Contract Management Agency's Industrial Analysis Center to discuss its role in studying DOD's supplier-base sectors. We met with officials from the U.S. Air Force, Army, Navy, and the Missile Defense Agency to review and discuss their policies and practices for monitoring the defense supplier base. We also met with officials from the Department of Commerce, Bureau of Industry and Security, to discuss their role in monitoring the defense supplier base through its authorities to conduct surveys and analyses, and prepare reports on specific sectors of the U.S. defense supplier base. We also met with a Senior Fellow of the International Security Program, Defense Industrial Initiatives Group, who at that time was with the Center for Strategic and International Studies, to discuss his studies and perspectives on the defense supplier base.

In addition, we selected a nongeneralizable sample of 20 DOD weapon programs (see table 2) based on criteria including representation of the aerospace or electronics industry; representation of various stages of the acquisition life cycle, to include those with mature and emerging technologies; cross-representation of DOD components—Air Force, Army, Navy, and the Missile Defense Agency; and selection of at least one DX-rated program,<sup>1</sup> based on our review of the most current list of approved DX programs, dated November 7, 2007, posted by Industrial Policy as of the time we selected the programs to survey. GAO also has ongoing work through its annual “Assessments of Selected Weapon Programs,”<sup>2</sup> for many

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<sup>1</sup>Title I of the Defense Production Act of 1950, as amended, authorizes the President to prioritize contracts. Contracts in support of an authorized program are given a priority rating. A DX rating is assigned to those programs of highest national priority.

<sup>2</sup>GAO, *Defense Acquisitions: Assessments of Selected Weapon Programs*, GAO-08-467SP (Washington, D.C.: Mar. 31, 2008).

of these programs, which allowed the team to build upon our prior work efforts and existing DOD contacts.

To better understand the general supplier-base knowledge, identification of supply gaps, and the use of domestic and international sourcing and tracking of these sources, we designed and administered a Web-based survey to program officials most knowledgeable about the supplier base for each of the 20 programs. We pretested a draft of our survey during January and February 2008, with officials at five DOD program offices. In the pretests, we were generally interested in the clarity of the questions as well as the flow and layout of the survey. After these pretests, we then made appropriate revisions to the survey instrument. We conducted the survey between April and June 2008, through a series of e-mails beginning on April 1 with prenotification e-mails, activated the survey on April 7, and sent follow-up e-mails to nonrespondents on April 14 and 22, 2008. We closed the survey on June 6, 2008, with a 100 percent response rate.

To further determine how programs maintain knowledge of and monitor their supplier base, we then tailored follow-up questions to all 20 program officials to solicit information and documentation in areas such as communication between and among DOD and its prime contractors, and expansion on areas where programs experienced supplier gaps. We also met with and obtained information and documentation from the prime contractor for several of these programs, including officials from Boeing, Lockheed Martin, Northrop Grumman, and Raytheon.

**Table 2: List of 20 Programs Reviewed by GAO, Including DOD Component Represented, Acquisition Phase, and Priority Contract Rating**

|   | <b>Program</b>   | <b>DOD component</b>                       | <b>Acquisition phase</b>             | <b>DX-rated?</b> |
|---|--|--|--------------------------------------|------------------|
| 1 | AGM-114 Hellfire<br>Air-to-Ground/Air-to-Air<br>Guided Missile | U.S. Navy, U.S. Army,<br>U.S. Marine Corps | Production and Deployment            | No               |
| 2 | B-2 Spirit<br>Multi-Role Bomber                                | U.S. Air Force                             | Operations and Support               | No               |
| 3 | CH-53K Super Stallion<br>Heavy-Lift Replacement Helicopter     | U.S. Marines                               | System Development/<br>Demonstration | No               |
| 4 | F-16 Fighting Falcon<br>Fighter Aircraft                       | U.S. Air Force                             | Operations and Support               | No               |
| 5 | F/A-18E/F Super Hornet<br>Navy Fighter Attack Aircraft         | U.S. Navy                                  | Production and Deployment            | No               |

**Appendix I: Scope and Methodology**

|    | <b>Program</b>  | <b>DOD component</b>           | <b>Acquisition phase</b>             | <b>DX-rated?</b> |
|----|---|--------------------------------|--------------------------------------|------------------|
| 6  | F/A-22 Raptor<br>Fighter Attack Aircraft  | U.S. Air Force                 | Production and Deployment            | No               |
| 7  | GBU-31/32/38<br>Joint Direct Attack Munition  | U.S. Navy, U.S. Air Force      | Production and Deployment            | No               |
| 8  | JTRS-GMR<br>Joint Tactical Radio System<br>Ground Mobile Radio                                    | Joint                          | System Development/<br>Demonstration | No               |
| 9  | LGM-30 Minuteman III<br>Ground-Launched Intercontinental Ballistic Missile<br>(ICBM)              | U.S. Air Force                 | Production and Deployment            | No               |
| 10 | MQ-8B Navy Fire Scout<br>Unmanned Helicopter  | U.S. Navy                      | System Development/<br>Demonstration | No               |
| 11 | MQ-9 Reaper<br>Armed Medium- to High-Altitude UAV   | U.S. Air Force                 | Production and Deployment            | No               |
| 12 | PAC-3 Missile System<br>Patriot Advanced Capability Missile<br>Ground-Launched Missile Defense    | U.S. Army                      | Production and Deployment            | No               |
| 13 | RIM-162 ESSM<br>NATO Evolved SEASPARROW Missile<br>Surface Missile System                         | NATO;<br>U.S. Navy             | Production and Deployment            | No               |
| 14 | RQ-4 Global Hawk<br>High-Altitude Intelligence, Surveillance and<br>Reconnaissance UAV            | U.S. Air Force                 | Production and Deployment            | No               |
| 15 | SBIRS High<br>Space-Based Infrared System<br>High-Altitude Satellite Missile Defense/Surveillance | U.S. Air Force                 | System Development/<br>Demonstration | Yes              |
| 16 | STSS<br>Space Tracking Surveillance System  | U.S. Missile Defense<br>Agency | System Development/<br>Demonstration | No               |
| 17 | UH-60 Black Hawk<br>Tactical Transport Helicopter   | U.S. Army                      | Production and Deployment            | No               |
| 18 | V-22 Osprey<br>Joint Service Tilt-Rotor Aircraft  | Joint                          | Production and Deployment            | No               |
| 19 | VH-71<br>Presidential Helicopter  | U.S. Navy                      | System Development/<br>Demonstration | Yes              |
| 20 | XM-157 Army Class IV UAV<br>Unmanned Helicopter   | U.S. Army                      | System Development/<br>Demonstration | No               |

Source: GAO.

Note: Data are from the GAO list of 20 selected DOD weapon program offices and survey responses from these programs.

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We conducted this performance audit from September 2007 to August 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Key Authorities for DOD Supplier Base

Table 3 below describes several key authorities available to the Department of Defense (DOD) for both maintaining information on its suppliers as well as ensuring a domestic capability for certain items.

**Table 3: Selected DOD Supplier-Base Authorities**

| Authority   | Description and relevance to supplier base   |
|---|--|
| <b>Authorities:</b>   |  |
| National Defense Authorization Act for Fiscal Year 2004 <sup>a</sup>            | The act directs DOD to report annually to Congress on the number and value of contracts valued greater than \$25,000 awarded to foreign contractors.   |
| <b>Laws:</b>  |  |
| Title 10 U.S. Code <sup>b</sup>   | Sections 2501 through 2506 relate to the national technology and industrial base (which includes the DOD supplier base), such as requiring DOD to provide Congress with an annual summary of DOD technology and industrial capabilities assessments, and to prepare each fiscal year selected assessments of the capability of the national technology and industrial base to attain the national security objectives set forth in the act.  |
| Defense Production Act of 1950, as amended, Titles I, III, and VII <sup>c</sup> | <p>The act aims to ensure the availability of industrial resources to meet national security and defense needs.</p> <p>Title I can be used to address gaps through prioritization of DOD contracts ahead of nondefense contracts</p> <p>Title III provides financial incentives to domestic firms to invest in production capabilities for critical security needs.</p> <p>Title VII provides for investigative authority to collect information on the U.S. industrial base, which has been used to assess the supplier base to support the national defense.</p> |
| Berry Amendment <sup>d</sup>  | Requires DOD to purchase certain items from domestic suppliers with certain exceptions. For example, the act prohibits DOD from procuring end items or components thereof containing specialty metals not melted or produced in the United States for certain applications.  |
| Buy American Act <sup>e</sup>   | The act requires the federal government to procure supplies that are domestic end products for use in the United States, subject to a number of exceptions.  |
| <b>Regulations:</b>   |  |
| Defense Federal Acquisition Regulation Supplement Part 225 <sup>f</sup>         | Provides DOD direction on foreign acquisitions including implementation of domestic source restrictions.   |

**Appendix II: Key Authorities for DOD Supplier Base**

| Authority   | Description and relevance to supplier base   |
|---|--|
| DOD Directive 5000.1 <sup>g</sup> and DOD Instruction 5000.2 <sup>h</sup> | The directive and instruction state that, in the DOD acquisition process, DOD is to complete Industrial Capability Assessments before weapon systems can move from the design to development acquisition phase and from the development to production phase. These authorities are complemented by the Defense Acquisition Guidebook, which provides that development of an acquisition strategy should include an analysis of the industrial capability to design, develop, produce, support and, if appropriate, restart an acquisition program.   |
| DOD Handbook 5000.60-H <sup>i</sup>                                       | The handbook was developed to provide DOD the framework and guidelines to evaluate the need for DOD action to preserve its defense industrial capabilities. It states that a Defense Industrial Capabilities Analysis should be initiated only when there is an indication that DOD may lose the ability to obtain necessary defense products and services.  |
| DOD Directive 5101.2 <sup>j</sup>   | The directive provides that the Air Force, as the DOD Executive Agent for Space, is to develop assessments and, where appropriate, recommend policies and strategies to maintain the capability of the U.S. space industry to meet DOD needs.  |
| National Security Space Acquisition Policy 03-01 <sup>k</sup>             | The policy provides acquisition process guidance for DOD entities that are part of the National Security Space Team. Space system program offices are to complete industrial capability assessments for key technologies and components during the development phase.  |
| <b>Executive Order:</b>   |  |
| Executive Order No. 12,919 <sup>l</sup>                                   | The order delegates authorities and addresses national defense industrial resource policies and programs under the Defense Product Act of 1950, as amended. The act provides that federal agencies responsible for defense acquisition are to use the authorities provided in the act, to ensure the domestic industrial and technological base (the "base") through activities such as continually assessing the capability and availability of the base in peacetime and in times of national emergency and improving efficiencies and responsiveness to defense requirements of the base. |

Source: GAO.

<sup>g</sup>National Defense Authorization Act for Fiscal Year 2004, Pub. L. No. 108-136 Sec §812 (2003), as amended.

<sup>h</sup>10 U.S.C. §§ 2501-2506.

<sup>i</sup>50 U.S.C. App. §§ 2061-2171, as amended.

<sup>j</sup>10 U.S.C. §§ 253, 3a-b.

<sup>k</sup>41 U.S.C. §§ 10a-10d, as implemented by Federal Acquisition Regulation Part 25 and Defense Federal Acquisition Regulation Supplement Part 225.

<sup>l</sup>Defense Federal Acquisition Regulation Supplement Subpart 225.7000.

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**Appendix II: Key Authorities for DOD  
Supplier Base**

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<sup>a</sup>DOD Directive 5000.1, "The Defense Acquisition System," (2003).

<sup>b</sup>DOD Instruction 5000.2, "Operation of the Defense Acquisition System" (2003).

DOD Handbook 5000.60-H, "Assessing Defense Industrial Capabilities," Part II, Chapter 3, (1996).

<sup>d</sup>DOD Directive 5101.2, "DOD Executive Agent for Space," (2003).

<sup>e</sup>DOD, National Security Space Acquisition Policy, "Guidance for DOD Space System Acquisition Process," Appendix 1, §2.3 (2004).

<sup>f</sup>Exec. Order No. 12,919, National Defense Industrial Resource Preparedness, 59 Fed. Reg. 29,525 (1994), as amended by Exec. Order No. 13286, 43 Fed. Reg. 10,619 (2003), and revoked in part by Exec. Order No. 13456, 73 Fed. Reg. 4,667 (2008).

# Appendix III: Comments from the Department of Defense

Note: Page numbers in the draft report may differ from those in this report.



ACQUISITION  
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OFFICE OF THE UNDER SECRETARY OF DEFENSE  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

Ms. Ann Calvaresi Barr  
Director, Acquisition and Sourcing Management  
Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548

SEP 19 2008

Dear Ms. Calvaresi Barr,

This is the Department of Defense (DoD) response to the GAO Draft Report, GAO-09-05, "DEPARTMENT OF DEFENSE: A Departmentwide Framework to Identify and Report Gaps in the Defense Supplier Base is Needed," dated August 21, 2008 (GAO Code 120693). DoD's detailed comments to the report are enclosed. Technical comments were provided separately.

My point of contact for this matter is Ms. Dawn Vehmeier, AT&L/IP, at (703) 602-4322 or dawn.vehmeier@osd.mil.

*for*   
William Greenwalt  
Deputy Under Secretary of Defense  
(Industrial Policy)

Enclosure:  
As stated



GAO DRAFT REPORT DATED AUGUST 21, 2008  
GAO-09-05 (GAO CODE 120693)

“DEPARTMENT OF DEFENSE: A DEPARTMENTWIDE  
FRAMEWORK TO IDENTIFY AND REPORT GAPS IN THE  
DEFENSE SUPPLIER BASE IS NEEDED”

DEPARTMENT OF DEFENSE COMMENTS  
TO THE GAO RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct its Deputy Under Secretary of Defense for Industrial Policy, in coordination with the Military Services and other relevant DoD components, to consider the following action to identify and monitor the supplier base: leverage existing DoD efforts to identify criteria of supplier base problems and fully apply these criteria to guide the identification and monitoring of supplier-base concerns throughout DoD. (p. 15/GAO Draft Report)

DOD RESPONSE: CONCUR.

There is merit in having formal, published criteria for making judgments regarding suppliers and components that are important to the Department. In fact, the timing of this draft GAO report coincides with the ongoing Defense Acquisition Guidebook update. This presents a fitting and timely opportunity to institutionalize these criteria in acquisition policy. In fact, the Deputy Under Secretary for Industrial Policy (DUSD(IP)) has already submitted new language that would meet this requirement (see discussion under Recommendation 2 that follows).

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct its Deputy Under Secretary of Defense for Industrial Policy, in coordination with the Military Services and other relevant DoD components, to consider the following action to identify and monitor the supplier base: create and disseminate DoD-wide written requirements for reporting potential concerns about supplier-base gaps. These requirements should delineate when, and to what level, supplier-base concerns should be elevated and should take into account the two levels of reporting – prime contractors to program offices and program offices to higher levels in DoD. (p. 15/GAO Draft Report)

DOD RESPONSE: PARTIALLY CONCUR.

There is merit in having formal, published criteria for making judgments regarding when program offices should report/elevate supplier issues to the DUSD(IP). As discussed previously, the timing of this draft GAO report coincides with the ongoing Defense Acquisition Guidebook update. DUSD(IP) submitted new Defense Acquisition Guidebook language that would meet the requirement of when, and to what level,

Attachment  
Page 1 of 2

program offices should elevate supplier base concerns. In general, the guidance will encourage program offices and the Military Services to continue to resolve identified industrial capability issues at the lowest level possible. However, in cases when issues may impact more than a single program or Service, or when an industrial capability matter meets certain criteria (i.e., represents a single or sole source supplier; used by three or more programs; represents an obsolete, enabling, or emerging technology; requires 12 months or more to manufacture; has limited surge production capability), the proposed language would instruct the program office to elevate the matter via their Program Executive Officer to DUSD(IP) (even if the program office has ensured that its program requirement can and/or will be met).

DUSD(IP) does not agree that similar formal reporting criteria or contractual mechanisms need to be established for prime contractors to report supplier base concerns to the program office. Prime contractor responsibilities include identifying, managing, and solving program issues and risks. The Department expects primes to maintain internal corporate metrics to evaluate the health and performance of their subcontractors. Likewise, it is the program office's responsibility to maintain frequent and open communications with the prime and key suppliers to keep apprised of any issues that could potentially affect the program's cost, schedule, or performance. These are qualities of responsible and successful program management.

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# Appendix IV: GAO Contact and Staff Acknowledgments

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## GAO Contact

Ann Calvaresi-Barr, (202) 512-4841 or [calvaresibarra@gao.gov](mailto:calvaresibarra@gao.gov)

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## Acknowledgments

In addition to the contact name above, John Neumann, Assistant Director; Tara Copp; Lisa Gardner; Michael Hanson; Ian Jefferies; Marie Ahearn; Jean McSween; and Karen Sloan made key contributions to this report.

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# Related GAO Products

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*Defense Production Act: Agencies Lack Policies and Guidance for Use of Key Authorities.* [GAO-08-854](#). Washington, D.C.: June 26, 2008.

*Defense Acquisitions: Assessments of Selected Weapon Programs.* [GAO-08-467SP](#). Washington, D.C.: March 31, 2008.

*Defense Infrastructure: Management Actions Needed to Ensure Effectiveness of DOD's Risk Management Approach for the Defense Industrial Base.* [GAO-07-1077](#). Washington, D.C.: August 31, 2007.

*High-Risk Series: An Update.* [GAO-07-310](#). Washington, D.C.: January 2007.

*Highlights of a GAO Forum: Managing the Supplier Base in the 21<sup>st</sup> Century.* [GAO-06-533SP](#). Washington, D.C.: March 31, 2006.

*Best Practices: Better Support of Weapon System Program Managers Needed to Improve Outcomes.* [GAO-06-110](#). Washington, D.C.: November 30, 2005.

*Federal Procurement: International Agreements Result in Waivers of Some U.S. Domestic Source Restrictions.* [GAO-05-188](#). Washington, D.C.: January 26, 2005.

*Defense Acquisitions: Knowledge of Software Suppliers Needed to Manage Risk.* [GAO-04-678](#). Washington, D.C.: May 25, 2004.

*Joint Strike Fighter Acquisition: Observations on the Supplier Base.* [GAO-04-554](#). Washington, D.C.: May 3, 2004.

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