



May 2023

F-35 PROGRAM

DOD Needs Better Accountability for Global Spare Parts and Reporting of Losses Worth Millions

Accessible Version

GAO Highlights

Highlights of [GAO-23-106098](#), a report to congressional committees

Why GAO Did This Study

The F-35 Lightning II aircraft is DOD's most costly weapon system in history. Overall costs are estimated to be more than \$1.7 trillion over the program's life cycle. The F-35's supply chain has a unique design. Rather than owning the spare parts for their aircraft, the program participants share a common, global pool of spare parts that DOD owns and the prime contractors manage. These spare parts are held in over 50 domestic and international non-prime contractor facilities.

This report was developed in connection with GAO's audit of the U.S. government's consolidated financial statements. This report examines the extent to which DOD oversees and accounts for F-35 global spare parts held at non-prime contractor facilities.

For this report, GAO reviewed relevant DOD guidance, regulations, and instructions. GAO also interviewed DOD and contractor officials to identify how DOD categorizes, oversees, and accounts for these spare parts held at non-prime contractor facilities.

What GAO Recommends

GAO is making four recommendations, including for DOD to take steps to ensure that all spare parts in the global spares pool are accountable under a contract, and to develop a process for contractors to report losses and dispose of spare parts that are excess, obsolete, or unserviceable. DOD concurred with all four recommendations and cited actions it will take to address them.

View [GAO-23-106098](#). For more information, contact Kristen Kociolek at (202) 512-2989 or kociolek@gao.gov.

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DOD Needs Better Accountability for Global Spare Parts and Reporting of Losses Worth Millions

What GAO Found

The Department of Defense's (DOD) F-35 Joint Program Office does not oversee or account for spare parts in its global spares pool that have been accepted and received by the government and are located at non-prime contractor facilities. The F-35 Joint Program Office does not track or enter these spare parts into an accountable property system of record that would enable it to capture and store real-time changes to property records. Currently, the prime contractors maintain this information.

One contributing factor to DOD's lack of accountability over these spare parts is the lack of agreement among various organizations as to whether the spare parts are both accountable under a contract and government-furnished property. If the spare parts, which include engines; tires; landing gear; and other parts, such as bolts, screws, and fasteners, are not accountable under a contract and are not government-furnished property, the contractor will not enter these parts into the system DOD uses to track losses and disposition. Without DOD taking steps to ensure that these spare parts are accountable under a contract, the F-35 Joint Program Office will be unable to either gain or maintain accountability over these spare parts and will not have data, such as locations, costs, and quantities, needed for financial reporting or to ensure that government interests are protected.

The organizations' inability to reach consensus has also affected the F-35 Joint Program Office's processing of losses (spare parts that are lost, damaged, or destroyed) and disposition of spare parts in the global spares pool. Because the F-35 Joint Program Office does not maintain complete records on losses and disposition of spare parts, GAO used a combination of data provided by both the F-35 Joint Program Office and one prime contractor and found the following:

- Since May 2018, one F-35 prime contractor incurred losses of over 1 million spare parts totaling over \$85 million, of which less than 2 percent has been reviewed by the F-35 Joint Program Office. Further, due to the lack of a process for reporting losses, as of October 2022, the same prime contractor has not reported over 900,000 spare parts valued at over \$66 million to the F-35 Joint Program Office for review. In one example, the contractor identified 34 actuator doors with a total cost of over \$3.2 million that were lost in the fourth quarter of 2019 and have yet to be reported to the F-35 Joint Program Office.
- As of October 2022, DOD has over 19,000 spare parts in the global spares pool that have been awaiting disposition instructions from the F-35 Joint Program Office for anywhere from a few months up to 5 years.

Without developing procedures for contractors to both (1) report global spares pool losses and (2) dispose of spare parts that staff have determined are excess, obsolete, or unserviceable, DOD does not have assurance that lost spare parts or those in need of disposition are being accurately reported and tracked. This increases the risk of misstatement on DOD's financial statements and increases the risk of mismanagement of F-35 global spares pool losses. It also potentially raises government expenditures.

Contents

GAO Highlights		ii
	Why GAO Did This Study	ii
	What GAO Recommends	ii
	What GAO Found	ii
Letter		1
	Background	5
	F-35 JPO Does Not Oversee and Account for Its F-35 Global Spares Pool Held at Non-Prime Contractor Facilities	9
	Conclusions	22
	Recommendations for Executive Action	23
	Agency Comments	23
Appendix I: Objectives, Scope, and Methodology		26
Appendix II: Comments from the Department of Defense		29
	Text of Appendix II: Comments from the Department of Defense	32
Appendix III: GAO Contact and Staff Acknowledgments		35
Table		
	Table 1: Organizations' Reasoning on Whether Spare Parts in the F-35 Global Spares Pool are Accountable under a Contract and Government-Furnished Property (GFP)	12
	Text of Figure 3: Government-Furnished Property (GFP) Disposition Process	20
Figures		
	Figure 1: Identification, Investigation, and Adjudication of Government-Furnished Property (GFP) Losses at the Department of Defense	16
	Text of Figure 1: Identification, Investigation, and Adjudication of Government-Furnished Property (GFP) Losses at the Department of Defense	16
	Figure 2: Adjudication Process for Global Spares Pool Losses	17
	Text of Figure 2: Adjudication Process for Global Spares Pool Losses	17
	Figure 3: Government-Furnished Property (GFP) Disposition Process	20

Abbreviations

APSR	accountable property system of record
CAP	contractor-acquired property
DCMA	Defense Contract Management Agency
DOD	Department of Defense
FAR	Federal Acquisition Regulation
GFP	government-furnished property
JPO	Joint Program Office
OUSD	Office of the Under Secretary of Defense
OUSD (A&S)	Office of the Under Secretary of Defense for Acquisition and Sustainment
PMSA	property management system analysis

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May 23, 2023

Congressional Committees

The F-35 Lightning II aircraft is the Department of Defense’s (DOD) most costly weapon system in history, with overall costs for the F-35 program estimated to be more than \$1.7 trillion over its life cycle.¹ The program is designed so that its participants—the Air Force, Navy, and Marine Corps, along with seven international partners and other foreign military sales customers—share a common, global pool of spare parts, referred to in this report as the global spares pool.² Lockheed Martin and Pratt & Whitney, the F-35 program’s two prime contractors, are responsible for developing, repairing, and managing these spare parts, which are used to maintain or improve the F-35 aircraft. Examples of these spare parts include engines; tires; landing gear; support equipment; and other parts such as bolts, screws, and fasteners.

Spare parts in the global spares pool that DOD (i.e., the government) has received and accepted are held at over 50 facilities worldwide that are not located at the two prime contractors’ main facilities (hereinafter referred to as non-prime contractor facilities). These non-prime contractor facilities include domestic and international subcontractors’ facilities, domestic and international military bases, facilities managed by foreign partners in the F-35 program’s supply chain, and Defense Logistics Agency facilities.

We have previously reported that DOD initially did not intend to own the F-35 assets, which include the global spares pool and support equipment, special tooling, and special test equipment. However, in 2012, the F-35 program’s executive steering board issued a memorandum declaring the F-35 assets be titled to the U.S. government when they are not installed on an aircraft. Because DOD did not develop a plan to address this

¹The overall costs comprise approximately \$300 billion in DOD’s planned acquisition costs and DOD’s estimated \$1.4 trillion in costs to operate, maintain, and support the F-35 aircraft, such as the supply chain for the delivery of spare parts. The \$1.7 trillion reflects then-year dollars through the end of F-35 program operations in year 2088. Then-year dollars include the effects of projected inflation or escalation.

²International partners include the countries of Australia, Canada, Denmark, Italy, the Netherlands, Norway, and the United Kingdom. Military sales participants include the countries of Belgium, Finland, Israel, Japan, Poland, Singapore, Republic of Korea, and Switzerland. According to F-35 Joint Program Office officials, multiple other countries are at various stages of foreign military sales consideration.

memorandum on how to maintain accountability over the F-35 assets that it already owned or would purchase in the future, the prime contractors continued to maintain accountability over and provide data for the F-35 assets they managed.³

Citing DOD's lack of reporting certain F-35 assets on its fiscal year 2022 financial statements, DOD auditors reported a material weakness⁴ related to the F-35 program.⁵ DOD management reported in its fiscal year 2022 agency financial report that the department's failure to account for, manage, or record the global spares pool in an accountable property system of record (APSR), and its reliance on contractor records to value these spare parts, contributed to the material weakness.⁶

Additionally, according to DOD officials, the material weakness related to the F-35 program may affect DOD's ability to resolve other DOD material weaknesses because of the department's lack of accountability over the F-35 assets and the sheer volume of these assets (the total value of which is currently unknown, but estimated to be in the billions of dollars). Such material weaknesses may include those related to operating materials and supplies and government property in the possession of contractors.⁷ Because of their potential significance, ongoing issues with reporting the F-35 assets will most likely continue to contribute to the

³GAO, *DOD Financial Management: Additional Actions Would Improve Reporting of Joint Strike Fighter Assets*, [GAO-22-105002](#) (Washington, D.C.: May 5, 2022).

⁴A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

⁵DOD auditors first reported the material weakness related to the F-35 program in fiscal year 2019.

⁶Department of Defense, *United States Department of Defense Agency Financial Report Fiscal Year 2022* (Washington, D.C.: Nov. 15, 2022).

⁷DOD intends to report some assets in the global spares pool as operating materials and supplies in its financial statements. Once these assets are included in the operating materials and supplies balance, any unresolved global spares pool issues will increase the complexity of resolving the operating materials and supplies material weakness and related accounting. Further, resolving the material weakness related to government property in the possession of contractors will include corrective actions that may be affected by the F-35 assets, including the global spares pool.

disclaimer of opinion on DOD-wide financial statements until the F-35 program material weakness has been addressed.⁸

In May 2022, we reported that DOD has made some progress in addressing the F-35 program's material weakness by setting milestone target dates to address some of the underlying issues that caused the material weakness. However, DOD has been unable to meet many of these target dates because it lacks a fully developed and documented comprehensive strategy to reach the milestones. Additionally, we reported that DOD has not performed a complete inventory of F-35 assets, established complete and accurate property records in an APSR, or developed procedures to establish and maintain balances on DOD financial statements—all of which are critical steps to ensure reliable financial reporting and accountability to the public. We made 12 recommendations, including for DOD to develop (1) a strategic plan to address the material weakness, (2) a plan to verify the completeness of F-35 property records, and (3) procedures to verify the accuracy of F-35 asset data received from contractors and other DOD sources.⁹ DOD generally concurred with these recommendations; however, as of March 2023, all 12 recommendations remain open.

Sound financial management practices and reliable, useful, and timely financial information are important for ensuring accountability over DOD's extensive resources, such as the global spares pool, and for efficiently and effectively managing the department's assets and budgets. Since 1995, GAO has designated DOD financial management as high risk because of pervasive weaknesses in its financial management systems, business processes, internal controls, corrective action plans, and financial monitoring and reporting.¹⁰ These weaknesses have adversely affected DOD's ability to prepare auditable financial statements, which is

⁸A disclaimer of opinion arises when the auditor is unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. The auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive, and accordingly does not express an opinion on the financial statements.

⁹[GAO-22-105002](#).

¹⁰GAO, *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, [GAO-23-106203](#) (Apr. 20, 2023).

one of three major impediments preventing us from expressing an audit opinion on the U.S. government's consolidated financial statements.¹¹

We performed this audit in connection with our audit of the U.S. government's consolidated financial statements, which cover all accounts and associated activities of executive branch agencies; these include DOD because of the significance of the military services' audit activities to that government-wide audit. This report examines the extent to which DOD oversees and accounts for F-35 spare parts in the global spares pool held at non-prime contractor facilities.

For our objective, we reviewed relevant DOD guidance, regulations, and instructions. Additionally, we collected information by interviewing officials from various DOD offices, prime contractors, and a subcontractor to identify how DOD categorizes, accounts for, and oversees spare parts in the global spares pool held at non-prime contractor facilities. These DOD offices and contractors included the Office of the Under Secretary of Defense (OUSD) (Comptroller), OUSD for Acquisition and Sustainment (OUSD (A&S)), the Defense Contract Management Agency (DCMA), the F-35 Joint Program Office (JPO), the Defense Logistics Agency, the Department of the Air Force, prime contractors Lockheed Martin and Pratt & Whitney, and the subcontractor CEVA. Additionally, to determine DCMA's role in the oversight of the spare parts held at non-prime contractor facilities, we visited DCMA offices and interviewed officials located in Marietta, Georgia; Fort Worth, Texas; and East Hartford, Connecticut. To observe the controls over the spare parts, we also visited one non-prime contractor facility in Fort Worth, Texas. For a detailed description of our scope and methodology, see appendix I.

We conducted this performance audit from June 2022 to May 2023 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 objective. We believe that

¹¹Since fiscal year 1997, when the federal government began preparing consolidated financial statements, the other two impediments preventing us from rendering an audit opinion on the federal government's consolidated financial statements are (1) the federal government's inability to adequately account for intragovernmental activity and balances between federal entities and (2) the weaknesses in the federal government's process for preparing the consolidated financial statements. See GAO, *Financial Audit: FY 2022 and FY 2021 Consolidated Financial Statements of the U.S. Government*, [GAO-23-105837](#) (Washington, D.C.: Feb. 16, 2023).

the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Background

F-35 Program

The F-35 program is DOD's largest acquisition program in terms of total estimated lifetime acquisition cost. Initiated in November 1996, the F-35 program is a joint, multinational acquisition program intended to develop and field a family of F-35 aircraft for its program participants. The F-35 JPO, which manages the F-35 program, is responsible for establishing the requirements, managing the funding, developing the contracts, and providing the directions for and overseeing the execution of the program.¹² The F-35 program's two prime contractors, Lockheed Martin and Pratt & Whitney, are responsible for supporting the aircraft and engines, respectively, including the development, repairs, allocation of spare parts in the global spares pool to the F-35 sites, and management of these spare parts.

The F-35 program has a unique supply chain. Rather than owning the spare parts for their aircraft, all program participants have access to the shared global spares pool, which DOD owns. The global spares pool consists of both consumable and repairable spare parts used to maintain or improve the F-35 aircraft. Examples of the spare parts include engines; tires; landing gear; support equipment; and other parts such as bolts, screws, and fasteners. The program participants do not purchase the spare parts directly, but rather purchase access to the spare parts in the shared pool based on how many F-35 aircraft they own and the number of flight hours they plan to fly, among other factors. When a spare part from the global spares pool is installed on a program participant's aircraft, ownership of that spare part is then transferred from DOD to the program participant. This construct for the F-35 supply chain was intended to ease the logistical burden and provide economies of scale for program participants.

¹²Section 142 of the National Defense Authorization Act for Fiscal Year 2022, Pub. L. No. 117-81, 135 Stat. 1541, 1581 (2021), requires the transfer of F-35 aircraft sustainment functions from the F-35 JPO to the Navy and Air Force no later than October 1, 2027. It also requires the transfer of acquisition functions from the F-35 JPO to the Navy and Air Force no later than October 1, 2029.

Categorization and Oversight of Government Property Held by Contractors

According to DOD officials, the spare parts in the global spares pool are government property in the possession of contractors that are categorized as either contractor-acquired property (CAP) or government-furnished property (GFP).¹³ CAP is any property acquired, fabricated, or otherwise provided by the contractor for performing a contract and to which the government has title but that has not yet been delivered.¹⁴ CAP that is inspected and accepted by the government, but is going to be retained by the contractor for use, is made accountable to the contract through a contract modification listing the spare parts as GFP on a contract attachment (GFP attachment), as discussed below.¹⁵

GFP includes any property in the possession of, or directly acquired by, the government and subsequently furnished to the contractor for the performance of a contract.¹⁶ According to DOD officials, when GFP is anticipated in performance of a contract, a GFP attachment should accompany the contract to either document the property to be provided as GFP or authorize the property as GFP in performance of the contract. The GFP attachment should be drafted by the program manager and subsequently approved by the contracting officer in the GFP Module, which was developed by DOD to provide end-to-end accountability for all

¹³According to Federal Acquisition Regulation (FAR) § 45.101, government property is all property owned or leased by the government, and includes GFP and CAP.

¹⁴DOD Financial Management Regulation, vol. 12, ch. 7, *Financial Liability for Government Property Lost, Damaged, Destroyed, or Stolen* (January 2021).

¹⁵FAR § 45.402 (a) and Defense Federal Acquisition Regulation Supplement Procedures, Guidance, and Information § 245.402-71.

¹⁶DOD Financial Management Regulation, vol. 12, ch. 7.

GFP transactions within a single integrated system.¹⁷ DOD and contractor personnel use the GFP Module to track processes such as the following:

- **Shipment and receipt.** DOD personnel document the initial shipment of the GFP to the contractor, and the contractor acknowledges receipt of the property. Additionally, the contractor documents the transfer of GFP to another contract or contractor or to DOD, which would then document receipt.
- **Losses.** The contractor reports GFP that is lost, damaged, or destroyed (hereinafter referred to as lost) in order for the appropriate DOD official to adjudicate the loss.¹⁸
- **Disposition.** The contractor requests disposition instructions from the appropriate DOD official for identified excess, obsolete, or unserviceable GFP.¹⁹

In addition to using the GFP Module, the contractors, as part of maintaining accountability over GFP, must have a system of internal controls (referred to as a property management system) to manage the government property in their possession. The property management system includes initiating and maintaining the processes, systems, procedures, records, and methodologies necessary for effective and efficient control of GFP.²⁰ To ensure that contractors have an acceptable property management system to manage GFP in their possession, the agency responsible for contract administration conducts an analysis of

¹⁷The program manager is the designated individual with the responsibility for and authority to accomplish program objectives for development, production, and sustainment to meet user's operational needs. See Department of Defense, Defense Acquisition University, *Glossary*, accessed Jan. 9, 2023, <https://www.dau.edu/glossary/Pages/Glossary.aspx#!both|P|28271>. The contracting officer is the individual responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the U.S. in its contractual relationships. See Department of Defense, *Contracting Officer's Representatives Guidebook* (May 2021).

¹⁸Defense Federal Acquisition Regulation Supplement § 252.245-7002 defines loss of government property as unintended, unforeseen, or accidental loss, damage, or destruction of government property that reduces the government's expected economic benefits of the property.

¹⁹Disposition is the process of reusing, recycling, converting, redistributing, transferring, donating, selling, demilitarizing, treating, destroying, or fulfilling other end-of-life tasks or actions for DOD property.

²⁰FAR § 52.245-1.

the contractor's property management system and the contracting officer determines that the system is "approved" or "disapproved."²¹

DCMA, as the contract administrator for the prime contractors that support the F-35 program, performs oversight through two primary functions—contractor oversight and contract property administration.

- **Contractor oversight.** For this function, DCMA conducts property management system analyses (PMSA) of the contractor's property management system. To conduct the PMSA, DCMA's property administrator reviews 22 elements of the contractor's property management system at least once every 3 years to ensure that the contractor is maintaining property records; conducting inventories; and adhering to the contract requirements regarding acquisition, maintenance, and accountability of GFP, according to applicable contract requirements.²² DCMA reports deficiencies noted as a result of the PMSA to the contractor for corrective actions. According to DOD officials, if the contractor fails to maintain an effective property control management system and the property administrator assesses the system as noncompliant, DOD can hold the contractor liable for future losses of the property until the contractor has implemented corrective actions and the property management system is assessed as compliant.
- **Contract property administration.** For this function, DCMA adjudicates property losses and processes the disposition of excess, obsolete, or unserviceable property.

According to DOD officials, when a contract is completed and all property has been cleared from the contract—such as through return to the government, transfer to another contract, or sale back to the contractor—DCMA's responsibilities as the contract administrator end for that contract. The newly transferred property ceases to be CAP or GFP, and the government assumes responsibility for property management.

²¹FAR § 45.105 and Defense Federal Acquisition Regulation Supplement § 245.105.

²²The 22 elements are adequacy of written procedures, contractor self-assessments, acquisition, receiving, identification, discrepancies incident to shipment, records, receipt and issue system (when approved), physical inventory, subcontractor awards and flow down, subcontractor reviews, reports, relief of stewardship, utilization, declaration of excess, consumption, movement, storage, storage commingling, maintenance, disposal, and property closeout.

F-35 JPO Does Not Oversee and Account for Its F-35 Global Spares Pool Held at Non-Prime Contractor Facilities

The F-35 JPO does not maintain accountability over the spare parts in the global spares pool held at non-prime contractor facilities, the total value of which is unknown, by entering these spare parts into an APSR. Also, the F-35 JPO has not adjudicated the majority of the spare part losses identified by one of its prime contractors, and has not provided disposition instructions for thousands of the spare parts that contractors have identified as excess, obsolete, or unserviceable.

F-35 JPO Does Not Maintain Accountability over the Global Spares Pool Held at Non-Prime Contractor Facilities

The F-35 JPO does not maintain accountability over the spare parts in the global spares pool that have been inspected, accepted, and received by the government and are held at non-prime contractor facilities in that it does not enter them into an APSR. As a result of this lack of accountability, the total value and quantity of the spare parts is currently unknown. According to DOD policy, accountability is the obligation accepted by an organization for keeping accurate records to ensure control of property, whether or not that property is in the organization's physical possession.²³ Entering records into an APSR—which captures and stores changes to property records in real time, such as changes to quantity and location—is an important step in maintaining accountability over F-35 assets.

According to DOD officials, several factors contribute to the F-35 JPO's lack of accountability over the global spares pool. These factors include the origins of the F-35 program, the categorization of the spare parts in the global spares pool, and the lack of clear guidance.

Origins of the F-35 program. According to F-35 JPO officials, the program was originally structured for the prime contractors to manage

²³DOD Instruction 5000.64, *Accountability and Management of DOD Equipment and Other Accountable Property* (June 10, 2019). The obligation for such accountability is imposed by law, lawful order, or regulation.

and have accountability over the F-35 assets, which include the spare parts in the global spares pool. Therefore, DOD has never maintained its own complete F-35 property records that contain data such as how many F-35 assets it has purchased, where these assets are located, descriptions of these assets, or the full cost paid for these assets. Instead, the two prime contractors for the F-35 program have maintained these property records in their own inventory tracking systems.

According to F-35 JPO officials, over the past several years, the F-35 JPO has been pivoting from this structure so that it can begin the process of attaining accountability over the F-35 assets. For example, to obtain its own property records separate from those maintained by the prime contractors, beginning in fiscal year 2019 and still ongoing as of December 2022, the F-35 JPO performed an inventory of F-35 assets, including the spare parts in the global spares pool held by the non-prime contractors.

As we previously reported, this inventory aimed to establish a baseline record of F-35 assets currently held at contractor and non-prime contractor facilities in the F-35 JPO's selected APSR.²⁴ Though the F-35 JPO has taken initial steps to establish property records, after spending approximately \$12 million to conduct the inventory, the F-35 JPO was unable to provide the cost, total quantity, and locations of spare parts in the global spares pool, and continues to rely on the prime contractors' records for this information.

Categorization of the spare parts. According to DOD officials, there has been an ongoing debate among various DOD offices and prime contractors since 2015 regarding whether the spare parts in the global spares pool that have been inspected, accepted, and received by the government and are held at non-prime contractor facilities are both accountable under a contract and GFP. As shown in table 1, DCMA Fort Worth and prime contractor 1 consider these spare parts not accountable under a contract and GFP because once the government has received these spare parts, they have not been brought back onto a contract as GFP.

Conversely, the F-35 JPO, OUSD (A&S), DCMA Aircraft Propulsion Office, and prime contractor 2 consider these spare parts both

²⁴The F-35 JPO's selected APSR for accounting for, managing, and recording F-35 asset data is the Defense Property Accountability System.

accountable under a contract and GFP. According to DOD officials, regardless of whether the spare parts are accountable under a contract, the F-35 JPO ultimately retains accountability over these spare parts in the global spares pool because these spare parts have been inspected, accepted, and received by the government, and as such, the F-35 JPO should capture them in an APSR.

Table 1: Organizations’ Reasoning on Whether Spare Parts in the F-35 Global Spares Pool are Accountable under a Contract and Government-Furnished Property (GFP)

Organization	Does the organization consider the spare parts in the F-35 global spares pool accountable under a contract?	Does the organization consider the spare parts in the F-35 global spares pool GFP?	Organization’s reasoning
F-35 Joint Program Office	Yes	Yes	The spare parts are physically located at non-prime contractor facilities and therefore remain in the custody and control of the prime contractor and are GFP.
Office of the Under Secretary of Defense for Acquisition and Sustainment	Yes	Yes	The F-35 sustainment contract includes the Federal Acquisition Regulation (FAR) <i>Government Property</i> clause and the corresponding Defense Federal Acquisition Regulation Supplement clauses, which are used when the contract is expected to have GFP. Additionally, if property owned by the government is provided to a contractor for use on a contract, the property is considered GFP. Further, DOD officials stated that the spare parts that have been delivered fully meet the definition of GFP.
Defense Contract Management Agency (DCMA) – Fort Worth	No	No	Once the spare parts have been accepted by the government, they are no longer GFP because there is no contractual action, such as a contract modification, to bring these spare parts back onto a contract as GFP.
DCMA – Aircraft Propulsion Office	Yes	Yes	Since prime contractor 2 considers the spare parts to be both accountable under a contract and GFP, DCMA’s Aircraft Propulsion Office does not differentiate this population of spare parts as separate from other GFP.
Prime contractor 1	No	No	Once the spare parts have been accepted by the government, they are no longer GFP because there is no contractual action, such as a contract modification, to bring these spare parts back onto a contract as GFP.
Prime contractor 2	Yes	Yes	The F-35 sustainment contract includes the FAR <i>Government Property</i> clause and the corresponding Defense Federal Acquisition Regulation Supplement clauses, which are used when the contract is expected to have GFP. Additionally, the spare parts are physically located at non-prime contractor facilities with which prime contractor 2 has a contractual relationship for performance of a service. Therefore, these spare parts remain in the custody and control of the prime contractor and are GFP.

Source: GAO analysis of Department of Defense and prime contractors information. | GAO-23-106098

Despite their differing positions regarding whether the spare parts in the global spares pool are both accountable under a contract and GFP, officials from the F-35 JPO, OUSD (A&S), and DCMA agree that steps need to be taken to clarify and resolve this issue. These officials agree that it is critical for all parties to reach a decision on the appropriate categorization of the spare parts and on how to ensure that these spare parts are accountable under a contract. For example, one suggestion

from officials is that the F-35 JPO perform a contract modification to provide a GFP attachment and clearly state that all spare parts in the global spares pool are GFP. The F-35 JPO has taken the first step to address this issue by attempting to prepare a list of spare parts in the global spares pool that will form the basis of a GFP attachment that can either be used for a contract modification or can be added to the next contract that will be issued in 2023.

The inability to reach a consensus on the categorization of the spare parts in the global spares pool has not only resulted in a lack of accountability over the spare parts, but has also affected (1) how the F-35 JPO adjudicates losses and provides disposition instructions for the spare parts, which we discuss in more detail later in this report, and (2) how DCMA reviews prime contractor 1's property management system. As previously noted, one of DCMA's functions is contractor oversight, which includes conducting PMSAs. PMSAs are important for ensuring that the contractors' property management systems are adequate for effective and efficient control of government property. As DOD relies on the contractor for global spares pool data, it is vital that the contractor's controls are sufficient so that the data it provides to DOD are accurate.

Because DCMA Fort Worth and prime contractor 1 do not consider the spare parts in the global spares pool to be both accountable under a contract and GFP, DCMA Fort Worth does not include the spare parts in the scope of its reviews when conducting PMSAs for prime contractor 1. As a result, DCMA Fort Worth officials have indicated that the majority of the spare parts are not included in the scope when it determines whether the contractor has an acceptable system of internal controls to manage government property in the contractor's possession. However, since prime contractor 2 considers the spare parts in the global spares pool to be both accountable under a contract and GFP, DCMA Aircraft Propulsion Office includes the spare parts in the scope of its reviews when conducting PMSAs for prime contractor 2.

Lack of clear guidance. Another factor contributing to the confusion about whether the spare parts in the global spares pool are accountable under a contract, as cited by DOD officials, is the lack of clear language in several DOD guidance documents that cover accountability of assets, such as spare parts in the global spares pool. In particular, officials cited a lack of clear language in DOD guidance, policies, and regulations for asset accountability under performance-based logistics or sustainment

contracts, or in circumstances where contractors are expected to perform functions, such as storage, in addition to production.²⁵

For example, the Defense Federal Acquisition Regulation Supplement Procedures, Guidance, and Information §245.103-73 states that sustainment contracts may require contractors to hold or manage government inventory. However, according to DOD officials, this Defense Federal Acquisition Regulation Supplement section does not clearly state that the government-owned inventory held by contractors, repair assets, and assets provided to be consumed in repairs on sustainment contracts are GFP. According to DOD officials, changes to guidance, such as consistent use of terms and inclusion of references that affect GFP across policies, could help to reduce the confusion and clarify when an asset, such as a spare part, is considered GFP.

According to DOD policy, accountability of property is established upon receipt, delivery, or acceptance and is maintained through accountable property records within an APSR.²⁶ Without DOD management taking steps, such as ensuring that the spare parts in the global spares pool are categorized appropriately and accountable under a contract, and updating guidance and policies to clearly identify when an asset is GFP, the F-35 JPO will be unable to either gain or maintain accountability over the global spares pool. As a result, the F-35 JPO will not have the data it needs for financial reporting in an APSR, such as information about the costs, locations, and quantities of spare parts in the global spares pool, or to ensure that government interests are protected. Moreover, it may not know whether a prime contractor has an acceptable system of internal controls to manage government property.

²⁵DOD officials cited the following as guidance and policies in need of clearer language: DOD Manual 4140.01, vol. 11, *DOD Supply Chain Materiel Management Procedures: Inventory Accountability and Special Management and Handling*; DOD's Financial Management Regulation, vol. 4, ch. 4, *Inventory and Related Property* and ch. 25, *General Equipment*; DOD Instruction 5000.64, *Accountability and Management of DOD Equipment and Other Accountable Property*; and the Defense Federal Acquisition Regulation Supplement Procedures, Guidance, and Information § 245.103-73. Performance-based logistics is synonymous with performance-based life cycle product support, where outcomes are acquired through performance-based arrangements that deliver warfighter requirements and incentivize product support providers to reduce costs through innovation. These arrangements are contracts with industry or intragovernmental agreements. Department of Defense, *Performance-Based Logistics Guidebook: A Guide to Developing Performance-Based Arrangements* (2016).

²⁶DOD Instruction 5000.64.

F-35 JPO Has Not Adjudicated Majority of Prime Contractor 1's Global Spares Pool Losses

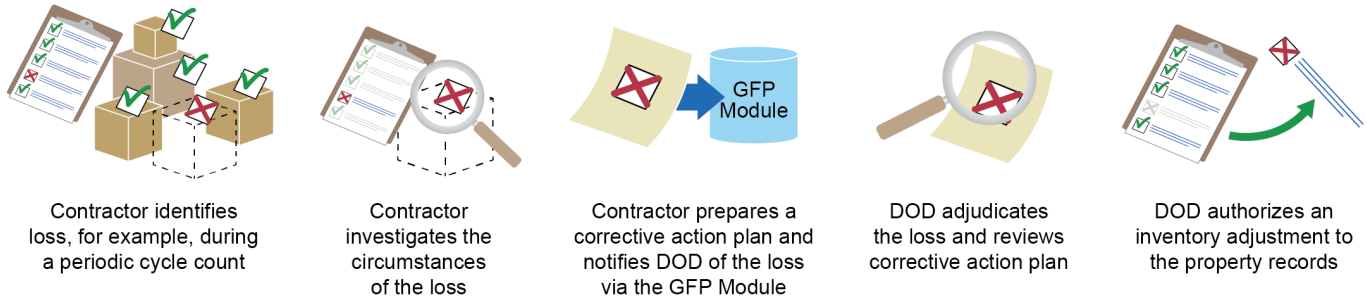
We found that since at least May 2018, the F-35 JPO has not adjudicated the majority of the global spares pool losses that prime contractor 1 identified. Adjudication of losses is the process through which DOD reviews the circumstances of a reported loss, determines who is liable—the contractor or the government—and ensures that the contractor is accurately identifying root causes and mitigating potential future losses appropriately.

Our analysis of data from prime contractor 1, a subcontractor, and the F-35 JPO identified that from May 2018 through October 2022, prime contractor 1 has incurred losses of over 1 million spare parts from the global spares pool totaling over \$85 million. Of those total losses, prime contractor 1 has submitted approximately 60,000 losses worth approximately \$19 million to the F-35 JPO for adjudication. Of the 1 million total lost spare parts, the F-35 JPO has adjudicated less than 2 percent of total quantity and cost. Because, as previously reported, the F-35 JPO does not have an independent record of the global spares pool, and the values of the lost spare parts are not the fully burdened cost, the \$85 million of identified losses by prime contractor 1 may not accurately represent the full quantity and value of lost spare parts. According to DOD officials, the full quantity and value of these spare parts may be significantly higher.²⁷

According to DOD and contractor officials, GFP losses can be discovered in a number of ways, such as when a loss is reported by a subcontractor or through an inventory variance (a difference between the stock on hand and the property records) identified during the contractors' periodic cycle counts or if items are identified as missing when a shipment is accepted. Figure 1 shows how GFP losses are identified, investigated, and adjudicated at DOD.

²⁷As we previously reported, the dollar values of the lost F-35 assets, which include spare parts in the global spares pool, only include what the contractor paid to source the assets and not what DOD paid to acquire them for the government, which includes transportation and overhead costs (referred to as burden). [GAO-22-105002](#).

Figure 1: Identification, Investigation, and Adjudication of Government-Furnished Property (GFP) Losses at the Department of Defense



Source: GAO analysis of Department of Defense (DOD) information. | GAO-23-106098

Text of Figure 1: Identification, Investigation, and Adjudication of Government-Furnished Property (GFP) Losses at the Department of Defense

- Contractor identifies loss, for example, during a periodic cycle count
- Contractor investigates the circumstances of the loss
- Contractor prepares a corrective action plan and notifies DOD of the loss via the GFP Module
- DOD adjudicates the loss and reviews corrective action plan
- DOD authorizes an inventory adjustment to the property records

Source: GAO analysis of Department of Defense (DOD) information. | GAO-23-106098

According to DOD officials, prime contractor 1 does not use the GFP Module for reporting lost spare parts because it does not consider the spare parts in the global spares pool held at non-prime contractor facilities to be both accountable under a contract and GFP (see fig. 2). Instead, prime contractor 1 investigates; maintains offline spreadsheets; and on an ad hoc basis, reports lost spare parts to the F-35 JPO, which is responsible for adjudicating the losses as the property owner. In contrast, prime contractor 2 considers the spare parts in the global spares pool to be both accountable under a contract and GFP. Therefore, prime contractor 2 reports all losses along with the corrective action plans in the GFP Module. DCMA, as the contract administrator, adjudicates each loss and reviews the suitability of the contractor’s corrective action plan to mitigate the risk of a similar loss occurring in the future.

Figure 2: Adjudication Process for Global Spares Pool Losses

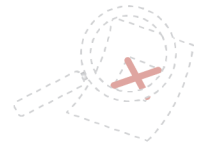
Prime contractor 1 does not consider spare parts in the global spares pool to be accountable under a contract and government-furnished property (GFP)



Contractor identifies loss, for example, during a periodic cycle count



Contractor maintains offline spreadsheet of losses



DOD does not adjudicate loss or review corrective action plan

Prime contractor 2 considers spare parts in the global spares pool to be accountable under a contract and GFP



Contractor identifies loss, for example, during a periodic cycle count



Contractor uses GFP Module to notify Defense Contract Management Agency (DCMA) of circumstances of the loss and corrective action plan



DCMA adjudicates loss and determines if corrective action plan is suitable

Source: GAO analysis of Department of Defense (DOD) information. | GAO-23-106098

Text of Figure 2: Adjudication Process for Global Spares Pool Losses

- Prime contractor 1 does not consider spare parts in the global spares pool to be accountable under a contract and government-furnished property (GFP)
 - Contractor identifies loss, for example, during a periodic cycle count
 - Contractor maintains offline spreadsheet of losses
 - DOD does not adjudicate loss or review corrective action plan
- Prime contractor 2 considers spare parts in the global spares pool to be accountable under a contract and GFP
 - Contractor identifies loss, for example, during a periodic cycle count

- Contractor uses GFP Module to notify Defense Contract Management Agency (DCMA) of circumstances of the loss and corrective action plan
- DCMA adjudicates loss and determines if corrective action plan is suitable

Source: GAO analysis of Department of Defense (DOD) information. | GAO-23-106098

According to F-35 JPO officials, their office has not identified and established a process for prime contractor 1 to report global spares pool losses that occur at its non-prime contractor facilities. Due to the lack of a loss-reporting process, as of October 2022, our analysis identified that prime contractor 1 has yet to report for adjudication approximately 940,000 spare parts valued at over \$66 million that were lost at its non-prime contractor facilities worldwide. For example, losses that have not been reported to the F-35 JPO include 34 actuator doors and 14 batteries with total costs of over \$3.2 million and \$2.1 million, respectively, that were lost in the fourth quarter of calendar year 2019.

Because, as previously noted, the F-35 JPO is unable to determine how many spare parts in the global spares pool it currently owns and where these assets are located, it relies on the contractors to provide this information. Therefore, without its own APSR record of the global spares pool, the F-35 JPO (1) depends on contractors to identify, report, and track how many spare parts in the global spares pool have been lost; (2) cannot verify the quantity of losses that the contractors reported; and (3) cannot independently identify losses other than those that the contractors have reported.

F-35 JPO officials stated that they want prime contractor 1 to report losses in the GFP Module. They further stated that they are currently working with OUSD (A&S) and prime contractor 1 to determine how to effect that change despite prime contractor 1 and DCMA Fort Worth's position that the spare parts in the global spares pool are not accountable under a contract and are not GFP. However, these discussions are in the early stages.

DOD policy requires that circumstances of a loss must be promptly investigated to determine responsibility and liability for the lost asset.²⁸ Until the F-35 JPO takes action to ensure that all government-owned spare parts in the global spares pool are categorized appropriately and are accountable under a contract, DOD does not have assurance that lost

²⁸DOD Financial Management Regulation, vol. 12, ch. 7.

spare parts are being accurately reported and tracked. Further, contractors that do not consider the spare parts to be GFP will continue to not use the GFP Module to report losses for DCMA to adjudicate. In the meantime, without developing and documenting a process for contractors to report global spares pool losses outside of the GFP Module, the F-35 JPO will continue to be unable to adjudicate losses, including determining why a loss occurred and who is liable for the loss and mitigating the risk of similar loss occurring in the future. This lack of knowledge of how many spare parts have been lost, and whether the loss was accidental or deliberate, increases the risk of mismanagement of the F-35 global spares pool and increases the risk of material misstatement when the global spares pool is ultimately recorded or disclosed in the financial statements.

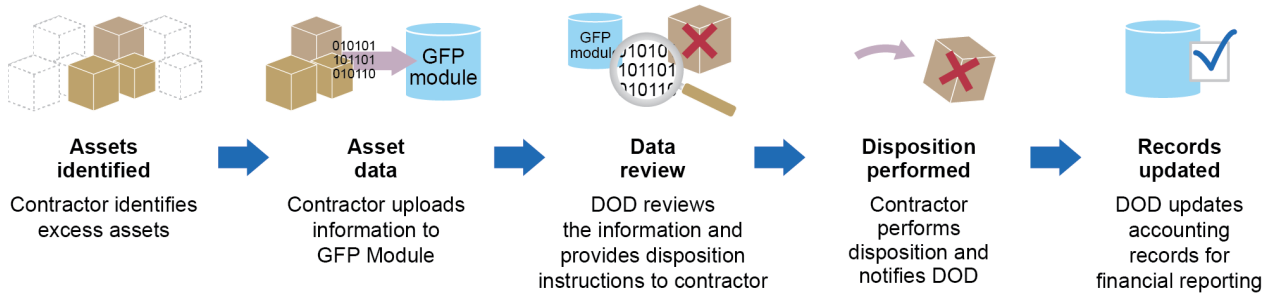
F-35 JPO Has Not Processed Prime Contractor 1's Excess, Obsolete, or Unserviceable Spare Parts from the Global Spares Pool

Based on our analysis of prime contractor 1 data, DOD has over 19,000 excess, obsolete, or unserviceable spare parts in the global spares pool held at non-prime contractor facilities awaiting disposition instructions from the F-35 JPO as of October 2022. At the time of our review, these spare parts, located in non-prime contractor domestic and international facilities, have been maintained in storage while site personnel have been awaiting disposition instructions for anywhere from a few months up to 5 years. For example, during 2020, personnel at one non-prime contractor facility in Norway determined that 27 lenses with a total cost of over \$115,000 were in need of disposition. However, as of October 2022, the F-35 JPO has not provided disposition instructions to the site.

As figure 3 shows, the disposition process for GFP begins when contractor personnel identify assets that they consider excess, obsolete, or unserviceable. Once they have identified the assets, personnel enter the asset information, such as the contract number, location, and condition (e.g., whether the asset is scrap, unusable, etc.), into the GFP Module. After DOD reviews and accepts the request for disposition, it issues disposition instructions to the contractor. This can result in reusing the asset within DOD; donating the asset to other entities, such as state governments; rendering the asset useless for its original military purpose (demilitarization); selling the asset as scrap; or destroying the asset. Once the contractor has completed the asset disposition, the contractor reports it to DOD, where government personnel update the status of the

asset (e.g., sold, donated, etc.) in the applicable accounting records for financial reporting.

Figure 3: Government-Furnished Property (GFP) Disposition Process



Source: GAO analysis of Department of Defense (DOD) information. | GAO-23-106098

Text of Figure 3: Government-Furnished Property (GFP) Disposition Process

- Assets identified: Contractor identifies excess assets
- Asset data: Contractor uploads information to GFP Module
- Data review: DOD reviews the information and provides disposition instructions to contractor
- Disposition performed: Contractor performs disposition and notifies DOD
- Records updated: DOD updates accounting records for financial reporting

Source: GAO analysis of Department of Defense (DOD) information. | GAO-23-106098

Approximately half of the spare parts in the global spares pool awaiting disposition instructions are located in non-prime contractor facilities in the U.S., while the other half are located overseas in non-prime contractor facilities.

- **Domestic.** According to F-35 JPO officials, their office has not established procedures to issue disposition instructions for prime contractor 1's excess, obsolete, or unserviceable spare parts in the global spares pool held at domestic non-prime contractor facilities. These officials explained that since not all of the spare parts are considered accountable under a contract and GFP, prime contractor 1 does not use the GFP Module to request disposition instructions from the F-35 JPO; instead, it notifies the F-35 JPO of spare parts awaiting disposition on an ad hoc basis.

According to F-35 JPO officials, their office has not developed procedures that could be used on an interim basis for the disposition of domestically held spare parts, until the global spares pool is made accountable under a contract and prime contractor 1 begins entering them into the GFP Module. As previously mentioned, prime contractor 2 considers the spare parts in the global spares pool to be both accountable under a contract and GFP. Therefore, prime contractor 2 uses the GFP Module to request disposition instructions for spare parts in need of disposition from DCMA.

- **International.** F-35 JPO officials stated that the process for disposition of spare parts in the global spares pool held at international non-prime contractor facilities has additional complexities. For example, worldwide there are over 500 bald tires with an original cost of over \$2.6 million awaiting disposition instructions, with nearly 300 of the tires located in Australia. According to F-35 JPO officials, part of the complexity in the disposition of the overseas spare parts involves changes in ownership. For example, if a spare part is on an aircraft in Australia, the Royal Australian Air Force owns the spare part. However, once the spare part is removed from the aircraft on Australian soil, ownership of the spare part transfers to DOD. For these spare parts, DOD performs additional disposition procedures beyond those required for spare parts held at domestic non-prime contractor facilities. Such additional procedures include making shipping arrangements and paying transportation costs to return the spare parts to the U.S. for disposition.

To address this issue, the F-35 JPO is currently in the process of finalizing procedures that would allow F-35 aircraft owners overseas to retain title to certain spare parts when they are removed from an aircraft and processed through disposition, rather than transferring title back to the U.S. government.²⁹ Once these procedures are implemented, spare parts in the global spares pool overseas will not be required to return to the U.S. for disposition, reducing transportation costs. However, F-35 JPO officials stated that before finalizing the procedures, they will need to request and review the policies and procedures the involved countries and their third-party contractors will follow for disposition of these spare parts. The F-35 JPO expects those planned procedures to be in place in the spring of 2023.

²⁹According to F-35 JPO officials, assets containing explosives or precious metals would not be eligible for overseas disposition under the new procedures.

Federal regulation requires DOD personnel to provide contractors with disposition instructions within 120 days of notification of the need for disposition.³⁰ Until DOD management takes action to ensure that all spare parts in the global spares pool are accountable under a contract, DOD does not have assurance that those spare parts in need of disposition are being accurately reported and tracked. Further, prime contractor 1 will continue not to consider these spare parts to be GFP and will not use the GFP Module to process spare parts for disposition. Without interim procedures for the F-35 JPO to issue disposition instructions outside of the GFP Module, these spare parts will continue to remain on warehouse shelves and may incur additional storage costs, exposing the government to risk of loss and preventing reuse of those spare parts. Additionally, accounting records will not accurately reflect the condition of spare parts awaiting disposition, increasing the risk of material misstatements when the global spares pool is ultimately recorded or disclosed in the financial statements.

Conclusions

DOD's lack of accountability over the F-35 global spares pool affects its ability to resolve the material weakness related to the F-35 program, as well as other DOD material weaknesses. Without DOD management taking steps to ensure that all spare parts in the global spares pool are categorized appropriately and are accountable under a contract, and to update guidance to clearly identify when an asset is considered GFP, DOD's ability to fully oversee these spare parts will be limited. Further, without these steps, the F-35 JPO will not know whether the contractor has an acceptable system of internal controls to manage the spare parts in the global spares pool in its possession, which is critical as DOD relies on contractor systems for global spares pool data. In addition, the F-35 JPO will lack the data it needs for financial reporting or to ensure that the government's interests are protected.

Additionally, until DOD develops and documents processes for contractors to report losses and for the F-35 JPO to issue disposition instructions for spare parts in the global spares pool that contractors consider to be not accountable under a contract, DOD cannot have reasonable assurance that lost spare parts or those in need of disposition are being accurately reported and tracked. This increases the risk of

³⁰FAR § 45.602-1.

misstatement on DOD's financial statements and the risk of mismanagement of the F-35 global spares pool losses.

Recommendations for Executive Action

We are making the following four recommendations to DOD:

The Under Secretary of Defense for Acquisition and Sustainment, in coordination with the F-35 Program Executive Office, should take steps to ensure that all spare parts in the global spares pool are categorized appropriately and are accountable under a contract. (Recommendation 1)

The Under Secretary of Defense for Acquisition and Sustainment, in coordination with the Under Secretary of Defense (Comptroller), should review all applicable guidance and policies for asset accountability and update as necessary to ensure clarity regarding when an asset is considered government-furnished property. (Recommendation 2)

The Under Secretary of Defense for Acquisition and Sustainment, in coordination with the F-35 Program Executive Officer, should develop and document a process for contractors to report government-owned global spares pool losses of spare parts that are not accountable under a contract, until all spare parts in the global spares pool are made accountable under a contract and losses are entered into the GFP Module for DCMA's adjudication. (Recommendation 3)

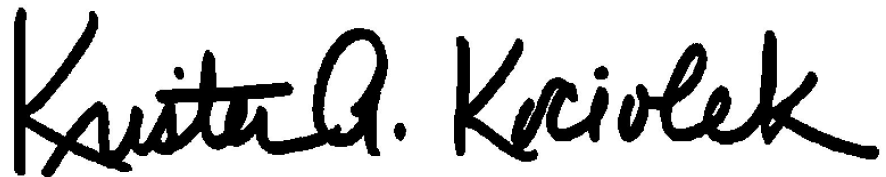
The Under Secretary of Defense for Acquisition and Sustainment, in coordination with the F-35 Program Executive Officer, should develop and document interim procedures to ensure that disposition instructions are provided, consistent with federal regulations, for the disposition of spare parts in the global spares pool that are excess, obsolete, or unserviceable, until such spare parts are entered into the GFP Module for disposition. (Recommendation 4)

Agency Comments

We provided a draft of this report to DOD for review and comment. In its written comments, DOD concurred with all four of our recommendations and cited actions it will take to address them. DOD's comments are reproduced in appendix II.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, the Under Secretary of Defense (Comptroller), the Under Secretary of Defense for Acquisition and Sustainment, and other interested parties. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-2989 or kociolek@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

A handwritten signature in black ink that reads "Kristen A. Kociolek". The signature is written in a cursive, flowing style.

Kristen Kociolek
Director, Financial Management and Assurance

List of Committees

The Honorable Jack Reed
Chairman

The Honorable Roger Wicker
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Gary C. Peters
Chairman

The Honorable Rand Paul, M.D.
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Mike Rogers
Chairman

The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable James Comer
Chairman

The Honorable Jamie Raskin
Ranking Member
Committee on Oversight and Accountability
House of Representatives

Appendix I: Objectives, Scope, and Methodology

This report examines the extent to which the Department of Defense (DOD) oversees and accounts for the F-35 spare parts in the global spares pool held at non-prime contractor facilities. To address our objective, we reviewed (1) reports that GAO, the DOD Office of Inspector General, and DOD service audit agencies issued from fiscal years 2018 through 2022; (2) DOD agency financial reports for fiscal year 2021; and (3) notices of findings and recommendations with corresponding action plans for fiscal years 2019 through 2022, to gain an understanding of the issues related to DOD's accountability and oversight of the F-35 global spares pool. We also reviewed DOD guidance, such as *DCMA Guidebook for Government Contract Property Administration*, and department-wide and government-wide policies and standards, such as DOD's Financial Management Regulation, DOD instructions, and the Federal Acquisition Regulation to obtain information related to accountability of government property in the possession of contractors.

Additionally, we collected information by interviewing officials from various DOD offices, prime contractors, and a subcontractor to identify the following:

- How DOD categorizes, accounts for, and oversees spare parts in the F-35 global spares pool held at non-prime contractor facilities, and how the categorization affects oversight of these spare parts.
- The processes and related controls DOD has designed and implemented for overseeing spare parts in the global spares pool that are not accountable under a contract, and are held at non-prime contractor facilities.
- The processes and related controls DOD has designed and implemented for adjudicating global spares pool losses that the F-35 program's two prime contractors reported.
- The processes DOD has designed and implemented for reporting and providing disposition instructions for excess, obsolete, or unserviceable spare parts in the global spares pool held at non-prime contractors' domestic and overseas facilities.

We compared the procedures described by DOD officials to the requirements included in DOD policies, and for any issues identified, we followed up with DOD officials to confirm our understanding and determine the reasons for the identified issues.

These DOD offices and contractors included the Office of the Under Secretary of Defense (Comptroller), the Office of the Under Secretary of Defense for Acquisition and Sustainment, the Defense Contract Management Agency (DCMA), the F-35 Joint Program Office (JPO), the Defense Logistics Agency, the Department of the Air Force, prime contractors Lockheed Martin and Pratt & Whitney, and the subcontractor CEVA. Additionally, to determine DCMA's role in the oversight of the global spares pool held at non-prime contractor facilities, we visited DCMA offices and interviewed officials located in Marietta, Georgia; Fort Worth, Texas; and East Hartford, Connecticut. To observe the controls over the global spares pool, we also visited one non-prime contractor facility in Fort Worth, Texas.¹

Because the F-35 JPO did not have a complete list of lost spare parts, we obtained lists of lost spare parts from prime contractor 1, and a subcontractor as of October 2022 and from the F-35 JPO as of August 2022. To determine the total quantity and dollar value of lost spare parts in the global spares pool as identified by prime contractor 1, we merged the lists, removing all duplication between the sources of data, and summed the quantity and dollar value for these reported lost spare parts. However, according to DOD officials, these data sources are not complete, and therefore the total losses could be higher than what we calculated from the sources provided.

The F-35 JPO did not have a complete list of F-35 excess, obsolete, and unserviceable spare parts. Therefore, to determine the total quantity of excess, obsolete, and unserviceable spare parts in the global spares pool at domestic (U.S.) and overseas facilities identified by prime contractor 1, we obtained and analyzed a list of excess, obsolete, and unserviceable spare parts from DCMA as of October 2022, which was prepared by prime contractor 1. We then summed the quantity of these spare parts.

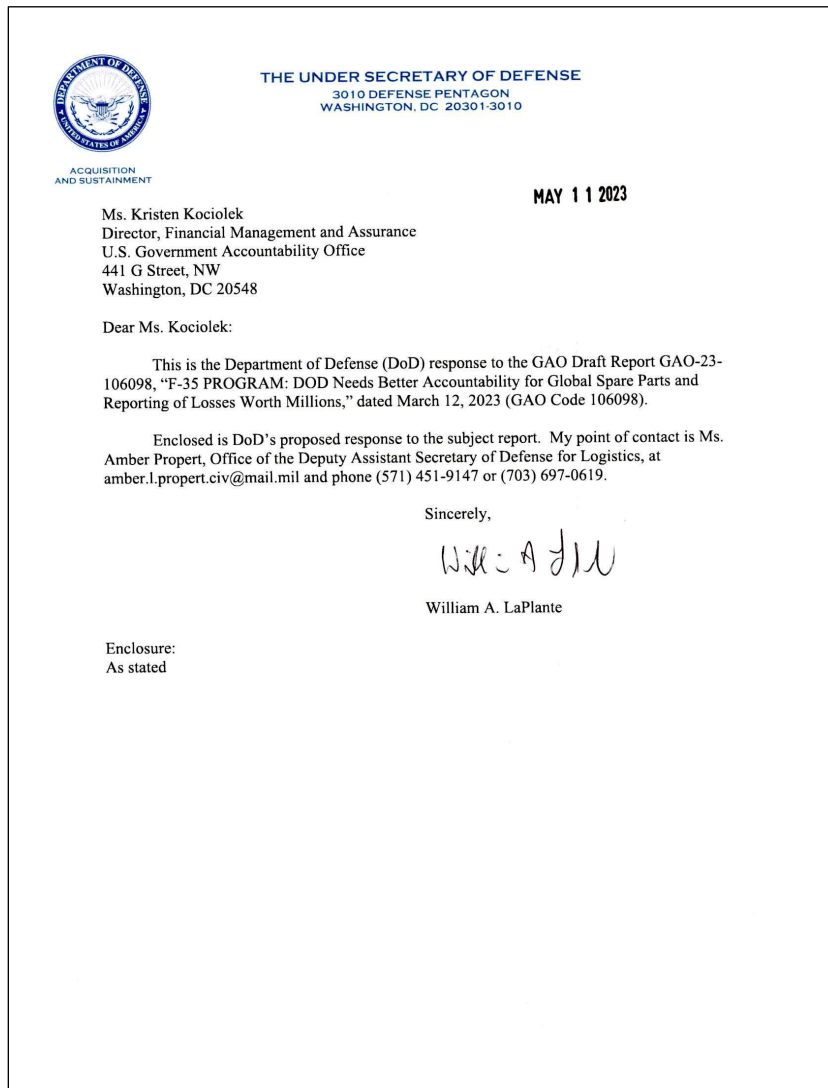
For prime contractor 2, we did not obtain data on lost spare parts and spare parts in need of disposition. Because prime contractor 2 uses the

¹The one non-prime contractor facility was selected because it was co-located with a prime contractor 1 facility, which, according to DCMA officials, has the primary oversight over the F-35 global spares pool.

GFP module to report losses and request disposition instructions, all such reports are adjudicated and disposition instructions provided by DCMA.

We conducted this performance audit from June 2022 to May 2023 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendix II: Comments from the Department of Defense



GAO DRAFT REPORT DATED MARCH 13, 2023
GAO-23-106098 (GAO CODE 106098)

**“F-35 PROGRAM: DOD NEEDS BETTER ACCOUNTABILITY FOR GLOBAL SPARE
PARTS AND REPORTING OF LOSSES WORTH MILLIONS”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION**

RECOMMENDATION 1: The Under Secretary of Defense for Acquisition and Sustainment, in coordination with the F-35 Program Executive Officer, should take steps to ensure that all spare parts in the global spares pool are categorized appropriately and accountable under a contract.

DoD RESPONSE: Concur. A Joint Working Group, including Vendor 1, Office of the Secretary of Defense, the Joint Program Office (JPO), and Defense Contract Management Agency, was established and discussed the need to modify the FY21-23 contract as soon as practicable to incorporate the Government-furnished property (GFP) Attachment. The JPO sustainment contracts have always included the appropriate Government Property clauses; however, adherence and enforcement has been inconsistent. The Government team took steps to modify the current sustainment contract to add the GFP attachment through an administrative modification (no change in direct cost or Terms and Conditions). On March 10, 2023, a bilateral modification was sent to Vendor 1 to incorporate a GFP list of spare parts as Attachment 48 to the FY21-23 Annualized Sustainment Contract. Vendor 1 rejected the bilateral modification on March 23, 2023. The JPO is currently assessing next steps to address spares pool accountability and subsequent financial reporting.

RECOMMENDATION 2: The Under Secretary of Defense for Acquisition and Sustainment, in coordination with the Under Secretary of Defense (Comptroller), should review all applicable guidance and policies for asset accountability and update as necessary to ensure clarity regarding when an asset is considered government-furnished property.

DoD RESPONSE: Concur. The applicable guidance and policies will be reviewed and updated for clarity regarding Government-furnished property.

RECOMMENDATION 3: The Under Secretary of Defense for Acquisition and Sustainment, in coordination with the F-35 Program Executive Officer, should develop and document a process for contractors to report government owned global spares pool losses of spare parts that are not accountable under contract, until all spare parts in the global spares pool are made accountable under a contract and losses are entered into the GFP Module for adjudication by DCMA.

DoD RESPONSE: Concur. The F-35 Joint Program Office (JPO) issued a Government-furnished property (GFP) modification request to Vendor 1 to acknowledge the government owned spares pool as GFP to remove any ambiguity. Vendor 1 accesses spares pool inventory to meet the performance requirements of the sustainment contracts. F-35 contracts include DFARS 252.245-7002, which requires the contractor to report loss through the GFP Module. The GFP attachment modification rejection by Vendor 1 has delayed implementation of the GFP module, however the JPO continues to make updates to program office processes to ensure compliance with DFARS requirements. Under Secretary of Defense for Acquisition and Sustainment recognizes the need for contractual clarity and the application of defense-wide solutions that achieve audit compliance for property in possession of Vendor 1.

RECOMMENDATION 4: The Under Secretary of Defense for Acquisition and Sustainment, in coordination with the F-35 Program Executive Officer, should develop and document interim procedures to ensure that disposition instructions are provided, consistent with federal regulations, for the disposition of spare parts in the global spares pool that are excess, obsolete, or unserviceable, until such spare parts are entered into the GFP Module for disposition.

DoD RESPONSE: Concur. The F-35 Joint Program Office (JPO) is taking the necessary steps to develop and document interim procedures to ensure that disposition instructions are provided, consistent with federal regulations, for the disposition of spare parts in the global spares pool that are considered excess, obsolete, or unserviceable. The JPO policy document for the Demilitarization (DEMIL), Disposal and Deactivation (D3) Plan, is currently being routed for Enterprise review. We anticipate that during the review process, existing gaps and disconnects requiring mitigation will be identified for resolution. In parallel, an interim process is being used for dispositioning items that are considered excess, obsolete, or unserviceable until full implementation of the GFP module is in place. These procedures are being addressed in the D3 plan and specify procedures for reuse, donation, DEMIL, selling, scrapping or destruction. Disposition records will be maintained for updating applicable accounting records for financial reporting.

Text of Appendix II: Comments from the Department of Defense

Ms. Kristen Kociolek

Director, Financial Management and Assurance

U.S. Government Accountability Office 441 G Street, NW

Washington, DC 20548 Dear Ms. Kociolek:

This is the Department of Defense (DoD) response to the GAO Draft Report GAO-23-106098, "F-35 PROGRAM: DOD Needs Better Accountability for Global Spare Parts and Reporting of Losses Worth Millions," dated March 12, 2023 (GAO Code 106098).

Enclosed is DoD's proposed response to the subject report. My point of contact is Ms.

Amber Probert, Office of the Deputy Assistant Secretary of Defense for Logistics, at amber.1.probert.civ@mail.mil and phone (571) 451-9147 or (703) 697-0619.

Sincerely,

William A. LaPlante

Enclosure:

As stated

GAO DRAFT REPORT DATED MARCH 13, 2023 GAO-23-106098 (GAO
CODE 106098) "F-35 PROGRAM: DOD NEEDS BETTER
ACCOUNTABILITY FOR GLOBAL SPARE PARTS AND REPORTING OF
LOSSES WORTH MILLIONS"

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DoD RESPONSE: Concur. A Joint Working Group, including Vendor I, Office of the Secretary of Defense, the Joint Program Office (JPO), and Defense Contract Management Agency, was established and discussed the need to modify the FY21-23 contract as soon as practicable to incorporate the Government-furnished property (GFP) Attachment. The JPO sustainment contracts have always included the appropriate Government Property clauses; however, adherence and enforcement has been inconsistent. The Government team took steps to modify the current sustainment contract to add the GFP attachment through an administrative modification (no change in direct cost or Terms and Conditions). On March 10, 2023, a bilateral modification was sent to Vendor I to incorporate a GFP list of spare parts as Attachment 48 to the FY21-23 Annualized Sustainment Contract. Vendor I rejected the bilateral modification on March 23, 2023. The JPO is currently assessing next steps to address spares pool accountability and subsequent financial reporting.

RECOMMENDATION 2: The Under Secretary of Defense for Acquisition and Sustainment, in coordination with the Under Secretary of Defense (Comptroller), should review all applicable guidance and policies for asset accountability and update as necessary to ensure clarity regarding when an asset is considered government-furnished property.

DoD RESPONSE: Concur. The applicable guidance and policies will be reviewed and updated for clarity regarding Government-furnished property.

RECOMMENDATION 3: The Under Secretary of Defense for Acquisition and Sustainment, in coordination with the F-35 Program Executive Officer, should develop and document a process for contractors to report government owned global spares pool losses of spare parts that are not accountable under contract, until all spare parts in the global spares pool are made accountable under a contract and losses are entered into the GFP Module for adjudication by DCMA.

DoD RESPONSE: Concur. The F-35 Joint Program Office (JPO) issued a Government-furnished property (GFP) modification request to Vendor I to acknowledge the government owned spares pool as GFP to remove any ambiguity. Vendor I accesses spares pool inventory to meet the performance requirements of the sustainment contracts. F-35 contracts include DFARS 252.245-7002, which requires the contractor to report loss through the GFP Module. The GFP attachment modification rejection by Vendor I has delayed implementation of the GFP module, however the JPO continues to make updates to program office processes to ensure compliance with DFARS requirements. Under Secretary of Defense for Acquisition

and Sustainment recognizes the need for contractual clarity and the application of defense-wide solutions that achieve audit compliance for property in possession of Vendor 1.

RECOMMENDATION 4: The Under Secretary of Defense for Acquisition and Sustainment, in coordination with the F-35 Program Executive Officer, should develop and document interim procedures to ensure that disposition instructions are provided, consistent with federal regulations, for the disposition of spare parts in the global spares pool that are excess, obsolete, or unserviceable, until such spare parts are entered into the GFP Module for disposition.

DoD RESPONSE: Concur. The F-35 Joint Program Office (JPO) is taking the necessary steps to develop and document interim procedures to ensure that disposition instructions are provided, consistent with federal regulations, for the disposition of spare parts in the global spares pool that are considered excess, obsolete, or unserviceable. The JPO policy document for the Demilitarization (DEMIL), Disposal and Deactivation (D3) Plan, is currently being routed for Enterprise review. We anticipate that during the review process, existing gaps and disconnects requiring mitigation will be identified for resolution. In parallel, an interim process is being used for dispositioning items that are considered excess, obsolete, or unserviceable until full implementation of the GFP module is in place. These procedures are being addressed in the D3 plan and specify procedures for reuse, donation, DEMIL, selling, scrapping or destruction. Disposition records will be maintained for updating applicable accounting records for financial reporting.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Kristen Kociolek, (202) 512-2989 or kociolekk@gao.gov

Staff Acknowledgments

In addition to the contact named above, Kimberley McGatlin (Assistant Director), Rathi Bose, Benjamin Durfee, Deandra Dyte, Juan Garay, Bradley Johnson, Jason Kelly, Dacia Stewart, and Anne Thomas made key contributions to this report.

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