

# **U.S. Government Accountability Office (GAO)**

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## **Identifying and Reporting Gaps in the Defense Supplier Base – A View from the GAO**

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# **GAO's Role In Evaluating Defense Supplier Base Programs and Policies**

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- GAO is an independent, nonpartisan legislative branch agency
  - Recent GAO reports on the defense supplier base include:
    - GAO Forum: Managing the Supplier Base in the 21st Century
    - Air Force Waiver of the Berry Amendment for Selected Aircraft
    - International Agreements Result in Waivers of Some U.S. Domestic Source Restrictions
    - DOD-wide Framework Needed to Identify and Report Gaps in the Defense Supplier Base
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## Defense Supplier Base in Context: Trends

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- Increasing globalization of the defense industry
    - Debate over the use of foreign versus domestic suppliers
    - Uncertainty over impact on U.S. military superiority
  - Defense industry consolidation
    - Fewer prime contractors
    - Reduced competition
    - Single source suppliers more common
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## Defense Supplier Base in Context: Key Authorities

- Defense Production Act of 1950 creates mechanisms to identify critical technologies and strengthen domestic defense capabilities to support national security needs
- Domestic Source Restrictions—also enacted half a century ago—can be waived based on trade agreements and other exceptions
  - Buy American Act “public interest” exception allows DOD to buy defense goods from 21 countries
  - Berry Amendment exception allows DOD to purchase specialty metals and chemical warfare protective clothing from 21 countries

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## Defense Supplier Base in Context: DOD's Role

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- Deputy Under Secretary of Defense for Industrial Policy is DOD's primary representative for supplier base issues
    - Mission is to sustain a “reliable, cost-effective, and sufficient” industrial base to meet DOD requirements
    - Variety of authorities available for maintaining information on suppliers and ensuring domestic capability for certain items
    - Industrial strategy is to rely on market forces and only intervene when absolutely necessary to create or sustain competition, innovation, and essential industrial capabilities
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## Defense Supplier Base in Context: DOD Tools

- DOD has a number tools it can use when facing gaps or vulnerabilities in supplier base, including:
  - Funding innovation through research and development
  - Restricting procurements to domestic source through DOD policy decision if needed to sustain military readiness
    - For example, certain forgings limited to domestic sources by DFARS rather than by statute
  - Providing financial incentives under Defense Production Act, Title III to domestic firms to invest in production capabilities for critical security needs

## **GAO Report: Framework Needed to Identify and Report Gaps in Defense Supplier Base**

- Request from House Oversight and Government Reform Committee, Subcommittee on National Security and Foreign Affairs
- Key Objectives
  - Assess DOD's supplier base monitoring efforts
  - Determine how DOD identifies and addresses gaps
- Scope & Methodology
  - Selected nongeneralizable sample of 20 DOD weapon programs, with a range of military service sponsors and varying stages in the acquisition life cycle
  - Reviewed documents and interviewed officials from DOD Industrial Policy, military services, and others

# GAO Report: Framework Needed to Identify and Report Gaps in Defense Supplier Base

- Key Findings
  - DOD lacks a department-wide framework and consistent approach
  - DOD generally relied on lists of items considered “critical” at a point in time but these can quickly become obsolete
  - DOD Industrial Policy recently established criteria for identifying problems – such as sole source suppliers or obsolete components—but not used DOD-wide
  - DOD relies on program offices and prime contractors to elevate supplier base concerns – but no guidance on when to do so
  - 16 of the 20 programs we surveyed identified supplier gaps, but only 4 reported to higher levels

# GAO Report: Framework Needed to Identify and Report Gaps in Defense Supplier Base

Program	Obsolescence	Sole Source
Hellfire Missile	X	X
F/A-22 Fighter Aircraft	X	X
Global Hawk UAV		X
PAC-2 Missile	X	X
Black Hawk Helicopter		X
V-22 Osprey	X	X
Presidential Helicopter	X	X

# GAO Report: Framework Needed to Identify and Report Gaps in Defense Supplier Base

- Key Recommendations
  - DOD apply criteria department-wide to identify and monitor the supplier base for potential problems
  - DOD create reporting requirements for elevating supplier base concerns
- DOD Actions in Response to Recommendations
  - Proposed Defense Acquisition Guidebook update would instruct weapon program offices to elevate supplier base gaps for items that meet criteria
    - Produced by sole source
    - Used by 3 or more programs
    - Obsolete, enabling or emerging technology
    - Has limited surge production capability

# GAO Report: Framework Needed to Identify and Report Gaps in Defense Supplier Base

- Next Steps
  - Information essential to implement a risk management approach for supplier base monitoring
  - DOD will need to review how programs implement new instruction on reporting supplier gaps
- Ongoing GAO Supplier Base Work
  - Senate Banking Committee Request – Brown (OH) and Bayh (IN)
    - DOD's process to ensure quality and reliability of weapon system components to minimize risk of counterfeit parts
    - DOD and Commerce assessments of U.S. defense manufacturing capabilities for emerging technologies and actions to address any potential capability gaps.

# GAO Reports on Supplier Base Issues

- Department of Defense: A Departmentwide Framework to Identify and Report Gaps in the Supplier Base is Needed, October 2008 (GAO-09-5)
- Highlights of a GAO Forum: Managing the Supplier Base in the 21<sup>st</sup> Century, March 2006 (GAO-06-533SP)
- Defense Trade Data, January 2006 (GAO-06-319R)
- Defense Procurement: Air Force Did Not Fully Evaluate Options in Waiving Berry Amendment for Selected Aircraft, September 2005 (GAO-05-957)
- Defense Ammunition: DOD Meeting Small and Medium Caliber Ammunition Needs, but Additional Actions Are Necessary, July 2005 (GAO-05-687)
- Federal Procurement: International Agreements Result in Waivers of Some U.S. Domestic Source Restrictions, January 2005 (GAO-05-188)

GAO reports can be found at [www.gao.gov](http://www.gao.gov) or contact John Neumann at 202-512-4645 ([neumannj@gao.gov](mailto:neumannj@gao.gov))