

F-35 Program On Track, Can Use Some Help

Written by Nick Sanders
Friday, 22 March 2019 00:00

The F-35 Lightning II Joint Strike Fighter program is the largest, most expensive, and arguably the most complex fighter production program in U.S. history. Its GFY 2018 budget was described as follows: “The final omnibus budget bill funded F-35 procurement at \$10.2 billion for 90 aircraft (56 F-35As, 24 F-35Bs, and 10 F-35Cs, an increase of 20 aircraft and \$2.6 billion over the Administration’s request), plus \$1.5 billion in advance procurement, the requested level.”

Basically, then, nearly \$12 billion annually; and that amount will increase as production ramps up (even though the per-aircraft cost is projected to decrease).

Indeed, Lockheed Martin delivered 91 aircraft in 2018, which was about double its production of only two years before. Looking ahead, the JSF will enter “full rate production” and LockMart has committed to deliver 130 aircraft before the end of 2019. Meanwhile, the government and the contractor are entering into negotiations for Lots 15, 16, and 17—an order of 485 aircraft that would be executed sometime in the second half of 2021. At \$80 million each, the multi-year contract would be valued at \$38.8 billion. (Just in case you were wondering where your taxes went.)

Suffice to say, the F-35 program is taking care of Lockheed Martin. That wasn’t always the case. Readers may know that relations between contractor and customer have been fairly rocky. Last year, that bastion of defense insider information, Popular Mechanics, published [a history](#) of the program entitled “WTF-35: How the Joint Strike Fighter Got to Be Such a Mess.” But after reciting the program’s problems, the article concluded: “The F-35 may be one of the most derided and controversial warplanes, but it's here, nearly ready to go into service in force. That's a good thing. Frankly, we need the F-35.”

But while all the champagne is flowing in Fort Worth and in Bethesda, the DOD Office of Inspector General had some sharp words aimed not at the contractor but at the government personnel who were supposed to be providing oversight, and (according to the DOD OIG) failed to do so.

We’re talking government property.

Even though most of us don’t like to deal with government property issues, it’s important. It’s one of those “necessary evils” that requires an investment of time and expense. Government

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property control is one of the six DFARS business systems. Accordingly, a contractor's failure to maintain an acceptable property control system could result in significant payment withholds. Therefore, smart contractors tend to make the necessary investments in time and expense, because not doing so likely would be more expensive.

We tend to focus on contractor requirements and forget that the government has its own responsibilities with respect to managing property. A recent DOD OIG [audit report](#) found that USAF Joint Program Office had been derelict in its duties "for more than 16 years." As a result, the DOD OIG found that "the only record of Government property for the F-35 Program is with the contractor and its [warehousing and inventory management] subcontractor"

How much property are we talking about?

Well, if you ask LockMart and its subcontractor, they are tracking 3.45 million individual pieces of property valued at \$2.1 billion.

(Note there is nobody else to ask.)

One thing that many people outside the world of government property fail to appreciate is that government property can pass from one contract to the next. For example, a contractor can create a piece of special tooling or special test equipment. At the end of the contract, that ST or STE now belongs to the government; and if the contractor wants to continue to use it on the next follow-on contract it has to be transferred and it's now going to be "government-furnished property" (and not "contractor acquired property") because the government has title to it.

As noted above, the F-35 program consists of multiple contracts. Some may be running concurrently and others may be awarded sequentially. Some may have been cost-type while others may be firm, fixed-price—and each contract type has different government property requirements. As a consequence, we should appreciate just how difficult a job it is to track all that property and identify it with the appropriate accountable contract. Lockheed Martin and CEVA Government Services should be commended for the job they have done in this area.

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In contrast, the Program Office and DCMA seem to have fallen down, and have lost the ability (if they ever had it) to track their property. Or should we say—the taxpayers' property? The DOD OIG audit report lists several areas of deficiency, including—

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Failure to maintain a Government record of Government Furnished Property

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Failure to award contracts with complete GFP lists

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Failure to coordinate with DCMA officials to execute contracting actions to transition Contractor Acquired Property to Government Furnished Property

As a result (according to the DOD OIG audit report)—

... the DoD does not know the actual value of the F-35 property and does not have an independent record to verify the contractor-valued Government property of \$2.1 billion for the F-35 Program. Without accurate records, the F-35 Program officials have no visibility over the property and have no metrics to hold the prime contractor accountable for how it manages Government property. ... In addition, the lack of a DoD record of GFP for the F-35 Program results in an understatement of either the assets or expenses of DoD financial statements, depending on how the contractor used the property on the contract.

Sounds to us like the Joint Program Office needs to have a payment withhold implemented on it in order to teach its leaders the importance of government property management and control.