

## ***Top 20 Responses to Criticism of SES for Logistics/Repair Job Performance: Equipment Parts Procurement Issues***

### Criticism #1: "Quality of Supplier Information"

You accepted parts with incomplete supplier information & unacceptable quantity curve & failed to obtain correct prices with resulted in excessive profits.

Supplier should fix prices & issue refunds for excessive prices charged, plus applicable punitive action when defective cost or pricing information used to negotiate prices.

You did not do good job of seeking refund when item pricing based on unacceptable quantity curve when Navy usage considered.

You should make good decisions not to pay unreasonable commercial prices when all parties are aware item could be found for much lower price.

Even though your effort in meeting intent of recommendation is recognised since you obtained future requirements at much lower price, current Navy inventory will not satisfy needs for next mission period.



However, supplier risk of loss is diminished since Navy is not only customer for parts so they can roll over quantities not purchased to future periods.

You accepted price of spare parts proposed by supplier so you paid too much for product. Since cost information was not obtained & reviewed supplier has responsibility to refund excessive prices paid.

## Response #2: "Materials Forecast"

Supplier performed cost assessment which is common practise when large quantities of items are at stake with the goal of passing savings on to Navy through both production & parts contracts.

We have insisted that contactor assumes risk for price increases in firm-fixed-price scenario & acted to reduce prices before exercise of next option period.

Supplier stated that their information on availability of materials put risk of loss into equation. We obtained agreement obligating supplier to purchase minimum of material in the forecast quantity in year of delivery.





#### Criticism #4: "Labour/Material Cost Escalation"

You have not done good job specifically addressing pursuit of refunds, even though you made attempt to review labour/material costs provided to justify effectiveness of escalation factor.

Escalation factors should be based on appropriate economic index instead of flat period percentage to better control contract prices.

Supplier signed price agreement for materials well before the material certification date & also before negotiations of contract escalation occurred.

You need to perform cost/price review & obtain adequate support for large price increases to ensure multi-tier, certified material prices are properly evaluated.

#### Response #4: "Escalation Condition Index"

Navy negotiated escalation factor based on known market conditions, with buying office substantiating that resulting escalation factor was reasonable for out years.

During proposal evaluation, supplier provided information from market Part Price Index. Navy reviewed most of total dollars of the bills of material, using supplier Cost/price quotes & purchase history.







### Criticism #7: "Material Demand"

Supplier may need to provide additional investment in material if demands are significantly lower. However, supplier has no risk of loss because they have many customers & can roll over quantities not purchased to future years.

Prices of parts were accepted as proposed by supplier, resulting in Navy paying excessive prices. Since supplier did not perform by obtaining & reviewing cost drivers & negotiate fair prices for its materials, supplier bears responsibility to refund the excessive prices paid.

You must reconsider your position & address the efforts to obtain refunds & lower prices for these items when adequate cost review of materials was not performed by supplier.

### Response #7: "Materials Forecasts"

Assertions that supplier had no risk of loss due to significant price changes was not supported by supplier documentation. Contract obligates supplier to purchase a minimum of materials in forecasted quantity for delivery period.







Follow-on contract must be fixed-price incentive instead of firm-fixed-price even while administrative burden associated with a fixed-price incentive contract exists.

Another option is to conduct an annual review of a limited selection of parts designed to identify instances where supplier quotes were significantly higher than negotiated supplier prices and take action to renegotiate prices before exercising future options.

Although suppliers sometimes do not break rules in pricing parts, when supplier procures higher quantities of parts, resulting in much lower prices, discounts must be shared with Navy.

#### Response #10: "Supplier Risk"

Because contract is firm-fixed-price, bulk of risk is inherently to supplier. Supplier develops pricing based on prices for long-term contract with initial proposal submission, which adds risk based on a potentially changing economic scenario.

In addition, he stated that the requirement for supplier to provide all of material puts supplier at risk of acquiring material that may never be used because of dynamic depot workload scenarios.







### Criticism #13: "Material Cost Incentives"

You must obtain refunds from suppliers for material cost reduction incentive. Calculation is based on negative material programme charges & quantities as well as incomplete transactions that are obvious errors and warrant corrective action.

Tradeoff of baseline readjustment of periodic return for excluding material increases does not represent best value for Navy.

Navy position of focusing solely on material decreases, while ignoring material increases, will not adequately measure performance or ensure proper use of Navy funds.

### Response #13: "Baseline Adjustment Process"

Focus of material cost reduction clause is to reduce material cost to depot. Intention is to include incentives for material decreases and disincentives for material increases.

In order to obtain agreements for periodic baseline adjustments, Navy did not include a disincentive for material increases. Evidence of benefit to Navy from periodic baseline adjustment of material costs existed because programmes reflected reductions.





### Criticism #15: "Assessment of Inventory"

You must determine if Navy has excess inventory for all consumable items being procured from sources under either contractor logistics support or performance-based logistics sustainment strategies.

Quantify excess inventory & develop a plan to use any excess inventory

You must reinforce Navy policy requiring programme units to collaborate with material sources to assess inventory strategies.

Collaboration is good practise, and tools must be used to identify existing inventory before procuring from contractors.

### Response #15: "Performance Markup Rates"

Delays in delivery or failure of supplier to meet quality requirements is not deemed as caused by Navy so adds risk to supplier.

Supplier techniques for procuring material from many sources functions to support markup commensurate to supplier markup.

Not taking responsibility for costs this would result in inconsistent application of rates & cause supplier to be noncompliant with Cost Accounting Standards Disclosure Statements.





### Criticism #17: "Supplier Purchase Orders"

You must perform post-award review of contract to determine if the audit identifies unacceptable pricing. If such conditions exist, contractor offsets should be addressed.

Supplier had information that was reasonably available before material certification cutoff dates that was not used to support contract prices.

Supplier used firm-price quote instead of procurement history to establish the proposed price for part & historical procurement quantities in review were not reasonably related to the firm price supplier used in proposal.

You must make calculation on a weighted average of supplier purchase orders including quantities similar to contract requirements.

Most recent purchase orders issued before the material certification cutoff date were for quantities similar to the contract requirements at unit prices less than contract price.

### Response #17: "Materials Source Markup"

We conducted post-award review of pricing in contract, making appropriate adjustments to supplier deal for parts.





## Criticism #19: "Material Contract Costs"

You must negotiate fixed-price incentive contract for the follow-on contract so both parties benefit from supplier getting lower prices for materials.

While fixed-price incentive contracts are bigger administrative burden. It is probably true fixed-price incentive contracts would be best but other options could be considered.

One option would be to periodically perform cost reviews on limited samples of high-risk, high-dollar value parts & make changes to prices as appropriate before exercising options.

You must address effectiveness of the material cost reduction terms in contract. Samples of high-risk, high-dollar parts validate individual prices before exercising follow-on orders.

In addition to the inclusion of the material incentive clause in the follow-on contract, such action meets the intent of recommendations.

## Response #19: "Material Consumption Incentives"

Due to extreme variations regularly occurring in depot workload, fixed-price incentive contracts create tremendous administrative burdens & increase probability of inaccuracies in determining incentives earned.



We decided practise of performing price readjustment terms in similar long-term contracts was not needed to properly adjust contract prices.

We determined economic price adjustment terms provided necessary & appropriate basis for adjusting prices, but this determination was not documented in contract file.

Navy decided this is not best practise & determined contract modification to be used to remove Contracting Price Redetermination from the contract.