Top 10 Responses to Criticism of SES for Logistics/Repair Job Performance: Equipment Parts Procurement Issues

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1 Comment

1. Dispatchers Assess Quality of Supplier Information & Materiel Risk from Forecasts to Create Quote Scenarios.

Problem:

You accepted parts with incomplete supplier information & unacceptable quantity determination, failing to obtain correct prices resulting in misdirected fiscal allocations. Supplier should fix excess charges, plus applicable corrective action when defective cost or pricing information used to negotiate prices.

You did not do good job of seeking contract adjustment when parts item pricing based on unacceptable quantity determination when Navy usage considered. Good decisions must be made not to pay excess 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. You have not provided evidence demonstrating fiscal benefits related to part prices & did not perform cost review of supplier certified proposal, which did not provide cost justification, only prices.

You did not provide evidence for your assertion that there is substantial cost risk to supplier, but is has been demonstrated that supplier may need to make additional investment in material if demands are significantly lower. 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.

Solution:

Supplier reviewed pricing information determining notable errors & submitted voluntary adjustment proposals for items, which are still under review by our team. Supplier reviewed pricing, to reduce price as we asked why it sold items directly to Navy for one price & to other entities for another price. Price was based on commercial pricing & items priced for Worst Case Scenario because of history of cancelled orders.

Documentation showed all parties were aware of price negotiated by Navy & tried to negotiate lower price. 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.

Should supplier fail to purchase forecasted quantity of materials in any period, it will assume cost risk. We conducted review on parts & requested supplier to adjust pricing to be more in line with expectations.

2. Dispatchers Enact Proposal Adjustments for Materiel Quotes Subject to Escalation Conditions.

Problem:

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.

You have recurring problem of suppliers negotiating lower prices for materials after completing negotiations with Navy. You must be aware of this inherent risk using long-term, firm-fixed-price contracts & take appropriate steps to share in reduced prices for supplier materials.

Navy actions to lower prices by reducing current contract prices are a step in the right direction. You have difficulty in obtaining reasonable prices, so you should negotiate or obtain cost-based prices for materials using long-term contract. You should perform review & adjust pricing for limited sample of high-risk, high-dollar items before exercising the next option or pursue fixed-price incentive contracts.

Suppliers often negotiate lower prices for receipt of materials after negotiations with Navy are complete. Navy must be aware of this risk when employing long-term, fixed-price contracts & take appropriate steps to share in reduced prices. Navy actions to reduce cost-based prices using long-term contracts would be step in right direction. Navy should perform cost reviews & adjust pricing of limited sample of high-risk, high-dollar items before exercising next option or pursue fixed-price incentive contract.

Solution:

Navy assumes supplier proposals are based on economic order quantities. It is common for suppliers to make adjustments from quotes to purchase orders following provision of cost/price certification. Suppliers say disciplined processes are in place to review make/buy items, considering capacity & demand to ensure supplier can support delivery of quality part at agreed on price.

Common supplier practise is to make adjustments are made from quotes to purchase orders, with disciplined processes for structure of make/buy items. Capacity & demand are considered, ensuring qualified suppliers can deliver with quality parts. 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. We focused on evaluation of proposals to drive efficiencies in large-dollar acquisitions & established new directorate for cost/price review, conducting training to focus on price evaluation for negotiated procurements.

3. Dispatchers Establish Quote Certification Subject to Side Deals & Excess Materiel Quantity/Demand.

Problem:

You are required to develop equitable plan to use transferred consumable items based on Demand signals. Your standard practise should be to use on hand & due-in Navy parts on all performance-based logistics & partnering agreements. When commercial sources are used for performance-based logistics arrangements, part levels & forecasting need to be appropriately adjusted to meet changes in demand.

You must strengthen policy to emphasise the use of Navy parts before procuring items owned by suppliers & not enter into contract when items will not be supported in the future. Supplier parts were priced with unacceptable quantity determination & not reviewed to avoid excessive prices, even while all parties were aware of lower prices.

Current inventory will not satisfy next requirement period & no effort was undertaken to obtain refund for parts. You must obtain refunds from supplier for unnecessary pass-through costs & correct prices to avoid excessive profits. Since part costs are fixed no savings were realised .

Pursuant to Material Pricing Considerations, adequate cost reviews of each supplier-certified proposal must be conducted. Only prices were addressed in supplier review, costs were not certified. Reasonable prices for parts should be determined.

Solution:

We have tools to identify quantities & prices of consumable parts, but it is not a tool to identify excess parts, because excess part levels are based on demand at a given time. Supplier information indicated that pricing for materials were reviewed in order to lower price, even while different prices were in play for Navy demand signals.

Supplier price was based on deals with other entities & priced worst case demand scenarios because of history of cancelled orders. Supplier documentation showed all parties were aware of price negotiated by Navy & tried to negotiate lower price.

We agree on reducing prices before the exercise of the next option period with cost reviews performed as common practise for suppliers with large quantities of items, passing savings through materials & parts contracts. Supplier assumes the risk for price increases in a firm-fixed-price scenario & materials price from supplier was in line with the market.

4. Dispatchers Create Materiel Demand Forecasts Protected by Escalation Conditions.

Problem:

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

Navy must review information related to labour & material costs to determine effectiveness of escalation factor. Contract escalation is added to protect both supplier & Navy from significant fluctuations in labour & material costs. Navy must base contract escalation on appropriate economic index instead of flat period percentage to better control contract prices. Supplier purchase history does not match amount of material escalation you claim.

Supplier cost/price reviews considered escalation for materials base by period. Parts supplier price for costs & price agreements were determined well before the material certification date & also before negotiations of contract escalation occurred. Reviews of actual quantities purchased showed Navy paid excessive profits for parts assembly due to escalation. You must document situations where high-dollar parts were applied to price of materials.

Solution:

We negotiated the escalation factor based on known market conditions & held supplier responsible for contract out years. During proposal evaluation supplier provided information from Part Delivery Price Index & actual escalation was reviewed.

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 forcasted quantity for delivery period. Should supplier fail to purchase forcasted quantity during any period, supplier is required to immediately purchase the excess quantity of materials, placing substantial cost risk on supplier.

5. Dispatchers Apply Quantity Discount Quotes for Supplier Support to Determine Purchase Proposal Risk.

Problem:

When you identify defective pricing, contract offsets should be addressed, but if supplier submits information available before material certification cutoff dates, contract prices are not supported. Recent purchase orders issued before the material certification cutoff date were for quantities similar to the contract requirements at unit prices less than the contract price so supplier contract price is not supported by purchase history for this part.

Contractor assumes risk in firm-fixed-price contracts. However, for selected sample parts, supplier purchased parts using combined buys, resulting in lower unit prices than proposed. Supplier quotes used to establish contract price was significantly higher than price supplier negotiated for materials after material certification cutoff date.

Supplier had part price quote with quantity discounts but did not apply discounted price when material quantity increased. Navy usually negotiated prices based on supplier quotes much higher than actual prices was recurring issue. Follow-on contract must be fixed-price incentive instead of firm-fixed-price even while considering 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 & 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, Navy must also realise benefits of discounts.

Solution:

We must first complete post award contract review & make adjustments if pricing problems are identified. Historical procurement quantities we used were not reasonably related to the firm price supplier used in its proposal. We based our calculation on a weighted average of supplier purchase orders included quantities similar to contract requirements.

Because contract is firm-fixed-price, bulk of risk is inherently to supplier. Supplier pricing based on prices for long-term contract adds risk based on a potentially changing fiscal scenarios. In addition, requirements for supplier to provide all of material puts supplier at risk of acquiring material that may never be used because of changes to depot workload scenarios always in flux.

No justification exists to request refunds for pricing parts in our sample because supplier used quotes to establish proposed price, proposed quantities were based on our input, with calculations based on prices dated after the material certification cutoff date.

6. Dispatchers Determine Supplier Incentives & Materiel Markup dictating Cost/Benefit of Changes in Purchase Quotes.

Problem:

Even with more administrative burden, you must negotiate a fixed-price incentive contract for the follow-on contract so both parties would benefit from supplier negotiating lower prices for materials. While fixed-price incentive contract would be best, another option is to periodically perform cost review on limited sample of high-risk, high-dollar value parts & make changes to prices as appropriate before exercising options.

You must include contract clause to addresses appropriate markup on materials obtained by supplier & negotiate refund for profit supplier made on purchases so Navy can set aside available inventory for use on partnership contract to address risk supplier assumes. Supplier purchases must continue to be reviews in order to ensure overall prices are not excessive, addressing appropriate markups on supplier materials through contract terms.

Solution:

Review will address effectiveness of material cost reduction clause in contract for high-risk, high-dollar parts to validate individual prices before exercising follow-on orders. This action, in addition to the inclusion of material incentive clause in follow-on contract, meets intent of recommendation. Due to extreme variations regularly occurring in depot workload, fixed-price incentive contracts can create tremendous administrative burden & increase the probability of inaccuracies in determining earned incentives.

Follow-on contracts will include incentives to reduce material consumed in depot production and/or price of material, reducing total material cost to depot. Supplier purchased material to support requirements & realised profit on items.

Supplier still had material on shelf it had purchased & was not able to establish a long-term agreement to use them as firm source of supply for specific depot items on a recurring basis. Supplier ability to ensure parts availability was inhibited & creates risk for supplier in meeting contractual responsibilities to meet depot parts demands.

Supplier must ensure supply line stands ready to provide parts, considering cost of holding the excess inventory purchased as consideration for some price increases applied to purchased items. Goal of partnership with supplier on contract aims to provide flexibility, ensuring parts are available when required, which may not always reflect lowest unit price for individual material, but total value of costs versus benefits of the total contract is validated.

7. Dispatchers Design Baseline Materiel Quote Incentive Process influencing Depot Work Information Factors.

Problem:

Suppliers must pass on material cost reduction incentives. Calculation is based on negative material programme charges & quantities as well as incomplete obvious transactions errors warranting corrective action. Tradeoff of baseline periodic return readjustments for excluding material increases does not represent best value for Navy.

Navy position of focusing solely on material decreases, while ignoring material increases does not adequately measure performance is measured to ensure proper use of Navy funds. You must immediately remove the material cost reduction from outside sources contract terms unless reliable depot overhaul factor information is considered to provide for equal consideration of labour & material cost increases.

Suppliers do have ability to substantially influence depot labour. Techniques designed to reduce material costs will directly result in increased labour costs. Contract statement of work requires suppliers to improve production output, based on best commercial practices to incorporate new work instructions.

Solution:

Focus of material cost reduction clause is to reduce material cost to depot by including 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.

Some programmes reflected increases in material costs & Navy is investigating reasons behind increases, making manual adjustments to properly account for material & information used to calculate incentive payments reflected these adjustments. Under current terms of contract based on a review of all information, supplier earned incentive payment.

Depot labour cost calculations are not part of measuring performance of contract. No evidence exists of increased labour costs resulting from contract & supplier lacks ability to substantially influence depot labour. We have noted corresponding reduction in material required & significant portions of changes can be attributed to some process improvements supplier brought to depot & training to provide more detailed level of contract oversight.

Suspension of material cost reduction incentives have been negotiated for remaining programmes pending results of material cost increases. No contract disincentive exists even though it is preferred method in performance-based contract terms. If suppliers could have influenced reductions, Navy will require adjustments to contract to obtain benefit from recalculating periodic baselines & evaluation of performance metrics.

8. Dispatchers Address Performance Quote Markups for Parts influencing Changes in Depot Workload.

Problem:

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 & tools must be used to identify existing inventory before procuring from contractors. You must obtain lower contract prices for Sample part items on follow-on contracts. Your approved techniques used in determining original contract prices could be improved.

Techniques must be established to ensuring suppliers produce complete, current & accurate proposal, performing appropriate cost & price review of proposals for materials before negotiations with Navy to prevent pricing problems. When programme changes result in significantly higher quantities of parts being procured & lower costs to suppliers, discounts must be passed on to Navy.

Solution:

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 to be negotiated in follow-on contracts to ensure overall supplier prices are not excessive. Not taking responsibility for costs results in inconsistent application of rates & cause supplier to be noncompliant with Cost Accounting Standards Disclosure Statements.

We have tools to be used in identifying quantities & prices of consumable inventory, but it is not a tool to identify excess inventory, because excess inventory levels are based on demand at a given time. We have requested supplier participation to select performance-based part support strategies & process is also used to assess best inventory strategies.

We used approved review techniques to determine reasonable prices based on information available at the time contract negotiations & also participated in reviewing the proposed bill of materials. For the follow-on contract, some parts were priced lower than expected & some were more in line with expectations.

Impacts of change on depot workload are significant, such as major programme adjustments or depot overhaul factor changes. Changes regularly result in fluctuations of parts quantities required & contract type needs to be flexible enough to allow for changes, even while recognised efforts may not lead to the lowest price solution.

9. Dispatchers Identify Combined Materiel Purchase Order Markups affecting Quote Instances of Limited Part Usage.

Problem:

You must perform post-award review of contract to identify instances of unacceptable pricing. If such conditions exist, contractor offsets should be addressed. Suppliers had information 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. Supplier assumes risk in a firm-fixed-price contract, but supplier purchased materials using combined buys for sample parts, resulting in lower unit prices than proposed.

Supplier quotes used to establish contract price was significantly higher than price supplier negotiated for materials after the material certification cutoff date. Recurring issues with Supplier include price quote for parts with quantity discounts not applied when contract quantity increased.

Follow-on contracts between supplier & materials source must be fixed-price incentive instead of firm-fixed-price while recognising administrative burdens associated with a fixed-price incentive contract. Another option is to conduct periodic review of limited parts selection to identify instances where quotes were significantly higher than negotiated supplier prices & take action to renegotiate prices before exercising future options including discount.

Solution:

We conducted post-award review of pricing in contract to make appropriate adjustments to supplier deal for parts. Supplier decided to pursue recovery from materials source for excessive markup on parts. Follow-on contract quantity for parts are to be supplied with material in existing Navy inventory. Because contract is firm-fixed-price, bulk of the risk is inherent to supplier who bases pricing on Produce/delivery costs & materials prices for contracts.

Requirement for supplier to provide all of material puts at risk acquiring material potentially never be used because of changes in depot workload scenarios. No justification exists to request better deals for pricing of some parts in our sample because supplier used quotes to establish proposed prices & proposed quantities based on input from dated numbers calculated by Navy after material certification cutoff date.

10. Dispatchers Evaluate Materiel Consumption Incentives influencing Parts Quote Basis Adjustments.

Problem:

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 create bigger administrative burden, fixed-price incentive contracts would probably be best but other options could be considered like periodically performing cost reviews on limited samples of high-risk, high-dollar value parts to validate price before exercising follow-on orders & make changes to prices to address effectiveness of the material cost reduction terms in contract.

In addition to the inclusion of the material incentive clause in the follow-on contract, you must include Contracting Price Redetermination of units & Economic Price Adjustment for adjustments to deals with suppliers. You must conduct Unit prices redetermination & total price each period of contract, completing periodic reviews of supplier cost basis for parts purchased multiple times on long-term contracts.

Solution:

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. Follow-on contract instead will include incentives to reduce material costs & consumption in depot production and/or price of materials.

Parts price decisions must be made solely using contract economic, not prospective, price adjustment terms to provide basis for adjusting prices, but this determination was not documented in contract file. Navy considered not establishing technique as best practise & determined contract modification did not need to be used for removing Contracting Price Redeterminatation . However, more studies are required to validate decisions made by current administration.