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INSPECTOR GENERAL

U.S. Department of Defense

FEBRUARY 25, 2019



Review of Parts Purchased From TransDigm Group, Inc.

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE

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Results in Brief

Review of Parts Purchased From TransDigm Group, Inc.

February 25, 2019

Objective

We determined whether the DoD purchased parts at fair and reasonable prices from TransDigm Group, Inc. This audit was conducted in response to three letters from Members of Congress to the DoD Office of Inspector General.

TransDigm and its subsidiaries design, produce, and supply specialized parts for aircraft and airframes. According to TransDigm, the defense market accounted for 34 percent of their sales in 2017. We reviewed a sample of 47 parts purchased by the DoD from TransDigm on 113 contracts between January 2015 and January 2017, with a total value of \$29.7 million.

We reviewed the price reasonableness determination for 47 of the 113 contracts, one for each part, to determine how DoD contracting officers established a fair and reasonable price and whether DoD contracting officers requested and received certified or uncertified cost data. We also performed cost analysis on the parts and determined what the Defense Logistics Agency (DLA) and the Army could have paid for them had TransDigm provided the uncertified cost data. We applied this cost data to all 113 contracts to determine the amount of excess profit that the DLA and the Army paid to TransDigm between January 2015 and January 2017.

Background

Before awarding a contract, the contracting officer must determine that the proposed price is fair and reasonable. The contracting

Background (cont'd)

officer determines price reasonableness by comparing competitive quotes or offers; comparing prices to historical prices from previous purchases; estimating methods to identify inconsistencies in price; comparing prices to current price lists, catalogs, or advertisements; comparing prices to an independent Government estimate; comparing prices with prices obtained through market research; or conducting analysis using certified or uncertified cost data.

Certified cost data is cost or pricing data that contractors are required to certify as accurate, complete, and current before submitting it to the contracting officer in accordance with the Federal Acquisition Regulation (FAR). Uncertified cost data is pricing data, cost data, and judgmental information (information required to explain the offeror's estimating process) necessary for the contracting officer to determine a fair and reasonable price. The FAR prevents contracting officers from awarding a contract above the Truth in Negotiations Act (TINA) threshold without first obtaining certified cost data, unless an exception exists.¹ However, contracting officers are allowed to request uncertified cost data for acquisitions that do not require certified cost data to determine whether prices are fair and reasonable or when an exception to requesting certified cost data exists. All contracts in our sample were firm-fixed price, and 4 out of the 47 parts were commercial items.

Our sample consisted of 32 contracts below the simplified acquisition threshold of \$150,000, 13 contracts between \$150,000 and the TINA threshold of \$750,000, and 2 contracts above \$750,000.² Contracts below the simplified acquisition threshold are awarded based on simplified acquisition procedures that have less restrictive requirements for determining price reasonableness.

¹ The exceptions are adequate price competition; price is set by law or regulation; commercial item; or a waiver is granted.

² FAR Subpart 15.4, "Contract Pricing." FAR Subpart 15.403-4(a)(1). The 2018 National Defense Authorization Act increased the TINA threshold from \$750,000 to \$2 million, on July 1, 2018. Public Law 115-91, "National Defense Authorization Act for Fiscal Year 2018" increased the simplified acquisition threshold to \$250,000. One of the two contracts did not require certified cost data because the commercial item exception applied.



Results in Brief

Review of Parts Purchased From TransDigm Group, Inc.

Finding

We determined that TransDigm earned excess profit on 46 of 47 parts purchased by the DLA and the Army, even though contracting officers followed the FAR and Defense Acquisition Regulation Supplement (DFARS) allowed procedures when they determined that prices were fair and reasonable for the 47 parts at the time of contract award. When we compared the awarded prices for the 47 parts on 113 contracts to TransDigm's uncertified cost data, our analysis determined that only one part purchased under one contract was awarded with a reasonable profit of 11 percent. The remaining 112 contracts had profit percentages ranging from 17 to 4,451 percent for 46 parts. We determined profit percentages of 15 percent or below to be reasonable.

Contracting officers used FAR and DFARS-allowed pricing methods, including historical price analysis, competition, and cost analysis to determine whether prices were fair and reasonable for the 47 parts. However, historical price analysis and competition were unreliable in identifying when TransDigm was charging excess profit because:

- prices for parts had become inflated over time, and some parts appeared to be inflated at the time the Government first purchased the part further compounding the excess profits; and
- TransDigm was the only manufacturer at the time for the majority of the parts competitively awarded, giving TransDigm the opportunity to set the market price for those parts because the other competitors planned to buy the parts from TransDigm before selling them to the DLA.

Performing cost analysis using certified or uncertified cost data is the most reliable way to determine whether a price is fair and reasonable. The one contract in our sample awarded with a reasonable profit was the only contract for which the contracting officer used cost data to determine price reasonableness. Contracting

officers are required to obtain certified cost data before awarding contracts above the TINA threshold and can request uncertified costs data for those below it. However, contracting officers are often prevented from obtaining uncertified cost data because of the following reasons.

- The FAR enables sole-source providers and manufacturers of spare parts to avoid providing uncertified cost data, even when requested, because of the less stringent requirements for awarding small dollar value contracts and commercial item contracts.
- There is no specific requirement in the FAR or DFARS that requires or compels contractors to provide certified or uncertified cost data to the contracting officer when requested before the contract is awarded.
- Statutory and regulatory requirements discourage contracting officers from asking for uncertified cost data when determining whether a price is fair and reasonable.

When contracting officers requested cost data for 16 of the 47 contracts we reviewed, TransDigm denied 15 requests for uncertified cost data and fulfilled only the request for certified cost data for the one contract above the TINA threshold that had no exceptions. Of the 47 parts in our sample, 39 were manufactured only by TransDigm, including 13 of the 15 parts where the contracting officers were denied cost data. Therefore, contracting officers had limited options once TransDigm refused to provide the requested cost data for the 15 parts, either buying the parts without receiving cost data from TransDigm or not buying the parts needed to meet mission requirements. For example, contracting officers determined that eight parts were fair and reasonable based on the "best obtainable price." Contracting officers justified using this method because they had exhausted other methods of determining price reasonableness and at



Results in Brief

Review of Parts Purchased From TransDigm Group, Inc.

Finding (cont'd)

least five contracting officers stated that the need for the spare part was urgent enough that they had to buy the part at the price offered by TransDigm.

We determined that for 112 contracts, TransDigm earned \$16.1 million in excess profit for 46 parts it sold to the DLA and the Army for \$26.2 million between January 2015 and January 2017. In addition, the DoD could continue paying excess profits on parts purchased from sole-source manufacturers and providers of spare parts if statutory and regulatory requirements continue to discourage contracting officers from requesting uncertified cost data and allow contractors to avoid providing uncertified cost data when requested.

Recommendations

We recommend that the DLA and the Army consider all available corrective actions with TransDigm, including but not limited to, directing contracting officers to seek a voluntary refund from TransDigm for excess profits identified in this report.

We recommend that the Defense Pricing and Contracting Principal Director:³

- examine the United States Code, FAR, DFARS, and DFARS Procedures, Guidance, and Information, to determine changes needed in the acquisition process of parts produced or provided from a sole-source to ensure that contracting officers obtain uncertified cost data when requested and that the DoD receives full and fair value in return for its expenditures;
- immediately revise and update the November 7, 2007, policy reform memorandum on "Access to Records with Exclusive Distributors/Dealers" to expand the reporting requirements to all contractor denial of cost data for acquisitions of parts produced by one manufacturer, as well as for other sole-source acquisitions, regardless of whether the requirement is urgent;

- establish a framework in the revised memorandum for the quarterly reporting and validation of consolidated information by the DoD Components to the Defense Pricing and Contracting Principal Director based on the expanded requirements of the revised memorandum;
- incorporate the requirements in the revised memorandum into the DFARS and the DFARS Procedures, Guidance, and Information; and
- establish a team of functional experts to analyze data reported as a result of the revised and updated memorandum. The team of functional experts should assess parts and contractors deemed to be at high risk for unreasonable pricing and identify trends and perform price analysis and cost analysis of high-risk parts to identify lower cost alternatives or fair and reasonable pricing for future procurements.

Management Comments and Our Response

The DLA Acquisition Director, responding for the DLA Director, agreed with the recommendations to seek a voluntary refund from TransDigm for excess profits identified in this report and provided the January 2019 requests to TransDigm for a voluntary refund; therefore, these recommendations are resolved but will remain open until we receive TransDigm's response to DLA.

The Army Contracting Command Deputy to the Commanding General, responding for the Army Contracting Command–Redstone Executive Director and Army Contracting Command–Aberdeen Proving Ground Executive Director, agreed with the recommendations to seek a voluntary refund from TransDigm for excess profits identified in this report. Therefore, the recommendations are resolved, but

³ Formerly Defense Procurement and Acquisition Policy.



Results in Brief

Review of Parts Purchased From TransDigm Group, Inc.

Comments (cont'd)

will remain open until we verify that the Army has issued the refund requests and we receive TransDigm's response. The estimated completion date is February 28, 2019.

The Acting Principal Director for Defense Pricing and Contracting agreed to:

- examine the United States Code, FAR, DFARS, and DFARS Procedures, Guidance, and Information, to determine whether changes are needed; and
- establish a framework for the quarterly reporting and validation of consolidated information on the denial of cost data for acquisitions of parts produced by one manufacturer, as well as for other sole-source acquisitions, by the DoD Components.

However, the Acting Principal Director's comments did not address the specifics of when and how the recommendations would be implemented; therefore, the recommendations are unresolved.

The Acting Principal Director for Defense Pricing and Contracting agreed to:

- update the November 7, 2007, policy reform memorandum on "Access to Records with Exclusive Distributors/Dealers;"
- amend the DFARS as appropriate to reflect the revised memorandum; and
- recommend that the Under Secretary of Defense for Acquisition and Sustainment request a group of experts from the Military Departments, DLA, and the Defense Contract Management Agency to identify and share information regarding contractors found to be high risk for unreasonable pricing and perform price and cost analysis on high-risk parts.

Therefore, the recommendations are resolved but will remain open. We will close the recommendations once we verify that the Acting Principal Director has updated the policy memorandum; updated the DFARS; and identified high-risk contractors for unreasonable pricing and perform price and cost analysis on high-risk parts.

Please see the Recommendations Table on the next page for the status of all recommendations.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Director, Defense Logistics Agency	None	1	None
Executive Director, Army Contracting Command–Redstone	None	2	None
Executive Director, Army Contracting Command–Aberdeen Proving Ground	None	3	None
Principal Director, Defense Pricing and Contracting	4.a and 4.c	4.b, 4.d, and 4.e	None

Please provide Management Comments by March 25, 2019.

Note: The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.





**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE**
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

February 25, 2019

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
AND SUSTAINMENT
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Review of Parts Purchased From TransDigm Group, Inc.
(Report No. DODIG-2019-060)

We are providing this report for your review and comment. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments from the Acting Principal Director for Defense Pricing and Contracting, the Acquisition Director for the Defense Logistics Agency, and the Deputy to the Commanding General of U.S. Army Contracting Command on a draft of this report when preparing the final report. DoD Instruction 7650.03 requires that recommendations be resolved promptly. Comments from Acting Principal Director for Defense Pricing and Contracting did not fully address Recommendations 4.a and 4.c; therefore, the recommendations are unresolved. We request additional comment on Recommendations 4.a and 4.c. by March 25, 2019.

Please send a PDF file containing your comments on the recommendations and public release review to audacs@dodig.mil by March 25, 2019. Copies of your comments must have the actual signature of the authorizing official for your organization.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me at (703) 604-9312 (DSN 664-9312).

A handwritten signature in cursive script that reads "Theresa S. Hull".

Theresa S. Hull
Assistant Inspector General
Acquisition, Contracting, and Sustainment

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Introduction

Objective

We determined whether the DoD purchased parts at fair and reasonable prices from TransDigm Group, Inc.⁴ See Appendix A for a discussion of the scope and methodology and prior coverage.

We performed this audit in response to a letter the DoD Office of Inspector General (DoD OIG) received from Representative Ro Khanna on March 20, 2017. The DoD OIG also received letters from Representative Tim Ryan and Senator Elizabeth Warren on April 18, 2017, and May 19, 2017, respectively. Our audit answered questions from Representatives Khanna and Ryan and included responses regarding TransDigm's business model, the value of contracts awarded to TransDigm, the status of DoD policy reforms from prior DoD OIG reports, contract oversight, and measures that the DoD can implement to lower the costs of overpriced parts. Senator Warren's letter acknowledged the letters from Representatives Khanna and Ryan and formally requested that the DoD OIG open an investigation into TransDigm.

Background

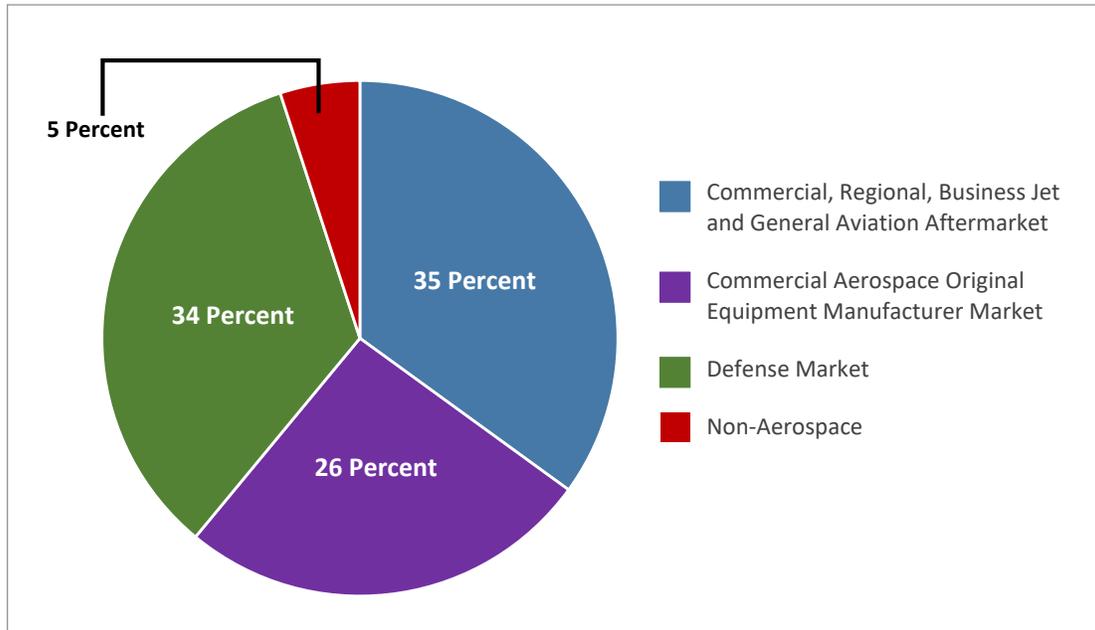
TransDigm Group, Incorporated

TransDigm was established in 1993 and is headquartered in Cleveland, Ohio. TransDigm and its subsidiaries design, produce, and supply specialized parts for aircraft and airframes. TransDigm's parts are designed into and sold as original equipment and generate recurring aftermarket revenue over the lives of aircraft.⁵ According to TransDigm's annual report, the defense market accounted for 34 percent of TransDigm's sales, as shown in Figure 1.

⁴ For this report, we will refer to the TransDigm Group, Inc. and its subsidiaries as TransDigm.

⁵ Original equipment is equipment that was produced as the first instance or source from which a copy or reproduction is or can be made. After market revenue is revenue generated in a market for parts and accessories used in the repair or enhancement of a product.

Figure 1. TransDigm's Allocation of Sales by Market



Source: TransDigm's 2017 Annual Report.

Defense Logistics Agency

The Defense Logistics Agency (DLA), headquartered at Fort Belvoir, Virginia, provides the Military Services, Federal agencies, and U.S. allied forces with logistics, acquisition, and technical services. The DLA provides nearly all the consumable items that the U.S. military forces need to operate, and supplies nearly 86 percent of the military's spare parts. The DLA has six major subordinate commands located throughout the country, two of which are buying commands for spare parts.⁶

- DLA Aviation, headquartered in Richmond, Virginia, is the U.S. military's integrated material manager for more than 1.2 million items, industrial retail supply, and depot-level repairable acquisitions. DLA Aviation supports more than 2,000 weapon systems, including engines and airframes, instrumentation and gauges, and electrical hardware.
- DLA Land and Maritime, headquartered in Columbus, Ohio, provides materiel management for more than 1.9 million items. DLA Land and Maritime supports more than 2,000 weapon systems, awards more than 660,000 contracts annually, and processes more than 9 million annual customer orders.

⁶ The other four major subordinate commands are DLA Troop Support, DLA Energy, DLA Distribution, and DLA Disposition Services. These activities did not award any of the 47 contracts in our sample.

U.S. Army Contracting Command

The U.S. Army Contracting Command (ACC), a subordinate command of the U.S. Army Materiel Command, provides contracting for equipment and services vital to the Army's global mission. The ACC is headquartered at Redstone Arsenal, Alabama, and is the Army's principal buying agent, providing support to the warfighter and ensuring contracting support to the soldier as mission requirements emerge. We reviewed parts procured by ACC-Redstone and ACC-Aberdeen Proving Ground, which are two of the six major ACC contracting support centers.⁷

- ACC-Redstone, located at Redstone Arsenal, Alabama, contracts for research and development, major weapon system production, sub-systems, and services.
- ACC-Aberdeen Proving Ground, located at Aberdeen Proving Ground, Maryland, provides comprehensive contracting and business advisory support to a diverse customer base.

Defense Pricing and Contracting

Defense Pricing and Contracting (DPC), formerly Defense Procurement and Acquisition Policy, is a part of the Office of the Under Secretary of Defense for Acquisition and Sustainment. DPC is responsible for all pricing, contracting, and procurement policy for the DoD, including updates to the Defense Federal Acquisition Regulation Supplement (DFARS) and its Procedures, Guidance, and Information. DPC's mission includes ensuring effective delivery of goods and services to meet warfighter needs, while ensuring these acquisitions are in the best interests of the taxpayer through oversight and implementation of business enterprise initiatives related to pricing, and through pricing policies and strategies while being good stewards of the taxpayers' money. DPC's Contract Policy Directorate is the focal point in DPC for developing new acquisition policies and improving existing DoD acquisition policies that are in the best interest of the Government.

Cost or Pricing Data

The Federal Acquisition Regulation (FAR) requires that contracting officers purchase supplies and services from responsible sources at fair and reasonable prices.⁸ The contracting officer determines price reasonableness by:

- comparing competitive quotes or offers;
- comparing prices to historical prices from previous purchases;

⁷ The other four contracting support centers are ACC-New Jersey; ACC-Rock Island, Illinois; ACC-Warren, Michigan; and ACC-Orlando, Florida. These centers did not award any of the 47 contracts in our sample.

⁸ FAR Subpart 15.4, "Contract Pricing."

- estimating methods to identify inconsistencies in price;
- comparing prices to current price lists, catalogs, or advertisements;
- comparing prices to an independent Government estimate;
- comparing prices to those identified through market research for the same or similar items; or
- conducting analysis using certified or uncertified cost data.⁹

The FAR states that contracting officers must obtain “certified cost or pricing data” for acquisitions exceeding the Truth in Negotiations Act (TINA) threshold.¹⁰ The 2018 National Defense Authorization Act increased the TINA threshold from \$750,000 to \$2 million, on July 1, 2018. The FAR also prohibits contracting officers from requesting “certified cost or pricing data” for acquisitions at or below the simplified acquisition threshold of \$150,000; when prices are based on adequate price competition or are set by law or regulation; when a commercial item is being acquired; or when a waiver has been granted.¹¹ The FAR allows contracting officers the discretion to request “data other than certified cost or pricing data” for acquisitions that do not require “certified cost or pricing data” to determine whether prices are fair and reasonable or when an exception to requesting “certified cost or pricing data” exists.¹²

“Certified cost or pricing data” means cost or pricing data that contractors are required to certify as accurate, complete, and current before submitting to the contracting officer in accordance with the FAR.¹³ The FAR defines cost or pricing data as all facts that prudent buyers and sellers would reasonably expect to affect price negotiations significantly.¹⁴ Cost or pricing data are factual, not judgmental, and verifiable. It is all the facts that can be reasonably expected to contribute to the soundness of estimates of future costs and to the validity of determinations of costs already incurred. Cost or pricing data also includes, but is not limited to, such factors as:

- vendor quotations;
- nonrecurring costs;

⁹ FAR 15.404-1(b), “Price analysis for commercial and non-commercial items.”

¹⁰ FAR 15.403-4(a)(1).

¹¹ FAR 15.403-1, “Prohibition on Obtaining Certified Cost or Pricing Data.” Public Law 115-91, “National Defense Authorization Act for Fiscal Year 2018” increased the simplified acquisition threshold to \$250,000. A commercial item is any item that is customarily used by the general public or by non-governmental entities for other than governmental purposes and must have been sold, leased, or licensed to the general public; offered for sale, lease, or license to the general public; or evolved or been modified from such products or services.

¹² FAR 15.403-3, “Requiring Data Other Than Certified Cost or Pricing Data.”

¹³ FAR 15.403-4, “Requiring Certified Cost or Pricing Data,” and FAR 15.403-5, “Instructions for Submission of Certified Cost or Pricing Data and Data Other Than Certified Cost or Pricing Data.”

¹⁴ FAR Subpart 2.1, “Definitions.”

- information on changes in production methods and in production or purchasing volume;
- data supporting projections of business prospects and objectives and related operations costs;
- unit-cost trends, such as those associated with labor efficiency;
- make-or-buy decisions;
- estimated resources to attain business goals; and
- information on management decisions that could have a significant bearing on costs.

The FAR defines “data other than certified cost or pricing data” as pricing data, cost data, and judgmental information necessary for the contracting officer to determine a fair and reasonable price or to determine cost realism.¹⁵ Such data may include the identical types of data as certified cost or pricing data, but without the certification. The data may also include any information reasonably required to explain the offeror’s estimating process, including, but not limited to, the:

- judgmental factors applied and the mathematical or other methods used in the estimate, including those used in projecting from known data; and
- nature and amount of any contingencies included in the proposed price.

For this report, we will refer to “certified cost or pricing data” as certified cost data and “data other than certified cost or pricing data” as uncertified cost data.

Profit

According to the FAR, profit does not necessarily represent net income to contractors. Profit represents that element of the potential reward that contractors may receive for contract performance over and above allowable costs. The FAR states that it is in the Government’s interest to offer contractors opportunities for financial rewards sufficient to stimulate efficient contract performance, attract the best capabilities of qualified large and small business concerns to Government parts, and maintain a viable industrial base.¹⁶ For our analysis, we used 15 percent as a reasonable profit and determined any profit over 15 percent to be excess profit. The FAR identifies profit percentages for three contract types, none of which were in our sample. However, we used the highest profit percentage of 15 percent as a benchmark for our analysis. To verify our benchmark, we selected eight contracts that the DLA issued in 2015 and 2016 that had the same Federal Supply Classification as the parts in our sample and required certified cost or

¹⁵ FAR Part 2, “Definitions of Words and Terms.”

¹⁶ FAR 15.404-4(a) – General.

pricing data.¹⁷ We then averaged the profit percentages for the eight contracts, which resulted in a profit of 13.9 percent. We determined that 13.9 percent was in line with our benchmark. Therefore, for the purposes of this audit, we considered a 15-percent profit to be reasonable and any profit over the 15 percent to be excess profit.

We reviewed a sample of 47 parts that the DLA and the Army purchased from TransDigm on 113 contracts between January 2015 and January 2017.¹⁸ Due to the large volume of contracts awarded to TransDigm, we reviewed a sample of parts that the DoD purchased from TransDigm.¹⁹ We performed cost analysis on the parts and determined what the DLA and the Army could have paid for them based on uncertified cost data and a 15-percent profit. We applied this to all 113 contracts to determine the amount of excess profit that the DLA and the Army paid to TransDigm between January 2015 and January 2017. We also reviewed the price reasonableness determination for 47 contracts, one for each part, to determine how the contracting officers established a fair and reasonable price and whether contracting officers requested and received certified or uncertified cost data.

Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.²⁰ We identified internal control weaknesses within the DoD's pricing guidance. DLA and Army contracting officers could not obtain uncertified cost data when they needed to make informed price reasonableness decisions based on current FAR and DFARS pricing guidance. In addition, contracting activities did not report instances when contractors denied cost data needed to determine fair and reasonable prices. We will provide a copy of the report to senior officials responsible for internal controls in the Department of the Army, the DLA, and the Office of the Under Secretary of Defense for Acquisition and Sustainment.

¹⁷ The Federal Supply Classification is a commodity classification designed to serve the functions of supply and is sufficiently comprehensive in scope to permit the classification of all items of personal property.

¹⁸ We selected 47 national stock numbers (NSNs), which we will refer to as parts in this report. The NSN is the official label applied to an item of supply that is repeatedly procured, stocked, stored, issued, and used throughout the Federal supply system. DLA and Army contracting officers purchased 17,447 individual parts with 47 unique NSNs on 113 contracts.

¹⁹ All contracts in our sample were firm-fixed price.

²⁰ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

TransDigm Earned Excess Profit on DoD Parts

We determined that TransDigm earned excess profit on 46 of 47 parts purchased by the DLA and the Army, even though contracting officers followed the FAR and DFARS-allowed procedures when they determined that prices were fair and reasonable for the 47 parts at the time of contract award. When we compared the awarded prices for the 47 parts on 113 contracts to TransDigm's uncertified cost data, our analysis determined that only one part purchased under one contract was awarded with a reasonable profit of 11 percent.²¹ The remaining 112 contracts had profit percentages ranging from 17 to 4,451 percent for 46 parts.²² We determined profit percentages of 15 percent or below to be reasonable.

Contracting officers used FAR and DFARS-allowed pricing methods, including historical price analysis, competition, and cost analysis to determine whether prices were fair and reasonable for the 47 parts. However, historical price analysis and competition were unreliable in identifying when TransDigm was charging excess profit because:

- prices for parts had become inflated over time, and some parts appeared to be inflated at the time the Government first purchased the part further compounding the excess profits; and
- TransDigm was the only manufacturer at the time for the majority of the parts competitively awarded, giving TransDigm the opportunity to set the market price for those parts because the other competitors planned to buy the parts from TransDigm before selling them to the DLA.

Performing cost analysis using certified or uncertified cost data is the most reliable way to determine whether a price is fair and reasonable. The one contract in our sample awarded with a reasonable profit was the only contract for which the contracting officer used cost data to determine price reasonableness. Contracting officers are required to obtain certified cost data before awarding contracts above the TINA threshold and can request uncertified costs data for those below it.

²¹ For our analysis, we used 15 percent as a reasonable profit and we define excess profit as anything over 15 percent. We identified 113 contracts where the DLA and the Army purchased the 47 parts from January 2015 to January 2017.

²² DLA and Army contracting officers purchased 16,947 individual parts with 46 unique NSNs.

However, contracting officers are often prevented from obtaining uncertified cost data because of the following reasons.

- The FAR enables sole-source providers and manufacturers of spare parts to avoid providing uncertified cost data, even when requested, because of the less stringent requirements for awarding small dollar value contracts and commercial item contracts.
- There is no specific requirement in the FAR or DFARS that requires or compels contractors to provide certified or uncertified cost data to the contracting officer when requested before the contract is awarded.
- Statutory and regulatory requirements discourage contracting officers from asking for uncertified cost data when determining whether a price is fair and reasonable.

When contracting officers requested cost data for 16 of the 47 contracts we reviewed, TransDigm denied 15 requests for uncertified cost data and fulfilled only the request for certified cost data for the one contract above the TINA threshold that had no exceptions. Of the 47 parts in our sample, 39 were manufactured only by TransDigm, including 13 of the 15 parts where the contracting officers were denied cost data. Therefore, contracting officers had limited options once TransDigm refused to provide the requested cost data for the 15 parts, either buying the parts without receiving cost data from TransDigm or not buying the parts needed to meet mission requirements. For example, contracting officers determined that eight parts were fair and reasonable based on the “best obtainable price.” Contracting officers justified using this method because they had exhausted other methods of determining price reasonableness and at least five contracting officers stated that the need for the spare part was urgent enough that they had to buy the part at the price offered by TransDigm.

We determined that for 112 contracts, TransDigm earned \$16.1 million in excess profit for 46 parts it sold to the DLA and the Army for \$26.2 million between January 2015 and January 2017. In addition, the DoD could continue paying excess profits on parts purchased from sole-source manufacturers and providers of spare parts if statutory and regulatory requirements continue to discourage contracting officers from requesting uncertified cost data and allow contractors to avoid providing uncertified cost data when requested.

Congressional Questions Addressed in This Report

Letters from Representatives Khanna and Ryan included questions related to parts that the DoD purchased from TransDigm. In addition, Senator Warren's letter acknowledged the letters from Representatives Khanna and Ryan and requested that the DoD OIG open an investigation into TransDigm. Our report addresses the following questions that Representatives Khanna and Ryan posed in their letters.

- **Question 1:** "Given that much of the activity involved in TransDigm's business operations includes obfuscating or hiding cost structures, what is the aggregate cost to the Federal government of this company's price increases on its total aerospace product portfolio? How much of this increase in cost is related to improved performance for those products? How much business does the DoD do with TransDigm, both directly through government contracts and indirectly through an OEM [original equipment manufacturer]?"
- **Question 2:** "What is the status of DoD reforms to policies that you identified in previous reports of problems with exclusive distributors and monopoly parts suppliers like TransDigm?"
- **Question 3:** "What measures can DoD implement to better inform its contracting officers of TransDigm's business policy of price increases? What steps, if any, can DoD take in the short term to lower the cost of TransDigm parts?"
- **Question 4:** "Who at DoD is responsible for oversight of the contracting officers that approve TransDigm parts?"

The letters also included two questions that are not answered in this report.²³

- **Question 5:** "While TransDigm appears to have failed to properly report its subsidiaries' corporate ownership on System for Award Management filings for 12 of its subsidiaries; it did report the appropriate status of its subsidiaries to investors in its 10-K forms. Can you explain how procurement officers would have approached bids from TransDigm differently had this information been reported accurately? Further, what is the status of the investigation into those inaccurate filings?"
- **Question 6:** "What can Congress do to make it easier to require that monopoly aerospace and defense parts suppliers provide timely and accurate cost data to contractors?"

²³ The DoD OIG Audit did not address question 5 because it was referred to the Defense Criminal Investigative Service for action deemed appropriate. To answer question 6, we recommended the DPC Principal Director to examine the United States Code, FAR, DFARS, and the DFARS Procedures, Guidance, and Information to determine changes needed in the acquisition process of parts produced or provided from a sole-source to ensure that contracting officers obtain uncertified cost data when requested. The results of DPC's actions will answer question 6.

Congressional Question 1: TransDigm's Business Model and its Impact on the DoD's Aerospace Portfolio

To address congressional question one on TransDigm's business operations with the DoD and how its cost structure affected part prices, we reviewed TransDigm's business model and identified all contracts the DoD issued to TransDigm. From April 2012 through January 2017, the DoD issued 4,942 contracts valued at \$471 million to TransDigm. We selected a sample of 47 parts purchased from TransDigm and:

- reviewed the price reasonable determination of 47 contracts, one for each of the 47 parts;
- compared the uncertified cost data received from TransDigm to prices that the DLA and the Army paid for the 47 parts on 113 contracts between January 2015 and January 2017;
- analyzed the historical pricing for the 47 parts.²⁴

We identified prior DoD OIG audit reports that covered TransDigm or that included other contractors that also denied contracting officers access to cost data. Finally, we reviewed the report on the "Independent Review of Contract Number SPE4AX-18-D-9442."²⁵ Contract number SPE4AX-18-D-9442 was issued by the DLA to AeroControlex, a subsidiary of TransDigm.

DoD OIG Findings on Congressional Question 1: TransDigm's Business Model and its Impact on the DoD's Aerospace Portfolio

TransDigm's 2017 Annual Report stated that TransDigm has a value-focused business model that consists of owning and operating proprietary aerospace businesses to create value for its shareholders.²⁶ TransDigm estimated in its 2017 Annual Report that 80 percent of its sales revenue came from products where it was the sole-source provider. According to the 2017 Annual Report, TransDigm's goal is to increase income by using the following three concepts.

Obtaining Profitable New Business – Since TransDigm's founding in 1993, the company has acquired 60 businesses, focusing on ones that create value. See Appendix B for a listing of TransDigm's subsidiaries as of September 30, 2017.

²⁴ TransDigm provided certified cost data to the contracting officer for one part.

²⁵ The review was initiated by the Director, DPC, Office of the Under Secretary of Defense for Acquisition and Sustainment, and the report was issued on December 18, 2018.

²⁶ A proprietary business owns or holds exclusive rights to its products.

Productivity and Cost Improvements – TransDigm increases productivity and reduces costs by streamlining operations, developing improved control systems for accurate accounting and reporting, investing in equipment, tooling, information systems, and implementing broad-based employee training programs.

~~(FOUO)~~ **Value-Based Pricing** – [REDACTED]
[REDACTED]
[REDACTED]

TransDigm’s Business with the DoD

TransDigm’s products support DoD weapon systems, including the C-17 Globemaster III, AH-64 Apache, F-16 Fighting Falcon, and the CH-47 Chinook, as shown in Figure 2. In 2006, TransDigm generated net sales of \$435.2 million with gross profits of over \$221.3 million. At that time, TransDigm attributed 24 percent of their net sales to the defense market. However, by 2018, TransDigm net sales significantly increased to \$3.8 billion with a gross profit of \$2.17 billion and defense-related sales grew to 35 percent of its net sales. From April 2012 through January 2017, the DoD awarded contracts valued at \$471 million directly to TransDigm or its subsidiaries.²⁷ DLA and Army contracting officers awarded 95 percent of these contracts.

To determine the potential effects of TransDigm’s price increases on the DoD, we nonstatistically selected a sample of 47 parts the DLA and the Army purchased from TransDigm on 113 contracts from January 2015 to January 2017, valued at \$29.7 million. Our sample consisted of 32 contracts below the simplified acquisition threshold of \$150,000, 13 contracts between \$150,000 and the TINA threshold of \$750,000, and 2 contracts above \$750,000.²⁸ See Appendix A for a full description of our sample selection and Appendix C for a full list of parts that we reviewed.

²⁷ This does not include subcontracts under DoD contracts. The federal database of contract actions does not identify subcontractors.

²⁸ One of the two contracts did not require certified cost data because the commercial item exception applied.



Figure 2. C-17 Globemaster III, AH-64 Apache, CH-47 Chinook, and F-16 Fighting Falcon (top to bottom)
Source: U.S. Air Force and U.S. Army.

Review of DLA and Army Contracts with TransDigm

We reviewed 47 parts and found that TransDigm earned excess profit on 46 of the 47 parts purchased by the DLA and the Army even though the contracting officers followed the FAR and DFARS-allowed procedures when they determined prices for the 47 parts to be fair and reasonable at the time of contract award. A DLA contracting officer determined that one part price was fair and reasonable using certified cost data because the acquisition was above the \$750,000 TINA threshold in place at the time of contract award and no exceptions applied. The contracting officers determined or attempted to determine price reasonableness for the other 46 contracts using several methods, including historical price analysis, competition, and cost analysis.²⁹

We found that performing a cost analysis using certified or uncertified cost data is the most reliable way to determine whether a price is fair and reasonable. We performed a cost analysis using uncertified cost data received from TransDigm. The cost analysis shows that TransDigm earned excess profit on all 46 parts where contracting officers used a method other than cost analysis to determine price reasonableness. These methods allowed TransDigm to earn excess profits without detection by the contracting officers. The parts purchased on these contracts had excess profit between 2 percent to 4,436 percent. Table 1 shows six examples of parts purchased from TransDigm that had excess profits.

Table 1. Examples of Parts With Excess Profit

(FOUO) NSN Description	TransDigm's Cost Per Part	Contract Price Per Part	Price Per Part With a 15-Percent Profit	Total Parts	Excess Profit Per Part	TransDigm's Excess Profit Percentage
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	4,436
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	627
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	308
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	124

²⁹ FAR 13.106-3 and FAR 15.404-1 both allow a contracting officer to determine price reasonableness based on comparison of proposed prices received in response to the solicitation, and a comparison of proposed prices to historical prices paid. FAR 13.106-3 also allows the contracting officer to determine price reasonableness based on any other reasonable basis.

Examples of Parts With Excess Profit (cont'd)

(FOUO) NSN Description	TransDigm's Cost Per Part	Contract Price Per Part	Price Per Part With a 15-Percent Profit	Total Parts	Excess Profit Per Part	TransDigm's Excess Profit Percentage
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	32
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	2 (FOUO)

Source: The DoD OIG.

Historical Price Analysis Guidance Did Not Prevent Excess Profits

Although the contracting officers followed the FAR and DFARS historical price analysis guidance, TransDigm still earned excess profit up to 4,436 percent on 34 parts it sold to the DLA and the Army. TransDigm earned excess profit because prices for the parts had become inflated over time, and some part prices appeared to be inflated at the time the Government first purchased the part from TransDigm further compounding the excess profit. DLA and Army contracting officers determined prices for the 33 parts to be fair and reasonable at contract award based on historical price analysis, which is allowed by the FAR and DFARS. One contract was awarded through the DLA's automated contract award system, which based contract award approval on historical prices.³⁰

The FAR defines price analysis as the process of examining and evaluating a proposed price without evaluating its separate cost elements and proposed profit.³¹ The contracting officers used historical prices available to them at the time of contract award to conduct historical price analysis for the parts. However, using uncertified cost data that TransDigm provided during the audit, we determined that historical prices for the 34 parts were inflated and could not be used as an accurate determination of price reasonableness. In addition, 29 of the 34 parts appeared to be inflated at the time the Government first purchased the part from TransDigm.³² We found that the 34 parts had excess profits of up to 4,436 percent.

³⁰ (FOUO) According to a DLA official, the DLA's automated contract award system reviews historical prices paid over the last [REDACTED] and calculates an adjusted lowest price paid, which is an estimated unit price for the quantity being purchased. [REDACTED]

³¹ FAR 15.404-1, "Proposal Analysis Techniques."

³² The calculations are based on 2015 and 2016 cost data provided by TransDigm. We did not adjust for inflation back to the time of the original purchase.

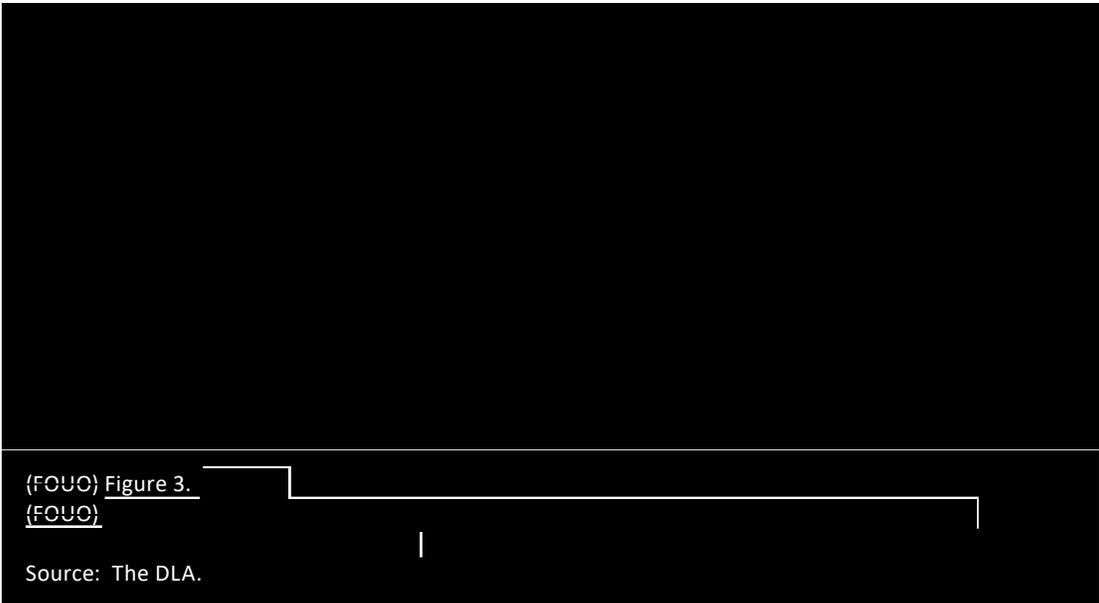
The FAR states that for all acquisitions contracted by negotiation the contracting officers must obtain uncertified cost or pricing data from the contractor when it is the only means left to determine the price is fair and reasonable.³³ The FAR lists six other options contracting officers should consider, including the use of historical prices, before using uncertified cost data. In addition, DFARS lists cost data last for determining price reasonableness. For contracts awarded under Simplified Acquisition Procedures, the FAR does not list obtaining cost data as an option. As a result, the contracting officers used historical prices that we determined did not provide an accurate basis for fair and reasonable prices when compared to the uncertified cost data we received from TransDigm. This cost data was not available to the contracting officers at the time of contract award.

(FOUO) For example, in 2015 the DLA paid an additional [REDACTED] (1,976 percent) per part in excess profit over the [REDACTED] unit cost for a [REDACTED].³⁴ See Figure 3 for a picture of the [REDACTED]. TransDigm initially offered [REDACTED] per part for [REDACTED] parts. The contracting officer's price analysis showed that the DLA last bought the part in 2012 at a price of \$4,135 per part. A TransDigm official stated to the contracting officer [REDACTED]. According to TransDigm, the [REDACTED] included all costs to TransDigm to produce the part. The contracting officer made a counteroffer of [REDACTED] per part for [REDACTED] parts, which was accepted, and then declared the price fair and reasonable. The contracting officer documented in the contract award file that the contract award saved the Government \$53,125. However, we found that TransDigm had earned \$141,749 in excess profit and that the parts could have cost the DLA a total of [REDACTED], instead of [REDACTED]. In addition, because the contracting officer declared [REDACTED] per part to be fair and reasonable, other contracting officers can rely on that price for future acquisitions.³⁵

³³ FAR 15.404-1(b), "Price analysis for commercial and non-commercial items."

³⁴ (FOUO) [REDACTED]

³⁵ DFARS 215.404-1(a)(ii) states that contracting officers can rely on previous prices paid as long as the prices do not increase more than 25 percent within a year.



(FOUO) The pricing history also indicates that the price for the [REDACTED] contained excess profits since the DLA first purchased the part in 2007. The procurement history for the [REDACTED] shows that the DLA first bought the part in 2007 for [REDACTED] per part, the lowest price in its procurement history. The initial price increased from [REDACTED] to \$7,325 (491 percent) from 2007 to 2017, when the DoD last purchased the part.³⁶ In 2015, TransDigm’s cost to produce the part was [REDACTED]. Assuming that the cost to produce the part had not decreased since 2007, the part price in 2007 contained excess profits of 275 percent. Figure 4 shows the price history for the [REDACTED].

³⁶ (FOUO) Bureau of Labor Statistics Producer Price Index [REDACTED] showed that inflation over the same 10-year period was 15.9 percent.

(FOUO) Figure 4. [REDACTED]



Source: IHS Haystack Gold.

(FOUO) While TransDigm may have experienced efficiencies in manufacturing the [REDACTED] since 2007, those savings have not been passed on to the DoD, and in 2015 the TransDigm earned 1,976 percent in excess profit for the part. See Appendix D for the complete procurement history. Once a contracting officer declares a part's price fair and reasonable, the next contracting officer purchasing that part can rely on the previously awarded price to determine price reasonableness. The price for the part may increase with each new contract award, which may lead to the price becoming even higher over time. In addition, if the initial awarded price for the part was already inflated, future prices could be determined to be fair and reasonable based on the initial inflated price.

Competition Guidance Did Not Prevent Excess Profits

Although contracting officers followed the FAR and DFARS competition guidance, TransDigm still earned excess profit up to 259 percent on four parts it sold to the DLA.³⁷ Using FAR and DFARS pricing guidance, DLA contracting officers determined prices for these four parts to be fair and reasonable at the time of contract award based on competition. According to the FAR, a price is based on adequate price competition if two or more responsible offerors, competing independently, submit priced offers that satisfy the Government's expressed

³⁷ (FOUO) [REDACTED]

requirement.³⁸ The FAR states that adequate competition generally requires no additional data to determine price reasonableness.³⁹ Table 2 shows the four parts that contracting officers determined were fair and reasonable based on competition.

We determined that TransDigm earned excess profit up to 259 percent on these four parts based on TransDigm’s uncertified cost data we received during the audit. The contracting officers did not have this data at the time of award and contracting officers are not required to ask for cost data when the contract is awarded based on competition. However, the data showed that competition was not adequate to prevent TransDigm from earning excess profit on these four parts and the excess profit for the parts was 9 to 259 percent.

Table 2. Contracting Officers Based Fair and Reasonable Prices on Competition

(FOUO) NSN ^{1,2} Description	Total Parts	Contract Price Per Part	TransDigm’s Cost Per Part	Excess Profit Percentage	Excess Profit ³
[REDACTED]	1	[REDACTED]	[REDACTED]	259	\$102,460
[REDACTED]	1	[REDACTED]	[REDACTED]	116	65,880
[REDACTED]	1	[REDACTED]	[REDACTED]	12	61,380
[REDACTED]	1	[REDACTED]	[REDACTED]	9	10,537
					(FOUO)

¹ (FOUO) [REDACTED]

² (FOUO) TransDigm was the sole manufacturer for [REDACTED], the other bidders stated that they would acquire the part from TransDigm in their proposals.

³ Based on TransDigm uncertified cost data and a 15-percent profit.

⁴ (FOUO) TransDigm was the only manufacturer that bid for [REDACTED], and the other bidder was a distributor for TransDigm.

Source: The DoD OIG.

³⁸ FAR 15.403-1(c)(1).

³⁹ FAR 15.403-3(b), “Adequate Price Competition.”

(FOUO) TransDigm was the sole manufacturer of two parts and the only manufacturer bidding on one part.⁴⁰ This made TransDigm the only manufacturer at the time for 3 out of the 4 parts competitively awarded. The other bidders for the parts planned to acquire the parts from TransDigm to fulfill the quantities and prices they proposed to the DLA as part of their response to the request for quotations. This could allow TransDigm to set the market price for these parts while still meeting FAR competition requirements. For example, the DLA paid \$102,460 in excess profit to TransDigm for a [REDACTED] that was competitively awarded.⁴¹ TransDigm was the only manufacturer that produced that part. The other four contractors stated in their bids that they planned to source the part from TransDigm; however, the contractors were independent of TransDigm because they were not owned by TransDigm. Therefore, two or more responsible offerors, competing independently, submitted priced offers that satisfied the Government’s expressed requirement. There was no definitive reason why the competition for the fourth part resulted in excess profit because TransDigm was competing against another manufacturer. However, contracting officers followed the FAR and DFARS competition guidance, but TransDigm still earned excess profit up to 259 percent on four parts it sold to the DLA.

Best Obtainable Prices Resulted in Excess Profits

(FOUO) DLA contracting officers applied FAR pricing guidance to justify the purchase of eight parts.⁴² Contracts below the simplified acquisition threshold are awarded based on simplified acquisition procedures that have less restrictive requirements for determining price reasonableness. The FAR allows the contracting officers to use their personal knowledge of the item being purchased or “any other reasonable basis” to determine price reasonableness when contracts are below the SAT. For all eight parts, contracting officers awarded the contract at the [REDACTED]. The FAR does not define this term; however, contracting officers stated that it meant that “[REDACTED].” Contracting officers also stated that they had [REDACTED] and “[REDACTED].” In addition, at least five contracting officers stated that the need for the spare part was so urgent that they had to buy the part at the price offered by TransDigm. In total, TransDigm was the sole-source manufacturer for seven out of the eight parts. Using the uncertified cost data we obtained from TransDigm, we determined that excess profit for the eight parts ranged from 96 to 1,680 percent.

⁴⁰ The other manufacturer for the one part was at maximum production capacity and could not fill any orders.

⁴¹ (FOUO) [REDACTED]

⁴² (FOUO) [REDACTED]

(FOUO) In all cases, contracting officers tried to determine price reasonableness using historical prices or cost analysis. Six out of the eight contracting officers requested uncertified cost data from TransDigm but the requests were denied and seven of the eight contracting officers performed historical price analysis, which was inadequate to determine price reasonableness. For example, a DLA contracting officer stated that [REDACTED]

[REDACTED]⁴³
The contracting officer first determined that historical price analysis was not adequate to determine price reasonableness. Then the contracting officer contacted TransDigm requesting cost data to determine a fair and reasonable price; however, TransDigm refused to provide the data, stating that the information was proprietary. TransDigm was the sole-source manufacturer of the part. Therefore, the contracting officer had limited options once TransDigm refused to provide uncertified cost data. The contracting officer could purchase the part at the proposed TransDigm price or not purchase the needed part. The contracting officer awarded the part to meet mission requirements based on the [REDACTED] of [REDACTED] per part. According to the uncertified cost data that TransDigm provided to us, the cost for the part was [REDACTED], resulting in an excess profit of 610 percent. This data was not available to the contracting officer at contract award because there was no specific requirement in the FAR or DFARS that required or compelled contractors to provide uncertified cost data when requested. As a result, the contracting officer was unaware that the price was excessive.

TransDigm Refused to Provide Uncertified Cost Data

TransDigm refused to provide uncertified cost data to contracting officers when requested. For 16 of the 47 contracts we reviewed, contracting officers requested either certified or uncertified cost data from TransDigm. In addition to the 16 requests for cost data, three DLA contracting officers stated that they did not ask for uncertified cost data based on TransDigm's history of not providing the data when requested. TransDigm denied the contracting officers' requests for uncertified cost data for 15 of the 16 contracts, stating that:

- informal cost data is deemed proprietary information;
- based on the dollar value of the buy, cost data was not required;
- it is against company policy to provide a cost breakdown;
- the price contained an error and offered a lower part price, but did not provide cost data;

⁴³ (FOUO) [REDACTED]

- material costs had huge increases for small quantities, but did not provide cost data; or
- the procurement was competitive, so cost data was not required.⁴⁴

TransDigm provided certified cost data for 1 of the 16 requests. This cost data was for the only part that had what we consider a reasonable profit percentage out of the 47 parts we reviewed. That part was on the one contract over the TINA threshold that had no exceptions, and the contracting officer was required to obtain certified cost data before awarding the contract for the part in accordance with the FAR.⁴⁵

Contracting officers had limited options once TransDigm refused to provide the requested cost data for the 15 parts. A TransDigm official stated that TransDigm was the sole manufacturer for 37 of the 47 parts we reviewed; the audit team also identified an additional 2 parts where TransDigm was the sole manufacturer. Included in these 39 parts were 13 of the 15 parts where the contracting officers were denied cost data. Therefore, contracting officers had the option of buying the parts without receiving cost data from TransDigm or not buying the parts needed to meet mission requirements. Instead of using cost data, the contracting officers used another method to determine whether prices were fair and reasonable. Our analysis determined that these other methods allowed TransDigm to earn excess profits without detection by the contracting officer. We determined that cost analysis is the most effective method to validate whether prices were fair and reasonable because certified and uncertified cost data provides the contracting officer with the most insight into the actual cost of the spare part.

TransDigm denied contracting officers uncertified cost data for the 15 parts and earned \$2.6 million in excess profit on the parts. As a result, 53 percent of the purchase price paid by the DoD for the 15 parts was excess profit. The individual excess profit percentages for the parts ranged from 4 percent to 1,680 percent. If the 15 contracting officers who requested uncertified cost data had received the cost data from TransDigm, the DLA and the Army could have saved approximately \$2.6 million. Therefore, the DLA and the Army should consider all available corrective actions with TransDigm, including but not limited to, requesting a voluntary refund from TransDigm of approximately \$2.6 million in excess profit for the 15 purchases that contracting officers requested uncertified cost data for but TransDigm refused to provide. See Appendix E for a breakdown of the proposed voluntary refunds by part and organization.

⁴⁴ The contract was not awarded by competition because only one offer was received.

⁴⁵ FAR 15.403-4(a)(1).

The Cost of TransDigm's Price Increase to the DLA and the Army

While we could not determine the aggregate cost to the U.S. Government of TransDigm's price increases, we identified the impact that price increases had on the DLA and the Army purchases of the 47 parts from January 2015 to January 2017. We identified 113 contracts that the DLA and the Army awarded to purchase the 47 parts from TransDigm. We found one instance where a part was purchased at a reasonable profit of 11 percent. The remaining 112 contracts for the 46 parts had profit levels for parts that ranged from 17 to 4,451 percent. See Appendix C for the profit for all the parts purchased on the 113 contracts. We considered a profit exceeding 15 percent to be excess profit. As a result, TransDigm earned \$16.1 million in excess profit for 46 parts sold to the DLA and the Army for \$26.2 million between January 2015 and January 2017. The DLA and the Army should consider all available corrective actions with TransDigm, including but not limited to, requesting a voluntary refund from TransDigm of approximately \$13.5 million in excess profit for the 97 purchases that we identified contained excess profit but for which the contracting officers did not request uncertified cost data. See Appendix E for a breakdown of the proposed voluntary refunds by part and organization.

Part Price Increases Could Not Be Linked To Improved Performance

(FOUO) We also reviewed the historical prices for all 47 parts to determine what effect TransDigm's business model had on part prices. We found that eight parts increased in price and four parts decreased in price after TransDigm acquired the companies. However, the four part prices that initially decreased have since increased significantly. For example, a [REDACTED] had an initial decrease of 11 percent or [REDACTED] per part in 2013.⁴⁶ However, by 2015, the price per part had increased 1,328 percent to [REDACTED] and resulted in excess profit of 262 percent based on our analysis of TransDigm's uncertified cost data. Figure 5 shows the price history for the [REDACTED]. In addition, the excess profit on the 12 parts ranged from 32 to 3,359 percent. TransDigm's cost data did not identify any price increases for the 12 parts related to improved performance for those products. We could not determine what effect TransDigm's business model had on the prices for the remaining 35 parts because 16 parts had more than 5 years between procurements before and after TransDigm acquired the producing company, and 19 parts did not have a price history. Appendix F shows the 12 parts and the price differences since TransDigm's acquisition of the previous companies.

⁴⁶ (FOUO) [REDACTED]

(FOUO) Figure 5. 



Source: IHS Haystack Gold.

TransDigm Continues to Earn Excess Profits on Parts Provided to the DLA

The DLA conducted negotiations, in cooperation with the Air Force for an enterprise performance-based logistics contract that was awarded in June 2018.⁴⁷ During negotiations for the contract the Government would not accept the subcontract price for the parts provided by AeroControlex, a TransDigm subsidiary. Therefore, the Government decided to remove AeroControlex parts from the enterprise performance-based logistics contract and instead contract directly with AeroControlex for the parts.⁴⁸ On September 12, 2018, the DPC Director requested an independent review of the negotiated prices for the parts under the AeroControlex contract awarded in September 2018. The independent review team was led by the Air Force and consisted of representatives from the Air Force, the Defense Contract Audit Agency, and the Defense Contract Management Agency. The independent review team issued the results of the review on December 18, 2018, which detailed results consistent with this audit. Specifically, the independent review team determined that TransDigm's spare parts were overpriced, that TransDigm took advantage of its sole-source position and

⁴⁷ Enterprise performance-based logistics contracts provide performance-based arrangements that deliver warfighter requirements and incentivize product support providers to reduce costs through innovation.

⁴⁸ The DLA awarded contract SPE4AX-18-D-9942 to AeroControlex on September 5, 2018.

refused to provide cost data, and TransDigm's part prices could not be linked to improved performance. The former Director, DPC concurred with the independent review team's finding and the independent review team provided the Director, DLA Acquisition the opportunity to comment on their report.

TransDigm Spare Parts Were Overpriced

(FOUO) The independent review team determined that the negotiated unit prices for the AeroControlex parts were overpriced. Specifically, if the DLA procures the projected number of parts under the AeroControlex contract it will pay \$119.3 million over the next 10 years for 100 parts that the DLA determined should cost \$28.3 million.⁴⁹ According to the independent review team, this equates to a 321.3-percent profit for AeroControlex. The individual profit percentages for each part ranged from a negative 95 percent to 9,426 percent. See Appendix G for the independent review team's analysis of the 100 parts. Engineers at the DLA developed the should-cost estimate by examining all available technical and cost data followed by the use of a "parametric cost estimating model."⁵⁰ The DLA negotiated the contractual prices for 3 years of the 10-year contract with AeroControlex, and will re-determine part prices after the 3-year period. The independent review team is concerned that the DLA's negotiated prices for the 3-year period would then be considered fair and reasonable and become the baseline for future pricing, this would then allow AeroControlex to continue to take advantage of its sole-source position to inflate prices even higher than the █-percent escalation rate expected in the contract.⁵¹

TransDigm Took Advantage of Its Sole-Source Position

(FOUO) The independent review team determined that the prime contractor of the enterprise performance-based logistics contract had placed AeroControlex in a monopolistic sole-source position through the prime contractor's parts licensing agreement with AeroControlex. The independent review team concluded that AeroControlex in turn capitalized on its sole-source position to charge excessive prices to the DLA for the spare parts. In 2001, the prime contractor and AeroControlex entered into an exclusive agreement for the licensing of spare parts for a minimum of 40 years. Under the agreement, only AeroControlex could produce the parts, and the prime contractor had to purchase the parts from AeroControlex.

⁴⁹ The DLA did not have sufficient data to perform should cost analysis on the remaining 15 items awarded under the contract.

⁵⁰ According to DLA, its parametric cost estimation method is based on decades of historical manufacturing and marketing data.

⁵¹ Escalation refers to price changes of particular goods and services in specific sectors of the economy.

(FOUO) However, this agreement led to large increases in part prices and concerns about the reasonableness of the increased prices. For example, in a December 2006 long-term-contract justification, the prime contractor stated,

[REDACTED]

(FOUO) According to the independent review team, AeroControlex took advantage of its superior position to force the prime contractor to pay higher prices for a military helicopter part by holding up the shipment of the part in February 2006.⁵² AeroControlex demanded a \$747 increase in unit price from [REDACTED] and would not provide justification for the demanded price increase. The part was in support of the war effort in Iraq and Afghanistan. The prime contractor stated in an e-mail that [REDACTED]. In 2018, AeroControlex proposed a price of \$11,540, or 428 percent higher than the 2006 price, for the same part in response to a DoD solicitation.

(FOUO) During negotiations for the enterprise performance-based logistics contract in 2017, the prime contractor documented [REDACTED]. The prime contractor's letter further stated that the AeroControlex analysis was [REDACTED].

In addition, the 2018 contract between the DLA and AeroControlex included nine parts that were also analyzed in the DoD OIG's 2006 report on AeroControlex. As shown in Table 3, the independent review team determined that the negotiated prices on the 2018 contract for the nine parts were significantly higher. All nine parts had price increases that ranged from 76 percent to 2,143 percent over the inflation-adjusted DoD OIG-reported prices from 2006, indicating that AeroControlex's practices have not changed in 12 years.

⁵² The contract was awarded to the prime contractor on February 28, 2005.

Table 3. Independent Review Team's Comparison of Parts from 2006 DoD OIG Report⁵³

(FOUO) NSN	Part Description	DoD OIG Cost-Based Price	DoD OIG Price Plus Escalation*	DLA Negotiated Price	Percent Difference
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	198%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	2,143
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	76
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	189
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	224
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	230
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	355
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	142
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	157 (FOUO)

* Prices escalated using PPI PCU336412 – Aircraft Engine and Engine Parts Manufacturing.

Source: "Independent Review of Contract Number SPE4AX-18-D-9442," December 18, 2018.

TransDigm is Unwilling to Share Cost Data With the DLA

(FOUO) The independent review concluded that the ability of contracting officers to obtain data in a sole-source commercial environment is constrained not only by the regulations, but by whether or not a contractor chooses to provide requested information. In the final price negotiation memorandum for the contract, the contracting officer notes that [REDACTED]

[REDACTED]

[REDACTED] In a sole-source commercial environment, a company is not compelled to provide requested uncertified cost data.

(FOUO) In addition, the independent review team had limited success locating relevant similar parts with publically available pricing information. For example, DLA Aviation purchased an [REDACTED] at a unit price of [REDACTED], with no negotiation savings achieved.⁵⁴ However a similar commercial [REDACTED] was available on the market for [REDACTED], and DLA had a should-cost analysis valued at [REDACTED].⁵⁵ According to the independent review team, the purchase price of [REDACTED] resulted in TransDigm receiving an excess profit of 790 percent over the should-cost price of [REDACTED] per unit, and an excess profit of 3,054 percent over the

⁵³ D-2016-055, "Spare Parts Procurements from TransDigm, Inc.," February 23, 2006.

⁵⁴ (FOUO) [REDACTED]

⁵⁵ (FOUO) [REDACTED]

(FOUO) commercial price of [REDACTED] per unit. According to the independent review team, this limited success illustrates a problem that is common in the world of purchasing sole-source commercial military parts, and underscores the general lack of available data in the commercial marketplace that would be relevant to determine both similarity and prices for parts.

In addition, the independent review team believed that at least a portion of the AeroControlex parts are ones that AeroControlex procures from other companies and passes the parts through to the Government at a much higher price with no apparent additional benefit. According to the independent review team, AeroControlex has consistently refused to provide information on which parts it makes and which parts that it buys. The DLA did not receive make versus buy data for the parts, despite requesting the data more than once from AeroControlex. The independent review team stated that the result was overpriced spare parts at the expense of the warfighter and taxpayer.

While AeroControlex has been unwilling to share cost data to support offered prices, the independent review team concluded that contracting officers can only request cost data after exhausting all other possibilities, and there is nothing that compels a contractor to respond to requests. The independent review team stated that contracting officers have limited tools to evaluate price reasonableness in a sole-source commercial-type acquisition, which hinders the contracting officer's ability to negotiate fair and reasonable prices.

Conclusion

(FOUO) The independent review team concluded that the prime contractor had placed the Government in an untenable situation by establishing AeroControlex as the only supplier the prime contractor can go to for the parts and then expecting the Government to follow suit. The independent review team identified parts that showed when AeroControlex became the part producer, rather than the original equipment manufacturer, the prices were raised significantly because of AeroControlex's sole-source position. For example, the prime contractor sold a [REDACTED] in 2001 for [REDACTED] and in 2005 AeroControlex sold the [REDACTED] for [REDACTED], a 617 percent increase.⁵⁶ The independent review team stated that it had located examples of other TransDigm subsidiaries during the review with similar patterns of price increases and is concerned the DoD may be overpaying for spare part on a number of DoD platforms.

⁵⁶ (FOUO) [REDACTED]

Flaws in the Federal and DoD Contract and Acquisition System

Performing a cost analysis using certified or uncertified cost data was the most reliable way to determine whether a price is fair and reasonable because it provides the most insight into the actual cost of the part. The one contract in our sample awarded with a reasonable profit was the only contract for which the contracting officer used certified cost data to determine price reasonableness. Contracting officers are required to obtain certified cost data before awarding contracts above the TINA threshold and can request uncertified costs data for those below the TINA threshold. However, contracting officers are often prevented from obtaining uncertified cost data because of the following reasons.

- The FAR enables sole-source providers and manufacturers of spare parts to avoid providing uncertified costs data, even when requested, because of the less stringent requirements for awarding small dollar value contracts and commercial item contracts.
- There is no specific requirement in the FAR or DFARS that requires or compels contractors to provide certified or uncertified cost data to the contracting officer when requested before awarding a contract.
- Statutory and regulatory requirements discourage contracting officers from asking for uncertified cost data when determining whether a price is fair and reasonable.

Contractor Interference When Determining Fair and Reasonable Prices

The FAR enables sole-source providers and manufacturers of spare parts to avoid providing uncertified cost data, even when requested, because of the less stringent requirements for awarding small dollar value contracts and commercial item contracts. This audit is not the first time the DoD OIG has identified that TransDigm denied requests for uncertified cost data. The DoD OIG first reported concerns with TransDigm in 2006.⁵⁷ DoD OIG Report No. D-2006-055 was initiated in response to a Defense Hotline allegation that a TransDigm subsidiary was charging the DLA excessive prices and using the commercial item definition to avoid the Federal requirement to provide cost or pricing data.

The audit found that given the constraints of a sole-source contracting environment, DLA contracting officers were unable to effectively negotiate prices for spare parts procured from TransDigm subsidiaries. The report recognized the difficulty contracting officers had obtaining cost data since the inception of the Federal Acquisition Streamlining Act of 1994 and Federal Acquisition Reform Act of 1996. The Federal Acquisition Streamlining Act established the simplified acquisition procedures for small dollar value contracts and the Federal Acquisition

⁵⁷ DoD OIG Report No. D-2006-055, "Spare Parts Procurements From TransDigm, Inc.," February 23, 2006.

Reform Act established exceptions for commercial item acquisition from the TINA requirements and cost accounting standards. The report concluded that cost analysis is the most effective means to validate prices for sole-source spare parts. Using cost analysis, the audit team calculated that the DLA paid about \$5.3 million, or 55.9 percent more than the fair and reasonable price for 77 parts that cost \$14.8 million.

Over 16 years, the DoD OIG has conducted a multitude of spare parts audits and in 2015 issued Report No. DODIG-2015-103.⁵⁸ The report summarized 32 reports related to spare-parts pricing for commercial and non-commercial items dating back to 1998. For 20 of the 32 reports, the DoD OIG found that the DoD did not receive fair and reasonable prices.⁵⁹

DoD OIG Report No. 98-064 highlighted another company with a similar business practice as TransDigm. The report stated that Sundstrand Aerospace (Sundstrand), a manufacturer of aerospace products, refused to negotiate catalog prices for commercial items based on price analysis of previous cost-based prices.⁶⁰ As a sole-source supplier, Sundstrand set catalog prices for commercial items at what the market would bear and there was no competitive commercial market to ensure the integrity of the prices. DLA contracting officers requested and Sundstrand refused to provide the cost or pricing data to the contracting officers when determining the fair and reasonable price for the commercial catalog items, and Sundstrand terminated the Government's access to Sundstrand's cost history system for the item.

(FOUO) Also, DoD OIG Report No. D-2008-048 identified a supplier that failed to negotiate prices and obtain cost data.⁶¹ The report stated that Dutch Valley Supply, a commercial supplier that partnered with 24 single-source manufacturers to distribute spare parts to the Government, did not effectively negotiate prices with single-source manufacturers including obtaining cost data when necessary. Dutch Valley Supply accepted the single-source manufacturers (subcontractors) prices as proposed without performing appropriate cost or price analysis to determine price reasonableness. Dutch Valley Supply preferred to use parts catalogs in order to eliminate negotiations and further reduce the administrative costs involved with quoting DoD requirements. Therefore, Dutch Valley Supply accepted prices from manufacturers that were about [REDACTED] higher than fair and reasonable and then applied average pass-through charges of [REDACTED] percent for negligible or no added value totaling about [REDACTED].

⁵⁸ DODIG-2015-103, "Summary of DoD Office of Inspector General Spare-Parts Pricing Audits: Additional Guidance is Needed," March 31, 2015.

⁵⁹ The reports reviewed 370 contracts.

⁶⁰ DoD OIG Report No. 98-064, "Commercial and Noncommercial Sole-Source Items Procured on Contract N000383-93-G-M111," June 24, 1998.

⁶¹ DoD OIG Report No. D-2008-048, "Procuring Noncompetitive Parts Through An Exclusive Distributor," February 6, 2008.

Another report, DoD OIG Report No. D-2011-061, discussed a contractor that provided cost data that was not based on actual pricing information.⁶² The report stated that Boeing, an aerospace company that designs and manufactures aircraft, missiles, launch vehicles, and satellites, furnished certified cost or pricing data that was not complete, accurate, and current for seven parts valued at \$2.2 million. Specifically, Boeing:

- used a catalog price for support; however, it had two purchase orders with better data available.
- proposed a unit price for a part on May 22, 2018; however, when the part was added to the contract on November 25, 2008, the part was incorrectly priced. Boeing acknowledged the incorrect price and processed a credit to Army Materiel Command.
- used outdated historical data from its material estimating system. Boeing had a current purchase order that was not used to establish the price.

In addition, the report stated that officials from Army Materiel Command and Boeing negotiated a contract price of \$7.0 million for 686 annular ball bearings, and the Army procured 642 annular ball bearings at a total price of \$6.7 million; a weighted average of \$10,480.71 per unit. Boeing's proposed price was based on a quote with prices that ranged for different order quantities. Two months later, Boeing procured a large quantity of annular ball bearings from its supplier at prices that were less than historical prices; however, this cost savings was not passed on to the Government.

Finally, DoD OIG Report No. D-2011-104 discussed another contractor that supplied cost data that was not accurate.⁶³ The report stated that Sikorsky Aircraft Corporation (Sikorsky), a company that manufactures and services military and commercial helicopters and fixed-wing aircraft, furnished certified cost or pricing data that was not current, complete, and accurate. Specifically, Sikorsky had information that was reasonably available that was not used to support contract prices for the aircraft safety belt, junction box cover, and indicating light panel, valued at \$1.1 million. The correct price was \$287,723, a difference of \$811,056 or 281.9 percent. Sikorsky agreed to provide refunds for each of the three parts. In addition, Sikorsky did not negotiate fair and reasonable prices or perform adequate cost or price analyses for another part. Sikorsky did not obtain cost or pricing data from all subcontractors despite each of their proposals being well over the cost or pricing data threshold.

⁶² DoD OIG Report No. D-2011-061, "Excess Inventory and Contract Pricing Problems Jeopardize the Army Contract with Boeing to Support the Corpus Christi Army Depot," May 3, 2011.

⁶³ DoD OIG Report No. D-2011-104, "Pricing and Escalation Issues Weaken the Effectiveness of the Army Contract With Sikorsky to Support the Corpus Christi Army Depot," September 8, 2011.

(FOUO) We also, identified three DoD OIG reports, issued after the summary report, where contractor actions hindered contracting officers from determining a fair and reasonable price. Specifically, DoD OIG Report No. DODIG-2015-137, DODIG-2015-120, and DODIG-2016-023 respectively stated that the:

- contracting officers did not ask for cost data because the contractor stated that it did not maintain the cost data or would not provide additional cost data or access to financial records;⁶⁴
- (FOUO) contractor historically refused to provide cost data and [REDACTED]
[REDACTED]
[REDACTED];⁶⁵ and
- (FOUO) [REDACTED]
[REDACTED] and that the contractor benefited from its status as DLA Aviation's only approved source by arguing against or delaying responses to requests for supporting data on 22 occasions until the need to sustain the military aircraft in support of DoD missions became urgent and the contracting officer had to buy the part so that the mission would not be negatively affected.⁶⁶

Federal and DoD Acquisition Policies Lack Consequences for Contractors That Refuse to Provide Uncertified Cost Data

While DoD OIG reports show examples of contractors that have refused to provide cost data to contracting officers, Federal and DoD acquisition policies still do not contain a mechanism that provides contracting officers the ability to obtain uncertified cost data from contractors when requested. In addition, new legislation is making it easier for contractors to avoid providing cost data to contracting officers. The FAR states that the acquisition of commercial items does not require certified cost or pricing data even if the acquisition is above the TINA threshold.⁶⁷ As of 2018, this means that contractors can deny the contracting officer's request for cost data even for acquisitions greater than \$2 million if the current or a prior contracting officer determines that the items or services are commercial.⁶⁸ Before FY 2018, the threshold was \$750,000.

⁶⁴ DODIG-2015-137, "Improvements Needed on DoD Procurements from Robertson Fuel Systems," June 25, 2015.

⁶⁵ DODIG-2015-120, "Defense Logistics Agency Did Not Obtain Fair and Reasonable Prices from Meggitt Aircraft Braking Systems for Sole-Source Commercial Spare Parts," May 8, 2015.

⁶⁶ DODIG-2016-023, "Improvements Needed in the Defense Logistics Agency's Evaluation of Fair and Reasonable Prices for C-130 Aircraft Spare Parts," November 16, 2015.

⁶⁷ FAR 15.403-1, "Prohibition on Obtaining Certified Cost or Pricing Data."

⁶⁸ The 2018 National Defense Authorization Act stated contracts awarded as commercial items can serve as a prior commercial item determination for future contracts.

Public Law 115-232, “John S. McCain National Defense Authorization Act for Fiscal Year 2019,” changed the requirements that allow contractors to obtain a TINA waiver. Previously, a contractor had to meet the following three criteria to receive a waiver.

- The property or services cannot reasonably be obtained under the contract without grant of the exception or waiver.
- The price can be determined to be fair and reasonable without the submission of certified cost and pricing data.
- There are demonstrated benefits to granting the exception or waiver.

The new law requires that only one of the three criteria has to be met to obtain a waiver. As a result, more contracts are eligible for the waiver. Once a waiver is obtained, certified cost data is no longer required before awarding the contract. These exceptions when applied to sole-source commercial items could lead to contractors earning excess profits without any knowledge of the Government contracting officers. While only 4 of the 47 parts we reviewed were determined by contracting officers to be commercial items, TransDigm officials claimed an additional 32 of the 47 parts we reviewed should be considered commercial items.

Statutory and Regulatory Requirements Discourage Requesting Cost Data

Furthermore, statutory and regulatory polices discourage contracting officers from asking for uncertified cost data when determining whether a price is fair and reasonable.⁶⁹ For example, the FAR states that for all acquisitions contracted by negotiation the contracting officers must obtain uncertified cost or pricing data from the contractor when it is the only means left to determine the price is fair and reasonable.⁷⁰ The FAR lists six other options contracting officers should consider before using uncertified cost data. In addition, the DFARS lists cost data last for determining price reasonableness for both commercial and noncommercial items. For contracts awarded under Simplified Acquisition Procedures, the FAR does not list obtaining cost data as an option. Public Law 114-92, “National Defense Authorization Act for Fiscal Year 2016,” re-emphasized using uncertified cost as a last resort when procuring major weapon systems as commercial items. This Act directs contracting officers to request uncertified cost data only after exhausting the other 5 options.

⁶⁹ Statutory requirements are public laws such as the National Defense Authorization Act, while regulatory requirements include the FAR and DFARS.

⁷⁰ FAR 15.404-1(b), “Price analysis for commercial and non-commercial items.”

Federal and DoD acquisition pricing policies give contractors the advantage when it comes to not providing uncertified cost data to contracting officers for sole-source parts and do not contain a mechanism that provides contracting officers the ability to obtain uncertified cost data from contractors when requested. Therefore, the DPC Principal Director should examine the United States Code, the FAR, the DFARS, and the DFARS Procedures, Guidance, and Information to determine changes needed in the acquisition process of parts produced or provided from a sole-source to ensure that contracting officers obtain uncertified cost data when requested and that the DoD receives full and fair value in return for its expenditures.

Congressional Question 2: Status of DoD Policy Reforms from Prior DoD OIG Reports

To address congressional question two, we reviewed the DoD's response to a DoD OIG report that focused on exclusive distributors and sole-source suppliers like TransDigm to identify recommendations the DoD OIG made for policy reform. Specifically, DoD OIG Report No. D-2008-048, "Procuring Noncompetitive Parts Through an Exclusive Distributor," February 6, 2008, resulted in DPC, formerly Defense Procurement and Acquisition Policy, issuing a policy reform memorandum that required the heads of DoD contracting activities to report any exclusive distributors that refuse to provide cost data when supplying sole-source parts in urgent situations (the findings and recommendations from the report and management's response are discussed in the next section of this report). We reviewed DFARS, the Army Federal Acquisition Regulation Supplement, and the Defense Logistics Acquisition Directive to determine whether the memorandum was incorporated into acquisition policy. We also interviewed DPC, Army, and DLA officials to determine how they implemented the policy.

DoD OIG Findings on Congressional Question 2: Status of DoD Policy Reforms from Prior DoD OIG Reports

DoD OIG Report No. D-2008-048 identified that DoD contracting officers were unable to effectively negotiate prices or obtain best value for sole-source parts procured through Dutch Valley Supply. Dutch Valley Supply collaborated with 24 sole-source manufacturers as an exclusive distributor. DoD contracting officers were unable to negotiate prices because:

- Dutch Valley Supply did not effectively negotiate prices with single-source manufacturers (subcontractors) including obtaining cost data when necessary;

- DoD contracting officers primarily relied on ineffective tools, such as price analysis, cost analysis of dealer costs, and dealer competition, to support price reasonableness determinations; and
- the exclusive distributor model used to procure items did not provide the best value and is less effective than the traditional DLA supply and strategic models.⁷¹

To ensure that DoD contracting officers obtained fair and reasonable prices, the audit report included a recommendation for the Under Secretary of Defense for Acquisition, Technology and Logistics to:

[i]ssue guidance that requires the Military Departments and Defense agencies to track and periodically report information about problem contractors that refuse to provide requested information necessary to determine price reasonableness and take appropriate action to address pricing issues related to specific contractors.

In response, DPC issued a policy reform memorandum on November 7, 2007, requiring the Military Departments and Defense agencies to report to DPC any exclusive distributor that provided sole-source parts that refused to provide cost data in urgent situations.⁷² See Appendix H for the memorandum. Shortly after issuance, the Navy and Air Force issued memorandums affirming and reiterating the reporting requirement.⁷³ In addition, the DLA and the Army incorporated the DPC reporting requirement into the Defense Logistics Acquisition Directive and the Army Federal Acquisition Regulation Supplement respectively.⁷⁴

However, we determined that the November 7, 2007, DPC memorandum is not being implemented within the DoD. During this audit when we asked about the requirements, DLA Acquisition officials stated that they were unaware of the requirement in the DPC memorandum and that the DLA does not track this information. Army officials stated that they were unaware of any reporting under the memorandum. The DLA also removed the DPC requirement from the latest version of the Defense Logistics Acquisition Directive. The DPC requirements remain in the Army Federal Acquisition Regulation Supplement. In addition, DPC officials stated that they had not received notifications from the DoD Components

⁷¹ An exclusive distributor is a nonmanufacturer that has an agreement with parts manufactures to be the sole Government sales representative. The model is an additional layer to the traditional procurement process.

⁷² DPC Memorandum, "Access to Records with Exclusive Distributors/Dealers," November 7, 2007.

⁷³ We could not confirm if Army also issued a memorandum affirming and reiterating the reporting requirement.

⁷⁴ The current versions of the Navy Marine Corps Acquisition Regulation Supplement and the Air Force Federal Acquisition Regulation Supplement do not include the DPC requirement. The previous Navy Marine Corps Acquisition Regulation Supplement and the Air Force Federal Acquisition Regulation Supplement were not available for review; therefore, we could not confirm whether the policy reform reporting requirement was ever in either supplement.

concerning the reporting requirements in the memorandum; nor had DPC taken any actions to ensure that the DoD Components report the information the memorandum required. In our response to questions three and four, we make recommendations to DPC that could improve the effectiveness of this memorandum.

The Government Accountability Office (GAO) issued a report that recommended policy reforms and acknowledged the difficulty that contracting officers have in obtaining needed information from contractors when determining fair and reasonable prices. GAO Report No. GAO-18-530 looked at factors that influenced the DoD's price reasonableness determinations and recommended policy reforms within the DoD.⁷⁵ The GAO identified that contracting officials have few options at their disposal when they have difficulty obtaining information from contractors in a sole-source environment. The GAO further found that the DoD has taken steps to share more information across the Department to inform the price reasonableness determinations, such as creating a publicly available database to centralize commercial item information, but efforts are in early stages of development or informal. The GAO determined that no comprehensive information sharing strategy exists within the DoD and that the publicly available database that attempted to centralize commercial item information was incomplete and lacked a responsible party for its funding, and upkeep.⁷⁶ The GAO recommended that the DoD develop a strategy for how information related to commerciality and price reasonableness determinations should be shared across the department, including making improvements to the existing database and determining who is responsible for its funding and upkeep. The DoD agreed with the GAO's recommendation and stated that actions to address the recommendations will start in 2018.

Congressional Questions 3 and 4: Measures the DoD Can Implement to Lower the Costs of Overpriced Parts and Contracting Officer Oversight

To address congressional question three, we reviewed Federal and DoD pricing policy and met with DPC officials to determine what measures could be implemented within the DoD's contracting structure to lower the costs of overpriced parts from sole-source providers like TransDigm. DPC is responsible for all contracting and procurement policy in the DoD, including updates to DFARS and its Procedures, Guidance, and Information.

⁷⁵ GAO-18-530, "Improved Information Sharing Could Help DoD Determine Whether Items are Commercial and Reasonably Priced," July 31, 2018.

⁷⁶ The database was established by Defense Contract Management Agency's Commercial Item Group.

To address congressional question four, we reviewed the DoD's contracting structure to determine who is responsible for overseeing the contracting officers. The head of each DoD contracting activity is responsible for managing and providing guidance to the contracting officers within that activity; however, no single DoD entity is responsible for this oversight of contracting officers. Contracting officers are required to follow the FAR; DFARS; DFARS Procedures, Guidance, and Information; and DoD contracting and procurement policies developed by DPC when awarding contracts.

DoD OIG's Findings on Congressional Questions 3 and 4: Measures the DoD Can Implement to Lower the Cost of Overpriced Parts and Contracting Officer Oversight

The FAR and DFARS allow contracting officers to decide whether to request uncertified cost data for acquisitions that do not require certified cost data. The FAR and DFARS do not restrict the contracting officers from awarding a contract below the TINA threshold when contractors refuse to provide uncertified cost data. The FAR states that when a contractor refuses to provide uncertified cost data to the contracting officer, the contract cannot be awarded unless the head of the contracting activity determines that it is in the best interest of the Government to make the award to the contractor.⁷⁷ Based on DPC's 2007 policy reform memorandum on companies that refuse to provide uncertified cost data in urgent situations, the heads of contracting activities should be reporting these instances to DPC. However, we found that this was not happening. For example, we identified two instances in which the DLA head of contracting could have reported the denial of cost data to DPC. The purchases were identified as an urgent need, contracting officers requested cost data, and TransDigm was the sole-source provider of the part and refused to provide the information requested. According to DPC personnel, DPC has not been notified of any denials of cost data.

In addition, if DPC had expanded the requirement to include acquisitions that do not have an urgent need and parts that are produced by a single source, then the DLA head of contracting could have reported 12 of the 15 instances in which TransDigm denied contracting officers' requests for uncertified cost data. In total, TransDigm reported that it was the sole-source manufacturer for 37 of the 47 parts; the audit team also identified an additional 2 parts where TransDigm was the sole manufacturer. Therefore, DPC should improve the 2007 policy reform memorandum to ensure that DPC and the heads of contracting activities make it a

⁷⁷ FAR 15.403-3, "Requiring Data Other Than Certified Cost or Pricing Data."

priority to oversee, track, and report a contractor's denial of uncertified cost data regardless of the circumstances. DPC also should develop an oversight framework to ensure that the DoD Components collect and report the requested data to DPC quarterly, with negative replies required.

Therefore, to lower the costs of overpriced parts purchased by the DoD, and to identify contractors that deny access to uncertified cost data, we recommend that the DPC Principal Director:

- immediately revise and update the November 7, 2007, policy reform memorandum on "Access to Records with Exclusive Distributors/Dealers" to expand the reporting requirements to all contractor denial of cost data for acquisitions of parts produced by one manufacturer, as well as for other sole-source acquisitions, regardless of whether the requirement is urgent;
- establish a framework in the revised memorandum for the quarterly reporting and validation of consolidated information by the DoD Components to the DPC Principal Director based on the requirements of the expanded requirements of the revised memorandum;
- incorporate the requirements from the revised memorandum into DFARS and DFARS Procedures, Guidance, and Information; and
- establish a team of functional experts to analyze data reported as a result of the revised and updated memorandum. The team of functional experts would:
 - assess parts and contractors deemed to be at high risk for unreasonable pricing and identify trends; and
 - perform price analysis and cost analysis of high-risk parts to identify lower cost alternatives or fair and reasonable pricing for future procurements.

Conclusion

~~(FOUO)~~ The acquisition of sole-source spare parts presents a unique problem for DoD contracting officers because of the absence of market forces and a competitive pricing strategy to control prices. TransDigm reported that it was the sole-source manufacturer for 37 of the 47 parts in our sample and the audit team also identified an additional two; therefore, the DLA and Army contracting officers could purchase those 39 parts only from TransDigm. Our analysis identified only one part purchased within our sample had a reasonable profit of 11 percent. That contract was above the level that required certified cost data to award the contract and had no exceptions to obtaining certified cost data. The remaining 112 contracts for the 46 parts had profit levels for the parts that ranged from

(FOUO) 17 to 4,451 percent. This is not the first time the DoD OIG has found that TransDigm has charged the DLA excess profit for parts. DoD OIG Report No. D-2006-055 determined that the DLA paid about \$5.3 million, or [REDACTED] percent, more than the fair and reasonable price for 77 parts that cost [REDACTED].

Performing a cost analysis using certified or uncertified cost data is the most reliable way to determine whether a price is fair and reasonable because certified and uncertified cost data provides the contracting officer with the most insight into the actual cost of the spare part. For example, contracting officers determined that the 47 parts in our sample had fair and reasonable prices based on historical price analysis and competition. These methods of determining price reasonableness resulted in profits for parts between 17 to 4,451 percent. The only reasonable price in our sample was for a part for which TransDigm provided the contracting officer certified cost data. However, statutory and regulatory requirements discourage contracting officers from asking for uncertified cost data when determining whether a price is fair and reasonable. For example, the FAR lists six other pricing methods contracting officers should consider before using uncertified cost data, and the DFARS lists cost data last for determining price reasonableness. For contracts awarded under Simplified Acquisition Procedures, the FAR does not list obtaining cost data as an option.

When contracting officers do request uncertified cost data, contracting officers have limited options when contractors refuse to provide the uncertified cost data. Contracting officers had the option of buying the parts without receiving cost data or not buying the parts needed to meet mission requirements. In addition, the other methods available to the contracting officer to determine whether the price was fair and reasonable are often times ineffective. Both this report and the prior report on TransDigm determined that contracting officers could not obtain uncertified cost data from TransDigm when they needed to make informed price reasonableness decisions. In addition, several other DoD OIG reports issued since 1998 have had similar findings of contracting officers not being able to obtain cost data from contractors or contractor interference when contracting officers tried to determine a fair and reasonable price for spare parts. When a contractor refuses to provide cost data, there is no specific requirement in the FAR or DFARS that requires or compels contractors to provide certified or uncertified cost data to the contracting officer before awarding the contract.

When contracting officers are denied access to uncertified cost data, they may use historical price analysis, among other methods, to determine price reasonableness. However, we found that historical prices for TransDigm's parts were inflated and thus were unreliable sources of information. Without the uncertified cost data,

the contracting officers had limited information and could not make fully informed decisions about the costs of the parts they purchased. Therefore, without insight into TransDigm's costs to produce the parts, TransDigm earned \$16.1 million in excess profit for 46 parts sold to the DLA and Army for \$26.2 million between January 2015 and January 2017. In addition, the DoD could continue paying excess profits on parts purchased from sole-source manufactures and providers of spare parts if statutory and regulatory requirements are not changed to allow contracting officers more access to contractors' uncertified cost data.

Management Comments on the Finding and Our Response

Defense Pricing and Contracting Comments

The DPC Acting Principal Director comments on the draft report were in addition to previously submitted comments by the former DPC Director.⁷⁸ The former Director stated that the DoD OIG report could form the basis of change with regard to dealing with overpriced spare parts. He stated that the only defense against companies that overprice spare parts is avoiding doing business with those companies whenever possible through competitive means, ensuring that there are statutory provisions that address "war profiteering" and price gouging, and ensuring the existence of legislative provisions that compel companies to provide cost data when required. The former Director further stated that "the so-called value based pricing concepts are no more than an industrial code word for unfettered price gouging."

The former Director stated that his office appreciates what Congress has done to change the commercial items statutes to allow more commercial company participation in providing goods and services to the DoD. However, he stated that these actions have led to unintended opportunities for abuse by companies to gouge the taxpayers. Furthermore, he stated that over the last several years National Defense Authorization Acts have reduced the ability of contracting officers to obtain cost data to ensure DoD is receiving a fair and reasonable price. The former Director provided as an example the "National Defense Authorization Act for Fiscal Year 2016" that removed the requirement for contracting officers to determine if they had adequate data to determine price reasonableness as part of the commercial item determination on spare parts for major systems. In addition, the National Defense Authorization Act for Fiscal Year 2018 increased the TINA threshold from \$750,000 to \$2 million for non-commercial items, which the former

⁷⁸ The prior DPC Director comments were submitted on October 16, 2018.

Director stated will benefit major weapon systems but will hurt the buying of spare parts. The former Director stated that for items below the TINA threshold, there is nothing that compels a contractor to provide cost data when required by a contracting officer.

The former Director stated that there is a possibility to use the Defense Contract Management Agency Commercial Item Pricing Center to establish a team of sustainment pricing experts. However, he stated that additional staff will be required, and as is the case with DPC, the Defense Contract Management Agency has manpower constraints. He further stated that the DoD needs to look to other ways to address and combat problems with overpriced parts because the traditional recommendations of increased reporting and oversight, increased training, and revised departmental policies do not get at the root of the problem. He stated that the DoD needs legislative change to address price gouging and war profiteering.

The former Director recommended that Congress consider the reestablishment of some form of the Vinson-Trammell Act to combat companies that refuse to provide cost data for military sole source items or items that companies claim are commercial-of-a-type but have no commercial sales basis to establish the reasonableness of the item's price.⁷⁹

Our Response

We agree with the former DPC Director that statutory change is needed to compel companies to provide cost data when required and provide the contracting officers with the ability to obtain cost data to ensure DoD is receiving fair and reasonable prices.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Defense Logistics Agency Director consider all available corrective actions with TransDigm, including but not limited to the following.

- a. Directing Defense Logistics Agency Aviation contracting officers to seek a voluntary refund from TransDigm of:**
 - 1. approximately \$2.0 million in excess profit for the 13 purchases that contracting officers requested uncertified cost data for but TransDigm refused to provide, and**

⁷⁹ The Vinson-Trammell Act, enacted in 1934, placed fixed limits on profits of contracts and subcontracts over \$10,000, for the manufacture or construction of all or part of a complete military aircraft or naval vessel.

2. **approximately \$2.4 million in excess profit for the 23 purchases that we identified contained excess profit.**

Defense Logistics Agency Comments

The DLA Acquisition Director, responding for the DLA Director, agreed with the recommendation, stating that DLA Aviation reviewed the purchase orders and contracts awarded to TransDigm subsidiaries that were identified in this report as having excess profits and concluded that voluntary refunds were appropriate. On January 11, 2019, the DLA Aviation Head of Contracting sent letters requesting a total of approximately \$4.4 million in voluntary refunds from 10 TransDigm subsidiaries.

Our Response

Comments from the DLA Acquisition Director addressed the recommendation; therefore, the recommendation is resolved, but will remain open until we receive TransDigm's response to DLA.

- b. **Directing Defense Logistics Agency Land and Maritime contracting officers to seek a voluntary refund from TransDigm of:**
 1. **approximately \$0.4 million in excess profit for the one purchase that the contracting officer requested uncertified cost data for but TransDigm refused to provide, and**
 2. **approximately \$11.1 million in excess profit for the 72 purchases that we identified contained excess profit.**

Defense Logistics Agency Comments

The DLA Acquisition Director, responding for the DLA Director, agreed with the recommendation, stating that DLA Land and Maritime reviewed the purchase orders and contracts awarded to TransDigm subsidiaries that were identified in this report as having excess profits and concluded that voluntary refunds were appropriate. On January 18, 2019, the DLA Land and Maritime Head of Contracting sent letters requesting a total of approximately \$11.5 million in voluntary refunds from eight TransDigm subsidiaries.

Our Response

Comments from the DLA Acquisition Director addressed the recommendation; therefore, the recommendation is resolved, but will remain open until we receive TransDigm's response to DLA.

Recommendation 2

We recommend that the Army Contracting Command–Redstone Executive Director consider all available corrective actions with TransDigm, including but not limited to directing the Army Contracting Command–Redstone contracting officer to seek a voluntary refund from TransDigm of approximately \$0.2 million in excess profit for the one purchase that the contracting officer requested uncertified cost data for but TransDigm refused to provide.

Army Contracting Command

The ACC Deputy Commanding General, responding for the ACC-Redstone Executive Director, agreed with the recommendation, stating that ACC-Redstone personnel will request a voluntary refund from TransDigm in the amount of \$184,966 by February 28, 2019.

Our Response

Comments from the Deputy Commanding General addressed the recommendation; therefore, the recommendation is resolved, but will remain open until we receive documentation detailing a request made to TransDigm for a refund and TransDigm's response.

Recommendation 3

We recommend that the Army Contracting Command–Aberdeen Proving Ground Executive Director consider all available corrective actions with TransDigm including, but not limited to, directing the Army Contracting Command–Aberdeen Proving Ground contracting officer to seek a voluntary refund from TransDigm of \$18,330 in excess profit for the two purchases that we identified contained excess profit.

Army Contracting Command Comments

The ACC Deputy Commanding General, responding for the ACC-Aberdeen Proving Ground Executive Director, agreed with the recommendation, stating that ACC-Aberdeen Proving Ground personnel will request a voluntary refund from TransDigm in the amount of \$18,330 by February 28, 2019.

Our Response

Comments from the Deputy Commanding General addressed the recommendation; therefore, the recommendation is resolved, but will remain open until we receive documentation detailing a request made to TransDigm for a refund and TransDigm's response.

Recommendation 4

We recommend that the Defense Pricing and Contracting Principal Director:

- a. **Examine the United States Code, Federal Acquisition Regulation, Defense Federal Acquisition Regulation Supplement, and the Defense Federal Acquisition Regulation Supplement Procedures, Guidance, and Information, to determine changes needed in the acquisition process of parts produced or provided from a sole-source to ensure that contracting officers obtain uncertified cost data when requested and that the DoD receives full and fair value in return for its expenditures.**

Defense Pricing and Contracting Comments

The DPC Acting Principal Director agreed with the recommendation.

Our Response

Comments from the Acting Principal Director partially addressed the recommendation; therefore, the recommendation is unresolved. We request that the Acting Principal Director provide additional details on the actions that the Acting Principal Director will take to examine statutory and regulatory requirements to determine changes needed to the acquisition process of parts produced or provided from a sole-source to ensure that contracting officers obtain uncertified cost data when requested and that the DoD receives full and fair value in return for its expenditures.

- b. **Immediately revise and update the November 7, 2007, policy reform memorandum on “Access to Records with Exclusive Distributors/Dealers” to expand the reporting requirements to all contractor denial of cost data for acquisitions of parts produced by one manufacturer, as well as for other sole-source acquisitions, regardless of whether the requirement is urgent.**

Defense Pricing and Contracting Comments

The DPC Acting Principal Director agreed with the recommendation, stating that he directed his staff to update the November 7, 2007 policy reform memorandum on “Access to Records with Exclusive Distributors/Dealers.”

Our Response

Comments from the Acting Principal Director addressed the recommendation; therefore, the recommendation is resolved, but will remain open until we receive the revised policy memorandum on “Access to Records with Exclusive Distributors/Dealers.”

- c. **Establish a framework in the revised memorandum for the quarterly reporting and validation of consolidated information by the DoD Components to the Defense Pricing and Contracting Principal Director based on the expanded requirements of the revised memorandum.**

Defense Pricing and Contracting Comments

The DPC Acting Principal Director agreed with the recommendation. The former DPC Director noted that the expansion of reporting requirements on a quarterly basis does not resolve the overarching problem of contracting officers receiving cost data when they require it, the issue is and remains that contractors refuse to provide the relevant cost data and the lack of a legal requirement that compels contractors to provide the data.

Our Response

Comments from the Acting Principal Director partially addressed the recommendation; therefore, the recommendation is unresolved. We request that the Acting Principal Director provide additional details on the framework for the quarterly reporting and validation of consolidated information by the DoD Components to DPC based on the expanded requirements of the revised memorandum.

- d. **Incorporate the requirements from the revised memorandum into the Defense Federal Acquisition Regulation Supplement and the Defense Federal Acquisition Regulation Supplement Procedures, Guidance, and Information.**

Defense Pricing and Contracting Comments

The DPC Acting Principal Director agreed with the recommendation, stating that he will direct his staff to amend the DFARS as appropriate to reflect the revised memorandum.

Our Response

Comments from the Acting Principal Director addressed the recommendation; therefore, the recommendation is resolved, but will remain open until we receive documentation detailing the amended DFARS.

- e. **Establish a team of functional experts to analyze data reported as a result of the revised and updated memorandum. The team of functional experts would:**
 - 1. **Assess parts and contractors deemed to be at high risk for unreasonable pricing and identify trends.**
 - 2. **Perform price analysis and cost analysis of high-risk parts to identify lower cost alternatives or fair and reasonable pricing for future procurements.**

Defense Pricing and Contracting Comments

The DPC Acting Principal Director agreed with the recommendation. The Acting Principal Director will recommend that the Under Secretary of Defense for Acquisition and Sustainment request a group of experts from the Military Departments, DLA, and the Defense Contract Management Agency to identify and share information regarding contractors found to be high risk for unreasonable pricing and perform price and cost analysis on high-risk parts.

Our Response

Comments from the Acting Principal Director addressed the recommendation; therefore, the recommendation is resolved, but will remain open. We will close this recommendation when we receive documentation that the team of functional experts has been established and is assessing parts and contractors deemed to be high risk for unreasonable pricing and performing price and cost analyses of high-risk parts to identify lower cost alternatives.

Appendix A

Scope and Methodology

We conducted this performance audit from June 2017 through December 2018 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Interviews and Documentation

We interviewed DLA Aviation, DLA Land and Maritime, and Army contracting officials to determine whether the DoD purchased parts at fair and reasonable prices from TransDigm. We met with contracting officials to discuss the parts, negotiations, evaluations of prices, and determinations of price reasonableness. We interviewed DPC officials to determine the extent of policy reforms for contractors that refuse to provide uncertified cost data necessary to determine price reasonableness. TransDigm personnel reviewed and commented on relevant portions of the draft report, and TransDigm's comments were considered in preparing the final report.

We reviewed the DLA Aviation, DLA Land and Maritime, Army, and TransDigm documentation. Specifically, we reviewed:

- contracts,
- price negotiation memorandums,
- negotiation documentation,
- price analysis worksheets,
- TransDigm proposals,
- TransDigm purchase orders, and
- TransDigm bills of material.

We reviewed the following policy and guidance related to contract pricing.

- FAR 2.101, "Definitions"
- FAR 13.003, "Policy"
- FAR 13.101, "General"
- FAR 13.106-3, "Award and Documentation"

- FAR Subpart 15.4, “Contract Pricing”
- DFARS Subpart 215.4, “Contract Pricing”
- DFARS Procedures, Guidance, and Information 215.403-3, “Requiring Data Other Than Certified Cost or Pricing Data”

We also reviewed and summarized the report on the “Independent Review of Contract Number SPE4AX-18-D-9442.” We reviewed and validated the independent review team’s analysis against the team’s source documentation.

Nonstatistical Audit Sample of TransDigm Parts

We reviewed the Federal Procurement Data System-Next Generation (FPDS-NG) to identify all contracts the DoD issued to TransDigm from April 2012 through January 2017.⁸⁰ From April 2012 through January 2017, the DoD issued 4,942 contracts, valued at \$471 million. To answer the objective, we limited our scope to a 2-year period from January 2015 to January 2017. We nonstatistically selected 47 parts, purchased on 47 separate contracts, to include in our review.⁸¹ The contracts were awarded by DLA Aviation, DLA Land and Maritime, and the Army from January 2015 to January 2017 and contained \$18.9 million worth of parts in our sample. Specifically, we selected contracts from three groups based on a risk assessment of the level of required analysis a contracting officer was required to perform before awarding a contract.

Contracts at or above the \$750,000 Truth In Negotiations Act threshold (2 parts – low risk), because the parts required certified cost or pricing data unless a Truth In Negotiations Act exception applied.

Contracts between the \$750,000 Truth In Negotiations Act threshold and the \$150,000 simplified acquisition threshold (13 parts – moderate risk), because the contracting officers are more likely to request uncertified cost data for these contracts.

Contracts at or below the \$150,000 simplified acquisition threshold (32 parts – high risk) because Simplified Acquisition Procedures have the least restrictive requirements for award.

⁸⁰ DoD report data is delayed 90 days.

⁸¹ From January 2015 to January 2017, the DLA and Army purchased the 47 parts on 113 contracts for \$29.6 million.

Review of Price Reasonableness Determinations

We reviewed the contracting officers' contract files to determine whether the contracting officer obtained sufficient documentation to determine a fair and reasonable price for 47 parts. We reviewed price negotiation memorandums, simplified acquisition award documentation, and other price justification to understand the processes contracting officials used to determine whether prices were fair and reasonable. We reviewed how, or whether, the contracting officers validated the previous price as fair and reasonable.

Cost Analysis

We performed cost analysis to determine whether TransDigm had supporting cost data for 47 parts. We verified the bills of material against transaction summaries, reviewed labor to verify calculations, reviewed sales, general and administrative rates for consistency by company and year. The FAR identifies profit percentage for three contract types, none of which were in our sample. However, we used the highest profit percentage of 15 percent as a benchmark for our analysis. To verify our benchmark, we selected eight contracts that the DLA issued in 2015 and 2016 that had the same Federal Supply Classification as the parts in our sample and required certified cost or pricing data. We then averaged the profit percentages for the eight parts, which resulted in a profit of 13.9 percent. We determined that 13.9 percent was in line with our benchmark and therefore, a 15-percent profit was a reasonable profit and any profit over the 15 percent would be excess profit.

We calculated the excess profit for the 46 parts by using the cost per part that TransDigm provided, adding a 15-percent profit, and subtracting the result from the contract's price per unit. We calculated the total excess profit by multiplying the excess profit per part by the quantity of each part acquired. We identified 113 contracts that the DLA and the Army awarded to purchase the 47 parts from TransDigm. Then, we added the total for all 113 contracts to reach a total excess profit. The team calculated the voluntary refunds for the 15 purchases that contracting officers requested cost data for but TransDigm refused to provide.

Use of Computer-Processed Data

We used computer-processed data from the FPDS-NG, IHS Haystack Gold, and Electronic Document Access (EDA). The FPDS-NG provides a comprehensive web-based tool for agencies to report contract actions. The FPDS-NG is used for recurring and special reports to the President, Congress, the Government Accountability Office, Federal executive agencies, and the public. We obtained

contract actions from the FPDS-NG to develop a universe of parts purchased from TransDigm. To assess the reliability, we compared the contract actions obtained from the FPDS-NG to contract documents obtained from the EDA. We used IHS Haystack Gold to identify the procurement history, including quantities and unit prices, for the parts selected for review. To assess the reliability, we compared the procurement history information to contract documents obtained from the EDA. To assess the reliability of the EDA data, we compared the documents obtained from the EDA to documents obtained from the contracting offices. As a result, we determined that the FPDS-NG, IHS Haystack Gold, and EDA computer-processed data were sufficiently reliable to support our findings and conclusions.

To calculate fair and reasonable prices, we obtained uncertified cost data from TransDigm. The cost data was obtained from eight enterprise resource planning systems—MAPICS, MAX, Syspro, MACPAC, Vantage, Visual, Oracle, and Syteline. TransDigm provided that the data from the enterprise resource planning systems are verified through TransDigm’s internal audit process. To verify the accuracy of the data, we reviewed the material handling, manufacturing overhead, and sales, general and administrative expenses applied to the costs and verified consistent application to all parts for each TransDigm subsidiary. We used the cost data TransDigm provided to calculate fair and reasonable prices and identified differences between the costs to manufacture the parts and the prices TransDigm charged the DoD. We determined that the data were sufficiently reliable for the purposes of this audit.

Prior Coverage

The GAO issued one report in the last 5 years related to commercial procurements and problems with contractors refusing to provide uncertified cost data.

Unrestricted GAO reports can be accessed at <https://www.gao.gov/>. Additionally, the DoD OIG issued four reports related to commercial procurements and problems with contractors refusing to provide uncertified cost data in the last 5 years.

The DoD OIG also issued two reports related to TransDigm. These two reports were issued more than 5 years ago and specifically discussed TransDigm and its subsidiaries. We included the reports in this summary of prior coverage because the report directly related to congressional question two. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

GAO

Report No. GAO-18-530, "Defense Contracts: Improved Information Sharing Could Help DOD Determine Whether Items Are Commercial and Reasonably Priced," July 31, 2018

The GAO found four interrelated factors that influenced how and whether the DoD determines if an item is commercial and if its price is reasonable. These factors are: availability of marketplace information, ability to obtain contractor data, extent of modifications to an item, and reliability of prior commercial item determinations. The GAO found that creating more opportunities to share information internally is crucial for the DoD to facilitate a timely and efficient process in making these determinations and ensuring the best financial outcome for the government. The GAO recommended that the DoD develop a strategy for how information related to commerciality and price reasonableness determinations should be shared across the department, including making improvements to the existing database and determining responsibilities for its funding and upkeep.

DoD OIG

Report No. DODIG-2016-047, "Defense Logistics Agency Did Not Appropriately Determine Fair and Reasonable Prices for F108 Engine Sole-Source Commercial Parts," February 16, 2016

The DLA Aviation contracting officer did not appropriately determine fair and reasonable prices for sole-source commercial spare parts purchased from CFM International. The contracting officer accepted commercial off-the-shelf classification for parts with no commercial sales, did not conduct a sufficient price analysis, and did not require CFM International to comply with a contract requirement to submit negotiation documentation within stated timelines. As a result, the contracting officer did not request or obtain additional data necessary to determine if the maximum value contract price of \$1 billion was fair and reasonable.

Report No. DODIG-2016-023, "Improvements Needed in the Defense Logistics Agency's Evaluation of Fair and Reasonable Prices for C-130 Aircraft Spare Parts," November 16, 2015

DLA Aviation contracting officers did not perform adequate proposal analysis to determine fair and reasonable prices for supply-support services and selected spare parts. This occurred because contracting officers did not adequately justify a commercial item determination, effectively and efficiently obtain sufficient data-other-than-certified cost or pricing data, perform sufficient cost analysis of service fees and materials, include an economic price-adjustment clause, and establish adequate performance criteria to pay delivery-based incentives.

In addition, DLA Aviation contracting officers did not adequately support fair and reasonable price determinations. This occurred because contracting officers did not evaluate the reasonableness of proposed cost elements and applied outdated average industry rates. As a result, DLA Aviation paid increased prices, totaling \$2.5 million, without assurance the prices were fair and reasonable. Additionally, DLA Aviation will risk overpaying for the same parts if those prices are used to determine whether future proposed prices are fair and reasonable.

Report No. DODIG-2015-137, "Improvements Needed on DoD Procurements from Robertson Fuel Systems," June 25, 2015

The DoD did not effectively procure fuel systems and parts from Robertson on nine nonstatistically selected, sole source contracts. This occurred because contracting officers could not support the commercial item or fair and reasonable price determinations. The contracting officers did not have clear guidance when they made commercial item determinations and identified a minor modification, obtain certified cost or pricing data or a waiver for items determined noncommercial, request or was refused other-than-certified cost or pricing data, or perform adequate price analysis. As a result, contracting officers applied the commercial item definition to items without evidence of commercial sales and without evidence that the item was of a type customarily used by the general public. This inhibited the contracting officers' ability to develop an effective bargaining position and gave the contractor significant control in contract negotiations. In addition, the contracting officers did not have the data to determine if the \$77 million spent on the contracts was fair and reasonable.

Report No. DODIG-2015-120, "Defense Logistics Agency Did Not Obtain Fair and Reasonable Prices From Meggitt Aircraft Braking Systems for Sole-Source Commercial Spare Parts," May 8, 2015

The DLA Aviation contracting officer did not obtain fair and reasonable prices for 51 of 54 statistically sampled sole-source commercial spare parts. The contracting officer did not sufficiently conduct a price analysis in accordance with federal and defense acquisition regulations, obtain cost data, or perform cost analysis on parts with prices not supported by commercial sales data. As a result, the DLA potentially overpaid \$8.5 million of \$17 million for 32 sole-source commercial spare parts reviewed.

Report No. D-2008-048, "Procuring Noncompetitive Parts Through an Exclusive Distributor," February 6, 2008

~~(FOUO)~~ Contracting officers were unable to effectively negotiate prices or obtain best value for noncompetitive parts procured through Dutch Valley Supply. As a result, the DoD paid about \$3.0 million (75.0 percent) more than the fair and reasonable prices for 33 parts that cost about \$6.9 million. Dutch Valley Supply accepted prices from manufacturers that were about [REDACTED] percent) higher than fair and reasonable and then applied average pass-through charges of [REDACTED] percent for negligible or no added value totaling about [REDACTED]. The exclusive distributor model increased lead times and associated inventory levels [REDACTED].

Report No. D-2006-055, "Spare Parts Procurements from TransDigm, Inc.," February 23, 2006

~~(FOUO)~~ Given the constraints of a sole-source contracting environment, DLA contracting officers were unable to effectively negotiate prices for parts procured from TransDigm subsidiaries. Using cost analysis, the audit team determined that the DLA paid about \$5.3 million, or [REDACTED] percent, more than the fair and reasonable price for 77 parts that cost [REDACTED].

Appendix B

TransDigm Subsidiaries

Subsidiary Name	Jurisdiction of Incorporation or Organization
Abbott Electronics Ltd.	England
Acme Aerospace, Inc.	Delaware
Adams Rite Aerospace, Inc.	California
Adams Rite Aerospace GmbH	Germany
Advanced Inflatable Products Limited	England
AeroControlex Group, Inc.	Delaware
Aerosonic LLC	Delaware
Air-Sea Survival Equipment Trustee Limited	England
Airborne Acquisition, Inc.	Delaware
Airborne Global, Inc.	Delaware
Airborne Holdings, Inc.	Delaware
Airborne Systems Canada Ltd.	Ontario, Canada
Airborne Systems France	France
Airborne Systems Group Limited	England
Airborne Systems Holdings Limited	England
Airborne Systems Limited	England
Airborne Systems NA, Inc.	Delaware
Airborne Systems North America Inc.	Delaware
Airborne Systems North America of CA Inc.	Delaware
Airborne Systems North America of NJ Inc.	New Jersey
Airborne Systems Pension Trust Limited	England
Airborne UK Acquisition Limited	England
Airborne UK Parent Limited	England
Aircraft Materials Limited	England
AmSafe, Inc.	Delaware
AmSafe Aviation (Chongqing), Ltd.	China
AmSafe Bridport Ltd.	England
AmSafe Bridport (Kunshan) Co., Ltd.	China
AmSafe Bridport (Private) Ltd.	Sri Lanka

TransDigm Subsidiaries (cont'd)

Subsidiary Name	Jurisdiction of Incorporation or Organization
AmSafe Global Holdings, Inc.	Delaware
AmSafe Global Services (Private) Limited	Sri Lanka
ARA Deutschland GmbH	Germany
ARA Holding GmbH	Germany
Arkwin Industries, Inc.	New York
Aviation Technologies, Inc.	Delaware
Avionic Instruments Germany GmbH	Germany
Avionics Instruments LLC	Delaware
Avionics Specialties, Inc.	Virginia
AvtechTye, Inc.	Washington
Beta Transformer Mexico, S. de R.L. de C.V.	Mexico
Beta Transformer Technology Corporation	New York
Beta Transformer Technology LLC	Delaware
Breeze-Eastern LLC	Delaware
Bridport-Air Carrier, Inc.	Washington
Bridport Erie Aviation, Inc.	Delaware
Bridport Holdings, Inc.	Delaware
Bridport Ltd.	England
Bruce Aerospace, Inc.	Delaware
CDA InterCorp LLC	Florida
CEF Industries, LLC	Delaware
Champion Aerospace LLC	Delaware
Data Device Corporation	Delaware
DDC Electronics K.K.	Japan
DDC Electronics Ltd.	England
DDC Electronics Private Limited	India
DDC Elektronik, GmbH	Germany
DDC Electronique, S.A.R.L.	France
DDC Holdings (UK) Limited	England
DDC (United Kingdom) Ltd.	England
DDL195 Limited	England

TransDigm Subsidiaries (cont'd)

Subsidiary Name	Jurisdiction of Incorporation or Organization
Dukes Aerospace, Inc.	Delaware
Edlaw Limited	England
Electromech Technologies LLC	Delaware
Elektro-Metall Export GmbH	Germany
Elektro-Metall Paks KFT	Hungary
GQ Parachutes Limited	England
HARCO LLC	Connecticut
Hartwell Corporation	California
ILC Holdings, Inc.	Delaware
ILC Industries, LLC	Delaware
Interiors in Flight LLC	Delaware
Irvin Aerospace Limited	England
Irvin-GQ Limited	England
Johnson Liverpool LLC	Delaware
Kunshan Shield Restraint Systems, Ltd.	China
MarathonNorco Aerospace, Inc.	Delaware
McKechnie Aerospace DE, Inc.	Delaware
McKechnie Aerospace DE, LP	England
McKechnie Aerospace (Europe) Ltd.	England
McKechnie Aerospace Holdings, Inc.	Delaware
McKechnie Aerospace US LLC	Delaware
Mecanismos de Matamoros S.A. de C.V.	Mexico
Militair Aviation, Ltd.	England
Nordisk Asia Pacific Limited	Hong Kong
Nordisk Asia Pacific Pte Ltd	Singapore
Nordisk Aviation Products AS	Norway
Nordisk Aviation Products (Kunshan) Ltd.	China
North Hills Signal Processing Corp.	Delaware
North Hills Signal Processing Overseas Corp.	Delaware
Pascall Electronics Limited	England
Pemberton 123 Ltd.	England

TransDigm Subsidiaries (cont'd)

Subsidiary Name	Jurisdiction of Incorporation or Organization
Pexco Aerospace, Inc.	Delaware
PneuDraulics, Inc.	California
Rancho TransTechnology Corporation	California
Retainers, Inc.	New Jersey
Schneller Asia Pte. Ltd.	Singapore
Schneller LLC	Delaware
Schneller S.A.R.L.	France
Schroth Safety Products GmbH	Germany
SCHROTH Safety Products LLC	Delaware
Semco Instruments, Inc.	Delaware
Shield Restraint Systems, Inc.	Delaware
Shield Restraint Systems, Ltd.	England
Signal Processing Matamoros S.A. de C.V.	Mexico
Skurka Aerospace, Inc.	Delaware
SSP Industries	California
Tactair Fluid Controls, Inc.	New York
TDG Cayman Limited	Cayman Islands
TDG Germany GmbH	Germany
TDG Netherlands BV	Netherlands
Technical Airborne Components Limited	England
Technical Airborne Components Industries SPRL	Belgium
Telair US LLC	Delaware
Telair International AB	Sweden
Telair International GmbH	Germany
Telair International LLC	Delaware
Telair International Services PTE Ltd (JV 70.5%)	Singapore
Texas Rotronics, Inc.	Texas
TransDigm (Barbados) SRL	Barbados
TransDigm Holdings UK Limited	UK
TransDigm Ireland Ltd.	Ireland
TransDigm Receivables LLC	Delaware

TransDigm Subsidiaries (cont'd)

Subsidiary Name	Jurisdiction of Incorporation or Organization
Transicoil (Malaysia) Sendirian Berhad	Malaysia
Transicoil LLC	Delaware
TransTechnology Germany GmbH	Germany
TransTechnology International Corporation	Delaware
TTERUSA, Inc.	New Jersey
Whippany Actuation Systems, LLC	Delaware
XCEL Power Systems Ltd.	England
Young & Franklin Inc.	New York

Source: TransDigm 2017 10-K Report, as of September 30, 2017.

Appendix C

Cost Analysis and Excess Profit

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part ¹	Total Parts	Total Excess Profit	TransDigm's Excess Profit Percentage
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$140,653	4,436
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	68,920	4,436
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	76,377	4,082
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	95,023	3,930
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	83,744	3,884
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	67,734	3,884
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	145,030	3,359
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	67,700	2,359

¹ Rounded to the nearest dollar value.

² The audit team conducted a more thorough review of the contract, including performing in-depth analysis of the contract files received from the Army and DLA and interviewing the contracting officers.

Cost Analysis and Excess Profit (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part ¹	Total Parts	Total Excess Profit	TransDigm's Excess Profit Percentage
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	141,749	1,976
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	140,475	1,923
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	71,460	1,826
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	67,845	1,734
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	58,799	1,734
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	131,032	1,680
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	132,827	1,385
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	130,876	1,151
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	129,052	1,140
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	86,248	869

¹ Rounded to the nearest dollar value.

² The audit team conducted a more thorough review of the contract, including performing in-depth analysis of the contract files received from the Army and DLA and interviewing the contracting officers.

Cost Analysis and Excess Profit (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part ¹	Total Parts	Total Excess Profit	TransDigm's Excess Profit Percentage
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	165,612	830
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	47,454	813
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	123,380	813
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	11,132	741
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	86,077	663
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	116,953	627
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	79,917	615
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	110,413	610
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	45,293	603
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	124,565	589

¹ Rounded to the nearest dollar value.

² The audit team conducted a more thorough review of the contract, including performing in-depth analysis of the contract files received from the Army and DLA and interviewing the contracting officers.

Cost Analysis and Excess Profit (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part ¹	Total Parts	Total Excess Profit	TransDigm's Excess Profit Percentage
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	591,436	545
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	98,768	532
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	92,841	532
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	43,458	532
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	109,965	445
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	86,646	436
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	184,966	428
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	528,581	356
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	87,558	351
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	112,611	346
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	112,208	345

¹ Rounded to the nearest dollar value.

² The audit team conducted a more thorough review of the contract, including performing in-depth analysis of the contract files received from the Army and DLA and interviewing the contracting officers.

Cost Analysis and Excess Profit (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part ¹	Total Parts	Total Excess Profit	TransDigm's Excess Profit Percentage
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	112,208	345
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	133,527	329
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	40,457	329
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	95,158	329
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	49,772	319
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	121,138	318
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1,010,266	317
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	104,037	314
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	64,066	308
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	34,945	308
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	116,484	308
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	54,301	299

¹ Rounded to the nearest dollar value.

² The audit team conducted a more thorough review of the contract, including performing in-depth analysis of the contract files received from the Army and DLA and interviewing the contracting officers.

Cost Analysis and Excess Profit (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part ¹	Total Parts	Total Excess Profit	TransDigm's Excess Profit Percentage
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	15,515	299
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	450,237	297
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	488,431	283
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	98,816	283
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	87,522	283
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	488,431	283
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	67,112	280
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	67,112	280
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	100,668	280
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	106,061	278
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	412,395	275
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	102,200	262

¹ Rounded to the nearest dollar value.

² The audit team conducted a more thorough review of the contract, including performing in-depth analysis of the contract files received from the Army and DLA and interviewing the contracting officers.

Cost Analysis and Excess Profit (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part ¹	Total Parts	Total Excess Profit	TransDigm's Excess Profit Percentage
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	198,509	260
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	193,856	260
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	79,093	260
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	2,283,964	259
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	102,460	259
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	31,732	244
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	25,385	244
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	191,882	236
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	93,830	236
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	97,339	213
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	71,907	197
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	437,237	195

¹ Rounded to the nearest dollar value.

² The audit team conducted a more thorough review of the contract, including performing in-depth analysis of the contract files received from the Army and DLA and interviewing the contracting officers.

Cost Analysis and Excess Profit (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part ¹	Total Parts	Total Excess Profit	TransDigm's Excess Profit Percentage
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	206,616	189
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	66,319	180
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	63,003	180
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	57,366	180
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	50,403	180
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	5,306	180
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	44,223	163
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	22,111	163
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	14,741	163
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	373,223	160
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	78,214	133

¹ Rounded to the nearest dollar value.

² The audit team conducted a more thorough review of the contract, including performing in-depth analysis of the contract files received from the Army and DLA and interviewing the contracting officers.

Cost Analysis and Excess Profit (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part ¹	Total Parts	Total Excess Profit	TransDigm's Excess Profit Percentage
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	66,181	133
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	76,914	131
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	73,510	124
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	66,197	122
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	77,230	122
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	71,079	117
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	65,880	116
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	336,569	114
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	61,038	96

¹ Rounded to the nearest dollar value.

² The audit team conducted a more thorough review of the contract, including performing in-depth analysis of the contract files received from the Army and DLA and interviewing the contracting officers.

Cost Analysis and Excess Profit (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part ¹	Total Parts	Total Excess Profit	TransDigm's Excess Profit Percentage
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	287,066	87
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	19,061	70
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1,779	61
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	45,006	52
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	39,120	50
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	195,261	47
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	333,170	44
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	12,738	35
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	5,592	33
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	148,505	32
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	20,396	20

¹ Rounded to the nearest dollar value.

² The audit team conducted a more thorough review of the contract, including performing in-depth analysis of the contract files received from the Army and DLA and interviewing the contracting officers.

Cost Analysis and Excess Profit (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part ¹	Total Parts	Total Excess Profit	TransDigm's Excess Profit Percentage
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	3,386	15
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	14,248	13
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	61,380	12
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	10,537	9
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	4,593	4
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	7,065	2
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	-	-
	Total Excess Profit						\$16,108,456	(FOUO)

¹ Rounded to the nearest dollar value.

² The audit team conducted a more thorough review of the contract, including performing in-depth analysis of the contract files received from the Army and DLA and interviewing the contracting officers.

Source: Army and DLA contract and TransDigm provided certified and uncertified cost data.

Appendix D

(FOUO) Prior Price Increases for NSN [REDACTED]

(FOUO) Date	Contract Price Per Part	Number of Parts	Change in Price Per Part	Percent Change
8-Jan-07	[REDACTED]	1		
17-Dec-09	[REDACTED]	1	3,143	254
2-Jun-10	[REDACTED]	1	106	2
2-Jun-10	[REDACTED]	1	0	0
27-Jul-10	[REDACTED]	1	-1,028	-23
27-Jul-10	[REDACTED]	1	0	0
27-Jul-10	[REDACTED]	1	0	0
19-Nov-10	[REDACTED]	1	1,010	29
19-Nov-10	[REDACTED]	1	0	0
26-Sep-12	[REDACTED]	1	2,055	46
26-Sep-12	[REDACTED]	1	0	0
26-Oct-12	[REDACTED]	1	-1,812	-28
26-Oct-12	[REDACTED]	1	0	0
21-Nov-12	[REDACTED]	1	-578	-12
2-Sep-15	[REDACTED]	1	1,865	45
3-Sep-16	[REDACTED]	1	1,100	18
3-Sep-16	[REDACTED]	1	0	0
3-Sep-16	[REDACTED]	1	0	0
27-Jan-17	[REDACTED]	1	1,325	19
27-Jan-17	[REDACTED]	1	0	0
27-Jan-17	[REDACTED]	1	0	0
6-Apr-17	[REDACTED]	1	-325	-4
1-Jun-17	[REDACTED]	1	-775	-10
Total		173	\$6,086	491% (FOUO)

Source: IHS Haystack Gold.

Appendix E

Voluntary Refunds

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part	Total Parts	Total Excess Profit
Army Contracting Command–Aberdeen Proving Ground							
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	12,738
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	5,592
Total Refund Request for Contracts that Still Contained Excess Profit:							\$18,330
Army Contracting Command–Redstone							
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$184,966
Total Refund Request for Contracts where Contracting Officers Requested Cost Data:							\$184,966
DLA Aviation							
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	373,223
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$336,569
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	287,066
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	148,505
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	132,827

Voluntary Refunds (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part	Total Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	131,032
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	130,876
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	116,484
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	110,413
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	104,037
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	61,038
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	14,248
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	4,593
Total Refund Request where Contracting Officers Requested Cost Data:							\$1,950,910
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	591,436
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	333,170
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	206,616

Voluntary Refunds (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part	Total Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	195,261
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	165,612
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	133,527
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	116,953
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	112,611
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	109,965
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	65,880
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	64,066
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	61,380
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	45,293
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	45,006

Voluntary Refunds (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part	Total Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	40,457
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	39,120
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	34,945
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	20,396
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	19,061
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	11,132
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	10,537
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	7,065
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	3,386
Total Refund Request for Contracts that Still Contained Excess Profit:							\$2,432,875
Total Refund Request for DLA Aviation							\$4,383,785

Voluntary Refunds (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part	Total Parts	Total Excess Profit
DLA Land And Maritime							
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$437,237
Total Refund Request for Contracts where Contracting Officers Requested Cost Data:							\$437,237
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	2,283,964
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1,010,266
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	528,581
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	488,431
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	488,431
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	450,237
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	412,395
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	198,509
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	193,856
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	191,882
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	145,030

Voluntary Refunds (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part	Total Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	141,749
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	140,653
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	140,475
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	129,052
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	124,565
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	123,380
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	121,138
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	112,208
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	112,208
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	106,061

Voluntary Refunds (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part	Total Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	102,460
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	102,200
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	100,668
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	98,816
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	98,768
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	97,339
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	95,158
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	95,023
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	93,830
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	92,841
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	87,558
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	87,522

Voluntary Refunds (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part	Total Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	86,646
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	86,248
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	86,077
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	83,744
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	79,917
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	79,093
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	78,214
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	77,230
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	76,914
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	76,377

Voluntary Refunds (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part	Total Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	73,510
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	71,907
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	71,460
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	71,079
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	68,920
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	67,845
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	67,734
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	67,700
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	67,112
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	67,112
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	66,319

Voluntary Refunds (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part	Total Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	66,197
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	66,181
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	63,003
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	58,799
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	57,366
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	54,301
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	50,403
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	49,772
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	47,454
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	44,223
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	43,458
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	31,732

Voluntary Refunds (cont'd)

(FOUO) Contract Number	NSN and Description	TransDigm's Cost Per Part	Contract Price Per Part	Cost Per Part With 15% Profit	Excess Profit Per Part	Total Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	25,385
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	22,111
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	15,515
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	14,741
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	5,306
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1,779
	Total Refund Request for Contracts that Still Contained Excess Profit:						\$11,084,139
	Total Refund Request for DLA Land and Maritime						\$11,521,376 (FOUO)

Source: The DoD OIG.

Appendix F

Initial Price Changes After TransDigm Acquired Companies

(FOUO) NSN and Description	Last Purchase Before TransDigm Acquisition		First Purchase After TransDigm Acquisition		Purchase in Our Sample		TransDigm's Cost Per Part
	Year	Price	Year	Price	Year	Price	
[REDACTED]	1990	\$108	1995	\$582	2016	[REDACTED]	[REDACTED]
[REDACTED]	1991	995	1996	3,196	2016	[REDACTED]	[REDACTED]
[REDACTED]	1990	494	1994	1,366	2016	[REDACTED]	[REDACTED]
[REDACTED]	1992	895	1993	1,630	2016	[REDACTED]	[REDACTED]
[REDACTED]	2009	8,854	2013	12,054	2015	[REDACTED]	[REDACTED]
[REDACTED]	2008	6,160	2011	7,491	2015	[REDACTED]	[REDACTED]
[REDACTED]	2009	5,537	2013	6,213	2015	[REDACTED]	[REDACTED]
[REDACTED]	2012	3,134	2015	3,336	2015	[REDACTED]	[REDACTED]
[REDACTED]	1992	215	1995	195	2015	[REDACTED]	[REDACTED]
[REDACTED]	2006	3,085	2007	2,770	2015	[REDACTED]	[REDACTED]
[REDACTED]	2008	4,752	2013	4,209	2015	[REDACTED]	[REDACTED]
[REDACTED]	1991	16,469	1995	10,184	2015	[REDACTED]	[REDACTED] (FOUO)

Source: Army and DLA contract and TransDigm-provided certified and uncertified cost data.

Appendix G

The Independent Review Team’s Analysis of 100 Parts on Contract SPE4AX-18-D-9442

(FOUO)	NSN and Description	Should Cost Price	Negotiated Price	Percent Difference
	[REDACTED]	█	█	9,426%
	[REDACTED]	█	█	6,689
	[REDACTED]	█	█	2,389
	[REDACTED]	█	█	2,359
	[REDACTED]	█	█	2,292
	[REDACTED]	█	█	2,270
	[REDACTED]	█	█	2,003
	[REDACTED]	█	█	1,772
	[REDACTED]	█	█	1,700
	[REDACTED]	█	█	1,571
	[REDACTED]	█	█	1,491
	[REDACTED]	█	█	1,254
	[REDACTED]	█	█	1,237
	[REDACTED]	█	█	1,232
	[REDACTED]	█	█	1,230
	[REDACTED]	█	█	1,142
	[REDACTED]	█	█	1,142

The Independent Review Team's Analysis of 100 Parts on Contract SPE4AX-18-D-9442 (cont'd)

(FOUO) NSN and Description	Should Cost Price	Negotiated Price	Percent Difference
[REDACTED]	[REDACTED]	[REDACTED]	1,082
[REDACTED]	[REDACTED]	[REDACTED]	1,076
[REDACTED]	[REDACTED]	[REDACTED]	1,072
[REDACTED]	[REDACTED]	[REDACTED]	1,051
[REDACTED]	[REDACTED]	[REDACTED]	935
[REDACTED]	[REDACTED]	[REDACTED]	914
[REDACTED]	[REDACTED]	[REDACTED]	870
[REDACTED]	[REDACTED]	[REDACTED]	857
[REDACTED]	[REDACTED]	[REDACTED]	796
[REDACTED]	[REDACTED]	[REDACTED]	790
[REDACTED]	[REDACTED]	[REDACTED]	790
[REDACTED]	[REDACTED]	[REDACTED]	773
[REDACTED]	[REDACTED]	[REDACTED]	629
[REDACTED]	[REDACTED]	[REDACTED]	629
[REDACTED]	[REDACTED]	[REDACTED]	556
[REDACTED]	[REDACTED]	[REDACTED]	550
[REDACTED]	[REDACTED]	[REDACTED]	518
[REDACTED]	[REDACTED]	[REDACTED]	513
[REDACTED]	[REDACTED]	[REDACTED]	511
[REDACTED]	[REDACTED]	[REDACTED]	506

The Independent Review Team's Analysis of 100 Parts on Contract SPE4AX-18-D-9442 (cont'd)

(FOUO) NSN and Description	Should Cost Price	Negotiated Price	Percent Difference
[REDACTED]	[REDACTED]	[REDACTED]	502
[REDACTED]	[REDACTED]	[REDACTED]	466
[REDACTED]	[REDACTED]	[REDACTED]	418
[REDACTED]	[REDACTED]	[REDACTED]	414
[REDACTED]	[REDACTED]	[REDACTED]	396
[REDACTED]	[REDACTED]	[REDACTED]	385
[REDACTED]	[REDACTED]	[REDACTED]	372
[REDACTED]	[REDACTED]	[REDACTED]	363
[REDACTED]	[REDACTED]	[REDACTED]	346
[REDACTED]	[REDACTED]	[REDACTED]	339
[REDACTED]	[REDACTED]	[REDACTED]	331
[REDACTED]	[REDACTED]	[REDACTED]	317
[REDACTED]	[REDACTED]	[REDACTED]	311
[REDACTED]	[REDACTED]	[REDACTED]	294
[REDACTED]	[REDACTED]	[REDACTED]	291
[REDACTED]	[REDACTED]	[REDACTED]	271
[REDACTED]	[REDACTED]	[REDACTED]	254
[REDACTED]	[REDACTED]	[REDACTED]	253
[REDACTED]	[REDACTED]	[REDACTED]	238
[REDACTED]	[REDACTED]	[REDACTED]	221

The Independent Review Team's Analysis of 100 Parts on Contract SPE4AX-18-D-9442 (cont'd)

(FOUO) NSN and Description	Should Cost Price	Negotiated Price	Percent Difference
[REDACTED]	■	■	217
[REDACTED]	■	■	202
[REDACTED]	■	■	187
[REDACTED]	■	■	185
[REDACTED]	■	■	184
[REDACTED]	■	■	183
[REDACTED]	■	■	183
[REDACTED]	■	■	181
[REDACTED]	■	■	179
[REDACTED]	■	■	177
[REDACTED]	■	■	170
[REDACTED]	■	■	159
[REDACTED]	■	■	156
[REDACTED]	■	■	146
[REDACTED]	■	■	126
[REDACTED]	■	■	121
[REDACTED]	■	■	118
[REDACTED]	■	■	114
[REDACTED]	■	■	101
[REDACTED]	■	■	90

The Independent Review Team's Analysis of 100 Parts on Contract SPE4AX-18-D-9442 (cont'd)

(FOUO) NSN and Description	Should Cost Price	Negotiated Price	Percent Difference
[REDACTED]	[REDACTED]	[REDACTED]	86
[REDACTED]	[REDACTED]	[REDACTED]	79
[REDACTED]	[REDACTED]	[REDACTED]	66
[REDACTED]	[REDACTED]	[REDACTED]	65
[REDACTED]	[REDACTED]	[REDACTED]	60
[REDACTED]	[REDACTED]	[REDACTED]	58
[REDACTED]	[REDACTED]	[REDACTED]	51
[REDACTED]	[REDACTED]	[REDACTED]	46
[REDACTED]	[REDACTED]	[REDACTED]	46
[REDACTED]	[REDACTED]	[REDACTED]	46
[REDACTED]	[REDACTED]	[REDACTED]	41
[REDACTED]	[REDACTED]	[REDACTED]	36
[REDACTED]	[REDACTED]	[REDACTED]	25
[REDACTED]	[REDACTED]	[REDACTED]	25
[REDACTED]	[REDACTED]	[REDACTED]	23
[REDACTED]	[REDACTED]	[REDACTED]	6
[REDACTED]	[REDACTED]	[REDACTED]	4
[REDACTED]	[REDACTED]	[REDACTED]	1
[REDACTED]	[REDACTED]	[REDACTED]	0
[REDACTED]	[REDACTED]	[REDACTED]	-2

The Independent Review Team's Analysis of 100 Parts on Contract SPE4AX-18-D-9442 (cont'd)

(FOUO)	NSN and Description	Should Cost Price	Negotiated Price	Percent Difference
	[REDACTED]	[REDACTED]	[REDACTED]	*
	[REDACTED]	[REDACTED]	[REDACTED]	-40
	[REDACTED]	[REDACTED]	[REDACTED]	-95 (FOUO)

* The best estimated quantities for the part were zero, so the extended values were blank and a percentage was not calculated.

Source: "Independent Review of Contract Number SPE4AX-18-D-9442," December 18, 2018.

Appendix H

DPC Memorandum



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

DPAP/CPF

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

NOV 7 2007

MEMORANDUM FOR DIRECTORS OF DEFENSE AGENCIES
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(POLICY AND PROCUREMENT), ASA (ALT)
DEPUTY ASSISTANT SECRETARY OF THE NAVY
(ACQUISITION & LOGISTICS MANAGEMENT), ASN
(RDA)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(ACQUISITION), SAF/AQ

SUBJECT: Access to Records with Exclusive Distributors/Dealers

The purpose of this policy memorandum is to (1) ensure that contracting officers are successful in obtaining the necessary information and data for determining fair and reasonable prices for purchases made from exclusive distributors/dealers when the Truth In Negotiations Act (TINA) does not apply and (2) require contracting activities to notify DPAP when an exclusive distributor/dealer did not provide cost data required by the contracting officer, but because of an exigent situation, an award was made to the exclusive distributor/dealer.

In some situations, Original Equipment Manufacturers (OEMs) use exclusive distributors/dealers to sell their products, and the Government must buy the products directly from the exclusive distributor/dealer. DoD has found that in many situations contracting officers are not adequately determining that prices from exclusive distributors/dealers are fair and reasonable because the distributor/dealer refuses to provide requested cost data when there is no other means to determine a fair and reasonable price and TINA does not apply. DoD found many situations where the products are made by a single source OEM and often the products are DoD specific; therefore, market research, commercial sales or other pricing techniques are not adequate to determine if the proposed price is fair and reasonable. In addition, exclusive distributors/dealers do not have direct access to the costs of products provided by OEMs.

Contracting activities are reminded that even when TINA does not apply, FAR 15.402, Pricing policy requires that contracting officers must obtain cost information, without requiring certification (FAR 15.402(a)(2)(ii)), when there is no other basis for



DPC Memorandum (cont'd)

determining that proposed prices are fair and reasonable (e.g. through market research and price analysis techniques). In these situations when TINA does not apply, the distributor/dealer must provide its cost data when required by the contracting officer, as well as the distributor's/dealer's analysis of the reasonableness of costs of products provided by the OEM (FAR 15.404-3). Additional guidance is contained in Procedures Guidance and Information (PGI) 215.4. Moreover, if the contracting officer is relying on previous prices paid by the Government, the contracting officer must establish that a thorough price or cost analysis was performed on the previous buy (PGI 215.403-3(4)).

The distributor/dealer is responsible for supporting all costs contained within its proposal. Although we are not aware of situations when certified cost or pricing data were not provided when required by FAR 15.403-4, you are reminded that when an exclusive distributor/dealer is selling products to the government as a prime contractor, and TINA applies, the distributor/dealer and subcontractors (OEM in this case) are required to provide certified cost or pricing data in accordance with FAR 15.403-4.

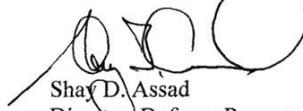
FAR 15.402(a) states that contracting officers must purchase supplies and services at fair and reasonable prices. It is critical that all levels of management support the contracting officer in acquiring cost data necessary for determining fair and reasonable prices. When TINA does not apply, any distributor/dealer who does not comply with the requirement to submit cost information for a contract or subcontract is ineligible for award unless the Head of Contracting Activity determines that it is in the best interest of the Government to make the award to that offeror in accordance with FAR 15.403-3(a)(4).

Beginning January 2, 2008, in the event of an exigent situation when the HCA has approved award without obtaining requested cost data, the contracting activity will notify its Headquarters activity, and that Headquarters activity will then notify OUSD (AT&L) DPAP (CPF) 3060 Defense Pentagon, Washington, DC 20301-3060 and include the following information in the notice:

- Contractor name and DUNS number (Exclusive Distributor/Dealer)
- Subcontractor name and DUNS number (e.g., OEM/actual manufacturer)
- Contract Number, Modification or Order Number if applicable
- Date and amount of the contract action
- Steps taken to attempt price analysis without requiring cost data
- Contractor's rationale for refusing to provide the data
- Actions taken by the contracting activity to obtain the data
- Data used to determine price reasonableness and resulting determination
- Actions planned to avoid this situation in the future

DPC Memorandum (cont'd)

The point of contact for this memorandum is [REDACTED] Senior Procurement Analyst, who can be reached at [REDACTED] or via e-mail at [REDACTED]



Shay D. Assad
Director, Defense Procurement
and Acquisition Policy

Management Comments

Defense Pricing and Contracting



OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

OCT 16 2018

Ms. Theresa S. Hull
Assistant Inspector General
Acquisition, Contracting, and Sustainment
4800 Mark Center Dr, Suite 13F25-04
Alexandria, VA 22350-1500

Dear Ms. Hull:

I have read the entirety of the Discussion Draft Report for the Audit of Spare Parts Procured From TransDigm Group Inc. (Project Number D2017-D000AH-0162.000), and I wish to commend the Inspector General (IG) on the outstanding field analysis exhibited throughout the report. I would recommend that the IG consider expanding the responses to the specific questions raised by Congress. If done, I believe this report can form the basis of transformative change with regard to dealing with companies like TransDigm.

I fully concur with all of the recommendations included in the draft report; however, we need to go beyond the traditional recommendations of reporting and oversight. The reality is that the only true defense against companies that exhibit unconscionable greed is to avoid doing business with those companies whenever possible through competitive means, ensure that there are statutory provisions that address "war profiteering" and price gouging, and ensure the existence of a legislative provision that compels companies to provide cost data when so required.

The so-called "value based pricing" concepts are no more than an industrial code word for unfettered price gouging. Over the past several months, I have had a team of pricing professionals visiting with commercial supply chain management organizations. In each case, the companies confirmed that they either compete the supply chain vendors whenever possible, they require some form of submission of cost data, or they perform should cost analysis of the item in question. We found no evidence in any of the visits with those companies that they rely on "value based" pricing.

In the case of the office of Defense Pricing and Contracting (DPC), within the Office of the Under Secretary of Defense for Acquisition and Sustainment (USD(A&S)) (previously Defense Procurement and Acquisition Policy, DPAP, within the Under Secretary of Defense for Acquisition, Technology and Logistics (USD(AT&L))), we have no resources inherent to this office to combat the problems identified in the report. In fact, there is a singular individual, me, who oversees all pricing activities within the Department of Defense. While Defense Contract Management Agency (DCMA), Defense Contract Audit Agency (DCAA), the contracting teams in the field, and I have saved billions of dollars for the taxpayers on a number of major weapons systems procurements, the sheer volume of transactions coupled with the immediacy of need to get sole source sustainment items on contract make for a very challenging environment.

Defense Pricing and Contracting (cont'd)

The entirety of the DPC staff was reduced by 54.6 percent as a consequence of the creation of the newly formed USD(A&S) organization, making staff augmentation from existing resources not feasible. While the Secretary of Defense has placed the responsibility to respect every taxpayer dollar we spend, the lack of resources, legislative constraints, and inability to take the time necessary to ensure a hard bargained price makes it very difficult to follow through on the mandate as it relates to the procurement of spare parts.

By virtue of the fact that the entirety of the staff is a singular person (me), the only meaningful way to conduct oversight and mentoring is through the peer review process. Given the peer review process covers only procurements in excess of \$500 million, it is not possible to review, except on an exception basis at the Office of the Secretary of Defense (OSD), the kinds of transactions identified in the report.

With regard to the establishment of cadre of sustainment pricing experts, there is a possibility to utilize the DCMA commercial item pricing center for that purpose. However, additional staff will be required; and, as is the case with DPC, DCMA is resource (manpower) constrained.

As a result, we need to look to other ways to address and combat the unconscionable greed exhibited by companies like TransDigm. The traditional recommendations of increased reporting and oversight, increased training, and revising departmental policies help but they do not get at the root of the problem. We will need legislative change to address price gouging and war profiteering.

Congress has attempted to make a number of changes to the commercial items statutes over the past several years in an effort to open the doors to more commercial company participation in the provision of goods and services to the Department of Defense (DoD), and we very much appreciate what the Congress has done.

The results of legislative actions in many ways has increased the commercial product and service opportunity space within DoD. In FY 2018, we executed in excess of 26 million commercial transactions with over 41 thousand companies amounting to 62.1 billion dollars. The vast majority of those transactions are processed in a timely way, and we have no reason to believe that those transactions have not been anything but fair and reasonable to the taxpayers.

However, those well-intended legislative actions have been accompanied by unintended opportunities for abuse by companies, like TransDigm, to gouge the taxpayers. The IG report is centered on the need for contracting officers to have the necessary cost data to ensure that they are paying a fair and reasonable price. During the last several years, the NDAA changes have reduced the ability of contracting officers to obtain cost data, rather than strengthened their ability to ensure that the taxpayers are paying a fair and reasonable price.

The FY 2016 National Defense Authorization Act (NDAA) included sweeping changes to commercial items that placed additional constraints on the ability of contracting officers to

Defense Pricing and Contracting (cont'd)

request “cost information” when procuring commercial items. For example, Section 852 removed the requirement for contracting officers to determine they have adequate data to determine price reasonableness as part of their commercial item determinations on spare parts for major weapon systems. Whereas previously contracting officers could use the commercial item determination as leverage to try to obtain data, that leverage was removed by de-linking the commercial item determination from the pricing of commercial items. This becomes very important in the context of sole source commercial “of a type” items where a contracting officer cannot rely on a commercial marketplace to drive reasonable prices for the specific items being procured. Section 852 also established the hierarchy for contracting officers to require data from offerors. Obtaining cost data is a last resort, and can only be requested after exhausting all of the following possibilities:

- Prices paid for the same or similar commercial items under comparable terms and conditions by both Government and commercial customers
- Prices paid for the same or similar items under different terms and conditions
- Prices paid for similar levels of work or effort on related products or services
- Prices paid for alternative solutions or approaches
- Other relevant information that can serve as the basis for a price reasonableness determination

Furthermore, contracting officers need Head of the Contracting Activity permission to ask for cost data for items developed exclusively at private expense. Even if the Government funded development through independent research and development (IR&D), that is considered “private expense.” The statute also included a new provision to restrict the ability of a contracting officer to overturn a previous contracting officer’s commercial item determination as well as their ability to convert commercial contracts to non-commercial contracts. In the current environment, even by law, contracting officers are highly discouraged from “requiring cost data” unless it is a last resort.

Most important, though, is the idea that when contracting officers do require cost data, there is not anything that would fundamentally compel a contractor to be responsive to that request. In addition, the definition of “commercial items” has been expanded in such a manner that companies are now claiming that previously identified sole source military items should be classified as “commercial” items. The result in these cases is as expected – price gouging. For example, for years the Department has been buying the engine for the Chinook helicopter as a military sole source item. Honeywell has attempted to claim that the engine now meets the definition of a commercial item. The proposed “valued based” price is now 100 percent more than we have previously paid.

The FY 2018 NDAA increased the Truth in Negotiations Act (TINA) threshold from \$750,000 to \$2 million for non-commercial items. While this change was intended to promote more timely proposals and reduce the administrative burden for major weapons systems procurements, it is disastrous for those contracting officers buying spare parts.

For items below the TINA threshold, whether commercial or non-commercial, there is nothing that fundamentally compels a contractor to respond with cost data when “required” by a

Defense Pricing and Contracting (cont'd)

contracting officer. The hierarchy mentioned above for commercial items applies to non-commercial items as well. Because of the increase to the TINA threshold, it is anticipated there will be more instances of contracting officers requiring, yet not receiving, data and this will make the jobs of individuals buying sole source spare parts even more difficult.

The FY 2019 NDAA makes another significant change to TINA in the context of criteria for DoD TINA waivers for military sole source items. In the past, all three of the following criteria had to be met:

- (1) the property or services cannot reasonably be obtained under the contract, subcontract, or modification, as the case may be, without the grant of the exception or waiver;
- (2) the price can be determined to be fair and reasonable without the submission of certified cost and pricing data or the application of cost accounting standards, as the case may be; and
- (3) there are demonstrated benefits to granting the exception or waiver.

Under this new statute, only one of the above criteria must be met in order for DoD to issue a TINA waiver. It is unclear what message is being sent by removing the determination of fair and reasonable as a mandatory criteria for purpose of a TINA waiver, as the very purpose of TINA is to enable contracting officers to obtain data so the Government will be on equal footing in negotiations with a given contractor. It is anticipated that speed will trump the interests of the taxpayers and the exceptional case exception will no longer be exceptional and could become commonplace, especially with contracting officers under pressure to make expeditious contract awards.

The current regulations do require contracting officers to require cost data when necessary to determine a fair and reasonable price (when a TINA exception is met), after exhausting all other possibilities. This IG report demonstrates the fact that contractors are not compelled to be responsive to contracting officer requests for cost data in a commercial environment or below the TINA threshold. Whereas the contracting officers were unsuccessful in obtaining the cost data from TransDigm, the DoDIG, who possesses subpoena power, was successful in obtaining that same data. It will take legislative change to require contractors to be actually responsive to contracting officer requests for cost data, and DPC will readily incorporate these legislative changes if enacted into the regulations.

In those cases where companies refuse to provide cost data for military sole source items or items that companies claim are commercial-of-a-type but have no commercial sales basis to establish the reasonableness of their price, I would recommend that Congress consider the reestablishment of some form of the Vinson Trammell Act.

The Vinson Trammell Act resulted in the establishment of a Renegotiation Board. While I recognize that the process was stodgy and sometimes non-effective, I believe that we should consider some form of the Act in order to compel companies to provide the necessary cost data for military sole source items or items that companies claim are commercial-of-a-type but have no commercial sales basis. Suggestions in establishing a form of a Renegotiation Board concept include considering a baseline approach comprised of the following:

Defense Pricing and Contracting (cont'd)

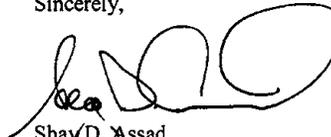
- Applies to all defense contractors with annual sales of spare parts totaling \$25 million or more. (Sales recognized in year of delivery.)
- Renegotiation only applies to firm fixed price orders awarded without adequate price competition where company refuses to provide cost data.
- Renegotiation proposal reflecting actual costs incurred will be submitted annually no later than March 31 covering spare parts sales delivered in the prior calendar year.
- Profit greater than 15 percent considered excess and will be recouped by the Government.

The present state of affairs is untenable. Our contracting officers are being placed in the vice of unconscionable greed and the absolute need to support our warfighters. In many cases they have no choice but to hold their nose and issue the order.

With regard to the specific recommendations in the IG's Draft Report for the Audit of Spare Parts Procured From TransDigm Group Inc., the enclosure contains DPC's response to Recommendation 3.

We are charged with the obligation to respect every taxpayer dollar we spend. In the case of the procurement of spare parts and sustainment items from companies like TransDigm, whose strategy encompasses gouging the taxpayers and warfighters under the guise of valued based pricing, traditional methods will not work. We need more analytical based techniques, more competition, and the assistance of Congress to combat unconscionable greed.

Sincerely,



Shay D. Assad
Director, Defense Pricing
and Contracting

Enclosure:
As stated

Defense Pricing and Contracting (cont'd)

Enclosure: Department of Defense's Response to Discussion Draft Report for the Audit of Spare Parts Procured From TransDigm Group Inc. (Project Number D2017-D000AH-0162.000)

Recommendation 3: We recommend that the Director, Defense Pricing/Defense Procurement and Acquisition Policy Director:

- a. Immediately revise and update the November 7, 2007, policy reform memorandum on "Access to Records with Exclusive Distributors/Dealers" to expand the reporting requirements for all contractor denial of cost data for acquisitions of parts produced by one manufacturer, as well as for other sole-source acquisitions, regardless of whether the requirement is urgent.
- b. Establish a framework in the revised memorandum for the quarterly reporting and validation of consolidated information by the DoD Components to the Director, Defense Pricing/Defense Procurement and Acquisition Policy based on the expanded requirements of the revised memorandum.
- c. Incorporate into the Defense Federal Acquisition Regulation Supplement and the Defense Federal Acquisition Regulation Supplement Procedures, Guidance, and Information the requirements in the revised memorandum.
- d. Establish a team of functional experts to analyze data reported as a result of the revised and updated memorandum. The team of functional experts would:
 1. Assess parts and contractors deemed to be at high risk for unreasonable pricing and identify trends.
 2. Perform price analysis and cost analysis of high-risk parts to identify lower cost alternatives or fair and reasonable pricing for future procurements.
- e. Review current DoD policy and procedures for acquisitions of parts produced by one manufacturer, as well as for other sole-source acquisitions, to determine what changes or additions are needed to ensure that contracting officers receive uncertified cost data from contractors when requested before awarding the contract and implement any identified changes or additions.

Responses to Recommendation 3:

- a. Concur.
- b. Concur.
- c. Concur. Please note that the expansion of reporting requirements on a quarterly basis does not resolve the overarching problem of contracting officers receiving cost data when they require it. The issue is and remains contractor(s) refusal to provide the relevant cost data and the lack of a legal requirement that compels contractors to provide the data.
- d. Concur with both #d.1 and d.2. Please note that DPC does not have the resources to dedicate a team of functional experts to analyze data per the recommendation. However, DPC continues to work with DCMA's Commercial Item Group to establish the cadre of functional experts to analyze data in accordance with the DoDIG recommended approach.
- e. Concur.

Defense Pricing and Contracting (cont'd)

ACQUISITION
AND SUSTAINMENTOFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

JAN 18 2019

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL (ACQUISITION,
CONTRACTING, AND SUSTAINMENT)SUBJECT: Response to Office of the Inspector General Draft Report on Review of Parts
Purchased From TransDigm Group, Inc. (Project No. D2017-D000AH-0162.000)

In addition to the comments previously submitted on October 16, 2018, to your Draft Report, I am providing responses to the updated recommendations contained in the subject report.

Recommendation 4.a.: Recommend that the Defense Pricing and Contracting Principal Director examine the United States Code, Federal Acquisition Regulation, Defense Federal Acquisition Regulation Supplement, and the Defense Federal Acquisition Regulation Supplement Procedures, Guidance, and Information, to determine changes needed in the acquisition process of parts produced or provided from a sole-source to ensure that contracting officers obtain uncertified cost data when requested and that the Department of Defense (DoD) receives full and fair value in return for its expenditures.

Response:

Concur.

Recommendation 4.b.: Recommend that the Defense Pricing and Contracting Principal Director immediately revise and update the November 7, 2007, policy reform memorandum on "Access to Records with Exclusive Distributors/Dealers" to expand the reporting requirements to all contractor denial of cost data for acquisitions of parts produced by one manufacturer, as well as for other sole-source acquisitions, regardless of whether the requirement is urgent.

Response:

Concur. I have directed my staff to draft an updated memorandum.

Recommendation 4.c.: Recommend that the Defense Pricing and Contracting Principal Director establish a framework in the revised memorandum for the quarterly reporting and validation of consolidated information by the DoD Components to the Defense Pricing and Contracting Principal Director based on the expanded requirements of the revised memorandum.

Response:

Concur.

Recommendation 4.d.: Recommend that the Defense Pricing and Contracting Principal Director incorporate the requirements from the revised memorandum into the Defense Federal Acquisition Regulation Supplement and the Defense Federal Acquisition Regulation Supplement (DFARS) Procedures, Guidance, and Information (PGI).

Defense Pricing and Contracting (cont'd)

Response:

Concur. I will direct my staff to amend the DFARS as appropriate to reflect the revised memorandum.

Recommendation 4.e.: Recommend that the Defense Pricing and Contracting Principal Director establish a team of functional experts to analyze data reported as a result of the revised and updated memorandum. The team of functional experts would:

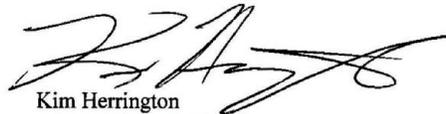
Recommendation 4.e.1. Assess parts and contractors deemed to be at high risk for unreasonable pricing and identify trends.

Recommendation 4.e.2. Perform price analysis and cost analysis of high-risk parts to identify lower cost alternatives or fair and reasonable pricing for future procurements

Response:

Concur. I will recommend that the Under Secretary of Defense (Acquisition & Sustainment) request a combined cadre of experts from the Military Components, the Defense Logistics Agency and the Defense Contracting Management Agency to conduct the review of information to identify and share information regarding contractors deemed to be at high risk for unreasonable pricing and perform price and cost analysis of high-risk parts.

Please contact [REDACTED] if additional information is required.



Kim Herrington
Acting Principal Director,
Defense Pricing and Contracting

Defense Logistics Agency



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

JAN 25 2019

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL (ACQUISITION,
CONTRACTING, AND SUSTAINMENT)

SUBJECT: Response to Office of the Inspector General Draft Report "Review of Parts
Purchased From TransDigm Group, Inc." (Project No. D2017-D000AH-0162.000)

In addition to the comments previously submitted, I am providing responses to the updated recommendations contained in the subject report.

DLA appreciates the opportunity to review and comment on the entirety of the report. We concur with the report's overall recommendation for the Department to review the need for changes to the acquisition process of parts produced or provided from a sole-source, and to more aggressively monitor and assess parts and contractors deemed to be at high risk for unreasonable pricing. We look forward to supporting Defense Pricing and Contracting in these efforts.

The point of contact for this audit is [REDACTED]


MATTHEW R. BEEBE
Director, DLA Acquisition

Attachment:
As stated

Defense Logistics Agency (cont'd)

For Recommendation 1 of the report, The Department of Defense Inspector General recommends that the Defense Logistics Agency (DLA) Director consider all available corrective actions with TransDigm, including but not limited to the following:

Recommendation 1.a.1: DLA Aviation contracting officers to seek a voluntary refund from TransDigm of approximately \$2.0 million in excess profit for the 13 purchases that contracting officers requested uncertified cost and pricing data for but TransDigm refused to provide.

Recommendation 1.a.2: DLA Aviation contracting officers to seek a voluntary refund from TransDigm of approximately \$2.4 million in excess profit for the 23 purchases that the DoD IG identified contained excess profit.

DLA's Response to recommendations 1.a.1 and 1.a.2: Concur. DLA Aviation reviewed the purchase orders and/or contracts awarded to TransDigm subsidiaries that the DoD IG identified as having excess profits and concluded that voluntary refunds were appropriate. The DLA Aviation Head of the Contracting Activity (IICA) approved and signed ten letters requesting voluntary refunds from TransDigm subsidiaries on January 11, 2019 and the CEO and President/COO of TransDigm Group were copied on each of the letters. DLA Aviation requested a total of \$4,383,786 in voluntary refunds. (Copies of the letters have been provided to the DoD IG under separate cover.) Since TransDigm's reaction and response to the requests for voluntary refund are out of DLA's control, DLA considers the corrective actions to be complete and the intent of the recommendations to be met. Therefore, DLA requests closure of these recommendations.

Recommendation 1.b.1: DLA Land and Maritime contracting officers to seek a voluntary refund from TransDigm of approximately \$0.4 million in excess profit for the 1 purchase that contracting officers requested uncertified cost and pricing data for but TransDigm refused to provide.

Recommendation 1.b.2: DLA Land and Maritime contracting officers to seek a voluntary refund from TransDigm of approximately \$11 million in excess profit for the 72 purchases the DoD IG identified contained excess profits.

DLA's Response to recommendations 1.b.1 and 1.b.2: Concur. DLA Land and Maritime reviewed the purchase orders and/or contracts awarded to TransDigm subsidiaries that the DoD IG identified as having excess profits and concluded that voluntary refunds were appropriate. The Land and Maritime Head of the Contracting Activity (HCA) approved and signed eight letters requesting voluntary refunds from TransDigm subsidiaries on January 18, 2019 and the CEO and President/COO of TransDigm Group were copied on each of the letters. DLA Land and Maritime requested a total of \$11,521,375 in voluntary refunds. (Copies of the letters have been provided to the DoD IG under separate cover.) Since TransDigm's reaction and response to the requests for voluntary refund are out of DLA's control, DLA considers the corrective actions to be complete and the intent of the recommendations to be met. Therefore, DLA requests closure of these recommendations.

Army Materiel Command



DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND
4400 MARTIN ROAD
REDSTONE ARSENAL, AL 35898-5000

AMCIR

28 JAN 2019

MEMORANDUM FOR Department of Defense Inspector General (DoDIG/Ms. Theresa S. Hull), Assistant Inspector General, Acquisition, Contracting and Sustainment, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Command Comments on DoDIG Draft Report: Review of Parts Purchased From TransDigm Group, Inc., Project D2017-D000AH-0162.000.

1. The U.S. Army Materiel Command has reviewed the subject draft report and the response from the U.S. Army Contracting Command. The U.S. Army Materiel Command endorses the enclosed response.

2. The U.S. Army Materiel Command point of contact is [REDACTED]

Encls
1. ACC Comments
2. DoDIG Report


LISHA H. ADAMS
Executive Deputy to the
Commanding General

Army Materiel Command (cont'd)



DEPARTMENT OF THE ARMY
U.S. ARMY CONTRACTING COMMAND
4505 MARTIN ROAD
REDSTONE ARSENAL, AL 35898-5000

ASCC-IR

18 JAN 2019

MEMORANDUM FOR Mr. Brett Mullinix, Director, Internal Review Audit and Compliance Office, Headquarters, U.S. Army Materiel Command, 4400 Martin Road, Redstone Arsenal, AL 35898

SUBJECT: Department of Defense - Inspector General (DoDIG) Audit Draft Report
Project No. D2017-D000AH-0162.000

1. Reference DOD-IG Audit Draft Report, Review of Parts Purchased From TransDigm Group, Inc., issued 26 December 2018, Project No. Project No. D2017-D000AH-0162.000.
2. The Army Contracting Command (ACC) provides the enclosed comments in response to the referenced document.



Encl

A handwritten signature in black ink, appearing to read "John M. Lyle".

JOHN M. LYLE
Deputy to the Commanding General

Army Materiel Command (cont'd)

Headquarters – Army Contracting Command Comments

**Draft Report: Review of Parts Purchased From TransDigm Group, Inc.
(D207-D000AH-0162.000)**

Recommendation 2:

DODIG Recommendation: We recommend that the Army Contracting Command–Redstone Executive Director consider all available corrective actions with TransDigm, including but not limited to directing the Army Contracting Command–Redstone contracting officer to seek a voluntary refund from TransDigm of approximately \$0.2 million in excess profit for the one purchase that the contracting officer requested uncertified cost data for but TransDigm refused to provide.

Army Contracting Command Response: Concur. The ACC-RSA Executive Director made the determination that requesting a voluntary refund in the amount of \$184,966 from TransDigm is appropriate. ACC-RSA personnel will complete a review of the contract to determine if there are any other contractual remedies that can be utilized. ACC-RSA personnel will prepare and forward a letter to TransDigm seeking a voluntary refund no later than 28 February 2019.

Recommendation 3: We recommend that the Army Contracting Command–Aberdeen Proving Ground Executive Director consider all available corrective actions with TransDigm including, but not limited to, directing the Army Contracting Command–Aberdeen Proving Ground contracting officer to seek a voluntary refund from TransDigm of \$18,330 in excess profit for the two purchases that we identified contained excess profit.

Army Contracting Command Response: Concur. The ACC-APG Executive Director made the determination that requesting a voluntary refund in the amount of \$18,330 from TransDigm is appropriate. ACC-APG personnel will complete a review of the contract to determine if there are any other contractual remedies that can be utilized. ACC-APG personnel will prepare and forward a letter to TransDigm seeking a voluntary refund no later than 28 February 2019.

Acronyms and Abbreviations

ACC	Army Contracting Command
DFARS	Defense Federal Acquisition Regulation Supplement
DLA	Defense Logistics Agency
DPC	Defense Pricing and Contracting
EDA	Electronic Document Access
FAR	Federal Acquisition Regulation
FPDS-NG	Federal Procurement Data System-Next Generation
GAO	Government Accountability Office
NSN	National Stock Number
TINA	Truth In Negotiations Act

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U.S. DEPARTMENT OF DEFENSE

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Congressional Liaison

703.604.8324

Media Contact

public.affairs@dodig.mil; 703.604.8324

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