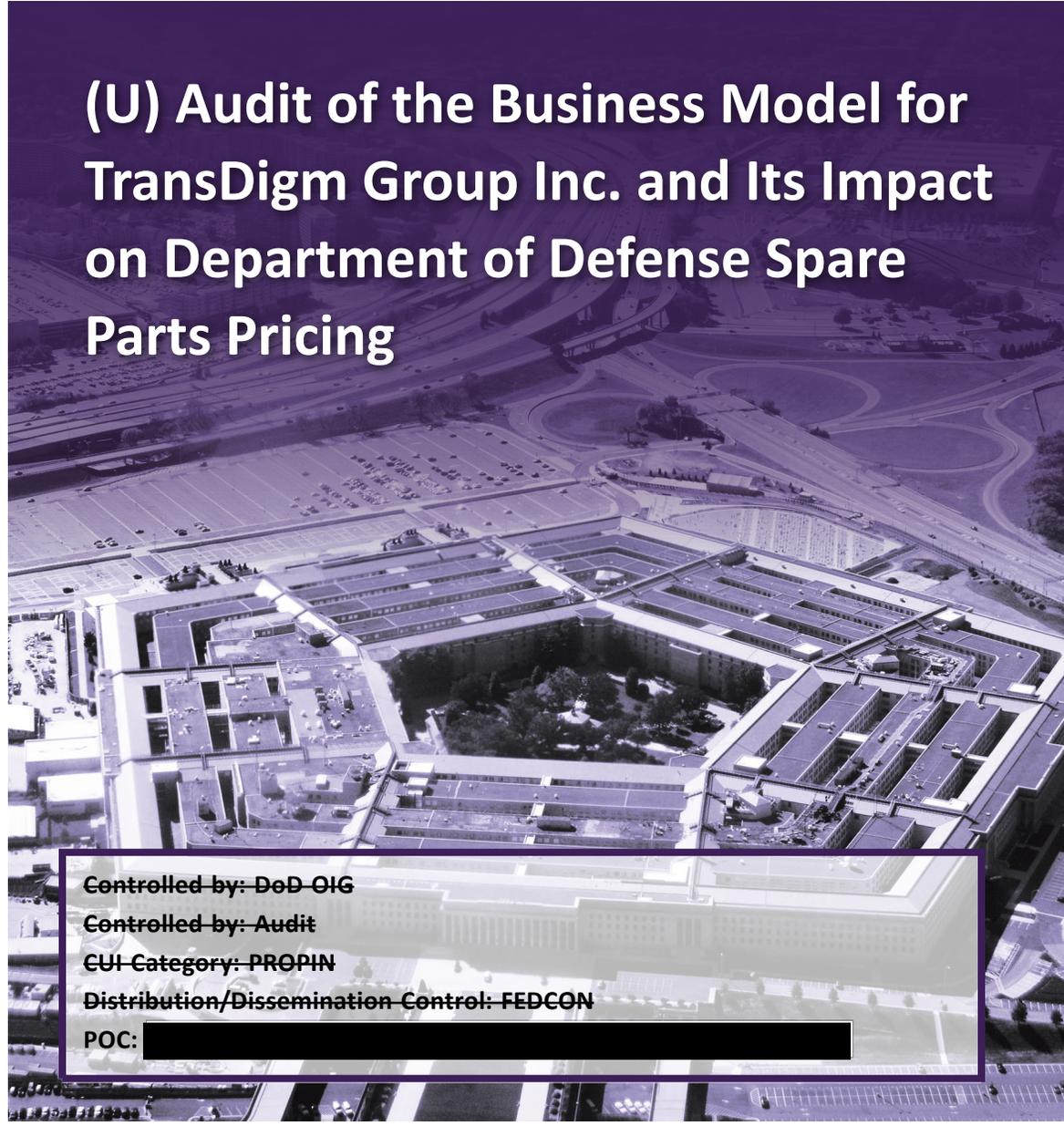


CUI

INSPECTOR GENERAL

U.S. Department of Defense

DECEMBER 13, 2021



(U) Audit of the Business Model for TransDigm Group Inc. and Its Impact on Department of Defense Spare Parts Pricing

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(U) Results in Brief

(U) Audit of the Business Model for TransDigm Group Inc. and Its Impact on Department of Defense Spare Parts Pricing

December 13, 2021

(U) Objective

(U) The objective of this audit was to determine whether TransDigm Group Inc.'s (TransDigm) business model impacted the DoD's ability to pay fair and reasonable prices for spare parts.

(U) Background

(U) The DoD Office of Inspector General received a congressional letter requesting a comprehensive review of TransDigm's contracts with the DoD from January 2017 through June 2019 to identify whether TransDigm earned excess profits. Additionally, the letter asked the DoD Office of Inspector General to provide information on TransDigm's corporate structure, how TransDigm's contracts with the DoD are structured, the rate of TransDigm's company acquisitions, and TransDigm's impact on the Defense market.

~~(CUI)~~ TransDigm was established in 1993 and is headquartered in Cleveland, Ohio. TransDigm designs, produces, and supplies specialized spare parts for aircraft and airframes. TransDigm uses the term operating unit for each of its locations, which operate under the operating unit's own unique brand, product line, and management. TransDigm's corporate office functions as a parent company that maintains ownership of all its operating units. TransDigm owns [REDACTED] legal entities located worldwide that comprise [REDACTED] operating units in 3 business segments. The three business segments are: (1) Power and Control, (2) Airframe, and (3) Non-aviation.

(U) Background

(U) The DoD awards many small quantity, low dollar value contracts to TransDigm. Before awarding a contract, the contracting officer must determine that the proposed price is fair and reasonable. For example, the contracting officer determines price reasonableness by comparing competitive quotes or offers, comparing prices to historical prices from previous purchases, or conducting analysis using data other than certified cost or pricing data.

(U) Certified cost or pricing data is not required for all purchases. Contracting officers are allowed 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. In addition, data other than certified cost or pricing data can be requested when an exception to requesting certified cost or pricing data exists. Data other than certified cost or pricing data can be identical types of data as certified data but without the certification. The data could include sales data or purchase order history, but it could also include uncertified cost data. However, when contracting officers request uncertified cost data, contracting officers have limited options when contractors refuse to provide the uncertified cost data.

(U) Finding

(U) Certified or uncertified cost data are the two most reliable sources of information that a contracting officer can use to ensure that the U.S. Government obtains the best prices when negotiating contracts for goods and services. However, section 2306a, title 10, United States Code (10 U.S.C. § 2306a), the Federal Acquisition Regulation (FAR), and the Defense Federal Acquisition Regulation Supplement (DFARS) do not require contracting officers to request certified or uncertified cost data for contracts under the Truth in Negotiations Act (TINA) threshold, and the FAR and DFARS require the use of other price analysis methods, such as historical price comparisons, for contracting officers when negotiating contracts. TransDigm executes a business model that results in the acquisition of companies that specialize



(U) Results in Brief

(U) Audit of the Business Model for TransDigm Group Inc. and Its Impact on Department of Defense Spare Parts Pricing

(U) Finding (cont'd)

(U) In highly engineered, sole-source spare parts. The DoD generally purchases spare parts from these TransDigm operating units in small quantities, resulting in lower-dollar-value contracts. Contractors are required to provide certified cost or pricing data only for contracts valued at or above the TINA threshold. From January 2017 to June 2019, more than 95 percent of the contracts that the DoD awarded to TransDigm, valued at \$268.2 million, were below the TINA threshold. Contracting officers used price analysis methods authorized by the FAR and DFARS. Price analysis methods can be effective in determining fair and reasonable prices; however, in this sole-source market-based pricing environment, without competition, the methods were not effective for identifying excessive pricing. This occurred because 10 U.S.C. § 2306a, Federal, and DoD policies do not compel contractors to provide uncertified cost data for contracts below the TINA threshold when requested. For example, Defense Logistics Agency (DLA) contracting officers requested uncertified cost data for 26 of the 107 spare parts on 27 of the 153 contracts in our audit. However, TransDigm operating unit officials provided the requested uncertified cost data for only 2 spare parts on 2 contracts and did not provide uncertified cost data for the remaining 24 spare parts on 25 contracts. Therefore, contracting officers were unable to use cost analysis to determine fair and reasonable prices for sole-source spare parts that were bought in small quantities at low dollar values and instead used other price analysis methods required by the FAR and DFARS, including historical price comparisons. In addition, 10 U.S.C. § 2306a, Federal, and DoD policies do not require contracting officers to use cost analysis when the DoD is making fair and reasonable price determinations for sole-source spare part contracts below the TINA threshold. However, we were able to obtain uncertified cost data from TransDigm for 152 out of the 153 contracts in our sample.

(U) By using the uncertified cost data, which is one of the most reliable sources of information to perform cost analysis, we found that TransDigm earned excess profit of at least \$20.8 million on 105 spare parts on 150 contracts. The DoD will continue to pay higher prices if the DoD is not enabled to use cost analysis to determine price reasonableness for sole-source spare parts procured using market-based pricing on contracts valued under the TINA threshold.

(U) Multiple audit reports over the past 23 years have highlighted the problem of the DoD paying excess profits on sole-source contracts where cost analysis was not used to determine fair and reasonable prices and this problem continues to occur. To address the lack of policy compelling contractors to provide uncertified cost data when requested, officials from the Office of the Under Secretary for Defense for Acquisition and Sustainment submitted two legislative proposals in the FY 2021 legislative cycle. The first proposal sought to ensure that the DoD has appropriate authority and flexibility to make commercial item determinations and is able to obtain the necessary cost or pricing data to negotiate fair and reasonable prices. The second proposal sought to include a paragraph amending an existing statute within the United States Code that requires the submission of uncertified cost data from offerors if the pricing data submitted is not sufficient to determine a fair and reasonable price. Neither proposal was included in the FY 2021 National Defense Authorization Act. The DoD is considering the submission of additional legislative proposals to address these issues in the FY 2023 legislative cycle.

(U) Without the necessary legislative changes, the DoD will continue to be unable to perform adequate price reasonableness determinations because contractors are not compelled to provide uncertified cost data under the TINA threshold and the other price analysis methods are not always effective in identifying excessive prices.



(U) Results in Brief

(U) Audit of the Business Model for TransDigm Group Inc. and Its Impact on Department of Defense Spare Parts Pricing

(U) Finding (cont'd)

(U) However, we are not making additional recommendations to address this policy problem because policy recommendations from the February 2019 DoD Office of Inspector General report that looked at other purchases made from TransDigm remain open. Additionally, the DoD will continue to pay higher prices if the DoD is not enabled to use cost analysis to determine price reasonableness for sole-source spare parts procured using market-based pricing on contracts valued under the TINA threshold.

(U) Recommendations

(U) We recommend that the Defense Pricing and Contracting (DPC) Principal Director review DFARS and DFARS Procedures, Guidance, and Information to determine whether current policy adequately addresses when cost analysis should be required by contracting officials to determine price reasonableness for sole-source spare parts not subject to TINA. If the Principal Director determines that current policy is not sufficient, the Principal Director should initiate actions to revise and update policy and guidance.

(U) We also recommend that the DPC Principal Director work with the DLA Director to identify alternative contracting strategies for procuring items from companies such as TransDigm more efficiently and at a lower price.

(U) We recommend that the DLA Director direct contracting officers to seek a voluntary refund from TransDigm of at least \$20.8 million in excess profit on 150 contracts.

(U) Management Comments and Our Response

(U) The DPC Principal Director agreed with the recommendations and stated that the DPC will:

- (U) review and, if necessary, update DFARS and DFARS Procedures, Guidance, and Information for when cost analysis should be required to determine price reasonableness for sole-source parts not subject to TINA; and
- (U) work with the DLA to identify alternative contracting strategies for procuring sole-source parts in small quantities for the DoD more efficiently.

(U) The DLA Acquisition Deputy Director, responding for the DLA Director, agreed with the recommendations and stated that the DLA will:

- (U) continue to seek alternative contracting strategies to receive a better price for the Government;
- (U) coordinate with DPC to address the pricing challenges and adhere to updated guidance; and
- (U) send voluntary refund letters to TransDigm and its subsidiaries for the amounts of excess profit identified.

(U) Management comments addressed our recommendations; therefore, the recommendations are resolved but remain open. We will close the recommendations once we verify that the agreed-upon actions are complete. Please see the Recommendations Table on the next page for the status of recommendations.

(U) Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
(U) Defense Logistics Agency Director	None	2, 3	None
(U) Defense Pricing and Contracting Principal Director	None	1, 2	None

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

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



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

December 13, 2021

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
AND SUSTAINMENT

DIRECTOR, JOINT STAFF
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE NAVY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: (U) Audit of the Business Model for TransDigm Group Inc. and Its Impact
on Department of Defense Spare Parts Pricing (Report No. DODIG-2022-043)

(U) This final report provides the results of the DoD Office of Inspector General's audit. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

(U) The Defense Logistics Agency Director and the Defense Pricing and Contracting Principal Director agreed to address all the recommendations presented in the report; therefore, we consider the recommendations resolved and open. As described in the Recommendations, Management Comments, and Our Response section of this report, we will close the recommendations when you provide us documentation showing that all agreed-upon actions to implement the recommendations are completed. Therefore, please provide us within 90 days your response concerning specific actions in process or completed on the recommendations. Send your response to either followup@dodig.mil if unclassified or rfunet@dodig.mil if classified SECRET.

(U) If you have any questions please contact me at [REDACTED]. We appreciate the cooperation and assistance received during the audit.

A handwritten signature in black ink, appearing to read "Theresa S. Hull".

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

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(U) Introduction

(U) Objective

(U) The objective of this audit was to determine whether the TransDigm business model impacted the DoD's ability to pay fair and reasonable prices for spare parts.¹ See Appendix A for a discussion of the scope and methodology, and Appendix B for prior coverage. In order to answer the congressional request, we reviewed 107 spare parts on 153 contracts that the Defense Logistics Agency (DLA) awarded to 19 different TransDigm operating units.²

(U) Background

(U) We conducted this audit in response to a letter the DoD Office of Inspector General (DoD OIG) received from the House Committee on Oversight and Reform on June 6, 2019. The Committee requested that our office conduct a comprehensive review of the price reasonableness determinations for all contracts awarded to TransDigm Group Inc. (TransDigm) by the DoD from January 1, 2017, to June 6, 2019, with a contract value between \$200,000 and \$250,000 and between \$600,000 and \$750,000. The Committee requested that we provide information about whether the contracting officer requested data other than certified cost or pricing data, whether TransDigm provided data other than certified cost or pricing data when requested, and whether TransDigm received excess profit on the contracts. On July 29, 2019, the DoD OIG received a request from Senator Charles Grassley to provide information on TransDigm's corporate structure; TransDigm's contracts with the DoD and how those contracts are structured; the rate of TransDigm's company acquisitions; and TransDigm's impact on the Defense market.

(U) TransDigm Group Incorporated Business Model

~~(CUI)~~ TransDigm was established in 1993 and is headquartered in Cleveland, Ohio. TransDigm Group was formed in July 2003 with a significant amount of borrowed money. TransDigm was owned by private equity funds until its initial public offering in 2006. The company designs, produces, and supplies specialized spare parts for aircraft and airframes. TransDigm uses the term operating unit for each of its reporting business locations, which operate under the operating unit's

¹ (U) TransDigm manufactures parts and components that are sold and installed on new aircraft and existing aircraft platforms; therefore, not all parts are "spare" parts; however, for the purposes of this report, we will refer to these parts and components as spare parts.

² (U) We reviewed the fair and reasonable price determinations on all 107 spare parts on 153 contracts and performed cost analysis on 106 spare parts on 152 contracts because TransDigm only provided cost models for the 106 spare parts that had been delivered.

(CUI) own unique brand, product line, and management. TransDigm's corporate office functions as a parent company that maintains ownership of all its operating units. In 2019, the company owned [REDACTED] legal entities located worldwide that comprise [REDACTED] operating units in 3 business segments.³ The three business segments are: (1) Power and Control, (2) Airframe, and (3) Non-aviation.

(U) The Power and Control segment encompasses operations that design and produce systems and components that provide power to or control power of the aircraft. The primary customers are engine suppliers, airlines, military buying agencies, and repair depots. TransDigm sells products from this segment in the Original Equipment Manufacturer (OEM) market and aftermarket. An OEM is a company whose goods are used as components in the products of another company, which then sells the finished item to the customer or user. Aftermarket sales refer to spare parts or components that a customer can use for replacement when the originally installed part wears out. Examples of products from the Power and Control segment include mechanical/electromechanical actuators and controls, ignition systems and engine technology, specialized electric motors, and generators. See Figure 1 for an example of a Power and Control-type spare part.



³ (U) A legal entity is an entity having, under the law, rights and responsibilities and especially the capacity to sue and be sued.

(U) The Airframe segment encompasses operations that design and produce systems and components that are used in non-power airframe applications. The primary customers are airframe manufacturers, cabin system suppliers, military buying agencies, and repair depots. TransDigm sells products from this segment in the OEM market and aftermarket. Examples of products from the Airframe segment include engineered latching and locking devices, cockpit security components, aircraft audio systems, specialized lavatory components, seat belts and safety restraints, military personnel parachutes, and cargo delivery systems. See Figure 2 for an example of an Airframe-type spare part.

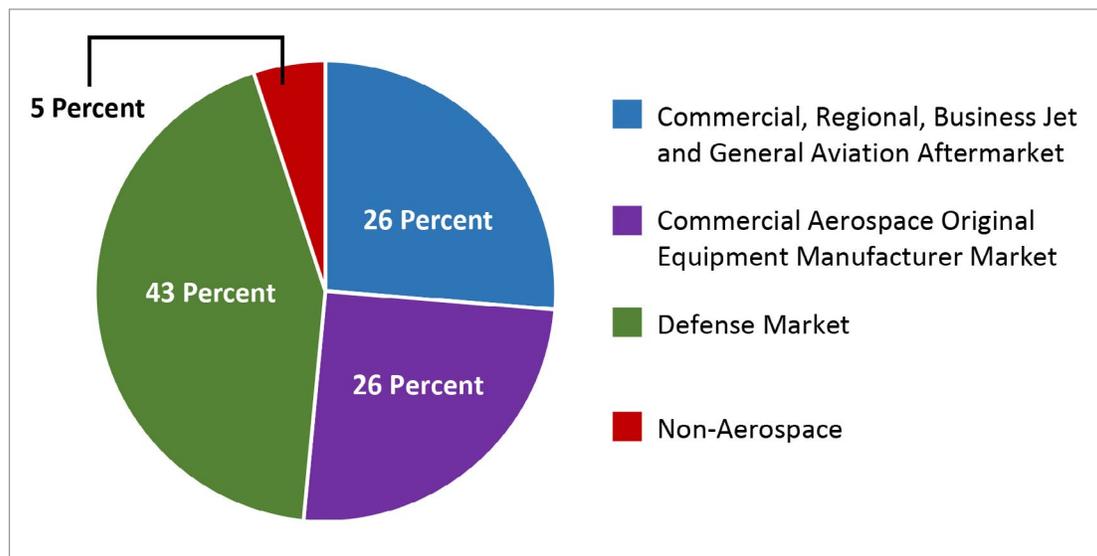


(U) The Non-aviation segment encompasses operations that design and produce products for non-aviation markets. Primary customers are off-road vehicle suppliers; satellite and space system suppliers; and manufacturers of heavy equipment used in mining, construction, and other industries. Examples of products from the Non-aviation segment include seat belts and safety restraints for ground transportation applications. See Figure 3 for an example of a Non-aviation-type spare part.

(U) See Appendix C for a list of the business segments, operating units, the legal entities, and the date of acquisition.

(U) TransDigm maintains approximately 105 manufacturing facilities, which perform functions such as manufacturing, distribution, and engineering, as well as certain administrative functions, including management, sales, and finance. As of September 30, 2020, TransDigm reported approximately 14,200 full-time, part-time, and temporary employees. TransDigm manufactures a significant portion of its products in the United States, but also manufactures some products in other parts of the world. According to TransDigm's FY 2020 Annual Report, the defense market, which includes U.S. Government and international government sales, makes up 43 percent of TransDigm sales, as shown in Figure 4.

(U) Figure 4. TransDigm's Allocation of Sales by Market



(U) Source: TransDigm FY 2020 Annual Report.⁴

(U) Sales to U.S. Government

(U) According to TransDigm officials, TransDigm's operating units generally do not track specific sales to the U.S. Government. TransDigm consolidates sales of any military spare parts with overall global sales. Most of TransDigm's operating units are able to track sales of spare parts to customers by aircraft; however, many TransDigm operating units are unable to track sales exclusive to the U.S. Government due to sales to distributors and prime contractors. A distributor buys spare parts from TransDigm operating units and sells those spare parts to commercial and government customers. TransDigm officials stated that TransDigm

⁴ (U) According to the TransDigm FY 2020 Annual Report, FY 2020 was an anomaly year for sales due to the impact of the COVID-19 pandemic. The breakdown for FY 2018 was that the commercial, regional, business jet and general aviation aftermarket accounted for 36 percent of total sales; the commercial aerospace original equipment manufacturer market accounts for 24 percent of total sales; the defense market accounts for 35 percent of total sales; and non-aerospace accounts for 5 percent of total sales.

(U) and its operating units do not control the sales of any of its distributors and do not set conditions on the operations of the distributors. Additionally, TransDigm does not own, invest in, or control any distribution companies, and the use of distributors by the operating unit is primarily for faster delivery to end users. For the purposes of our audit, TransDigm provided the operating units' sales to the U.S. Government. As shown in Table 1, for FY 2018, sales to the DoD for the operating units involved in the audit ranged from 1.9 percent to as much as 41.6 percent. Sales to the DoD from 13 of the 19 operating units were around or below 10 percent of total sales. Other operating units not reviewed during the audit had between 0.1 percent and 31.4 percent in U.S. Government sales for FY 2018.

(U) Table 1. FY 2018 Direct Sales to the DoD

Operating Unit	FY 2018 Percent of Total Sales Direct to the DoD*
1. Telair US	1.9
2. AeroControlex	2.0
3. Electromech Technologies	2.2
4. CEF Industries	3.0
5. Hartwell	3.2
6. AvtechTyee	3.4
7. Adel Wiggins	4.0
8. HarcoSemco	5.1
9. Aerosonic	5.6
10. Whippany Actuation Systems	5.9
11. Champion Aerospace	7.4
12. Arkwin Industries	9.4
13. MarathonNorco Aerospace	10.1
14. Avionics Instruments/ 15. Acme Aerospace	11.4
16. YF Tactair	14.4
17. Skurka Aerospace	15.9
18. Aero Fluid Products	18.9
19. Airborne Systems North America	41.6

* (U) TransDigm reported the percentage of sales direct to only the DoD. This percentage did not include all U.S. Government sales.

(U) Source: TransDigm.

(U) According to TransDigm officials, approximately 6 percent of overall defense market sales are direct to the U.S. Government, and 2 percent more are sold to the U.S. Government through distributors. In addition, 10 percent to 15 percent of overall sales are made to the aircraft prime contractors and companies supporting the prime contractors, and 10 percent to 15 percent of sales are made to the international defense market customers. TransDigm is able to identify only the aircraft that the spare parts are sold for, and not the final government customer.

(U) TransDigm generates a majority of its net sales from products for which it is the sole-source provider. Some of TransDigm's customers (type of sales by customer) are:

- (U) distributors of aerospace components (commercial);
- (U) worldwide commercial airlines, including national and regional airlines (commercial);
- (U) large commercial transport, and regional and business aircraft OEMs (commercial);
- (U) various armed forces of the United States and friendly foreign governments (defense);
- (U) defense OEMs (defense);
- (U) system suppliers (commercial and defense); and
- (U) various other industrial customers (commercial and defense).⁵

(U) TransDigm supports DoD military aircraft, such as the:

- (U) Boeing AH-64 Apache, CH-47 Chinook, C-17 Globemaster, F-15 Eagle, F-18 Hornet, KC46 Tanker, P-8 Poseidon, and V-22 Osprey;
- (U) Lockheed Martin C-130J Super Hercules, F-16 Fighting Falcon, F-35 Joint Strike Fighter, and UH-60 Blackhawk helicopter; and
- (U) Northrop Grumman E-2C Hawkeye.

(U) However, when tracking sales of spare parts used on government aircraft, TransDigm's operating units were unable to distinguish between sales to the U.S. Government and sales to foreign governments when more than one government used common aircraft. Unless TransDigm sold the spare parts directly to the customer, TransDigm was unable to track where the spare parts were being sold because the operating units used distributors to manage sales of spare parts to third parties or sales to other contractors. When TransDigm's operating units used distributors, TransDigm could not identify the end customer.

⁵ (U) A system supplier provides research and development services and production of individual components or complete devices.

(U) Obtaining New Businesses

(U) TransDigm seeks out and competes for the acquisition of aerospace companies that design, manufacture, and sell specialized, sole-source products that have stable demand and profit margins. Specifically, two key business model elements that TransDigm focuses on are: (1) a value-driven operating strategy—focused on obtaining profitable new businesses, reducing costs, and providing value-added products to customers; and (2) an acquisition strategy—focused on obtaining businesses that design and manufacture sole-source, aerospace components. TransDigm grows its sales and business by acquiring operating units that independently focus on designing and developing new proprietary products that will lead to high-margin, repeatable sales in the OEM market and the aftermarket. Another outcome of TransDigm’s company acquisitions is that spare parts sold to the government by the acquired company are often for older aircraft, which are part of the aftermarket.

(U) When reviewing potential companies to acquire, TransDigm does not focus on the amount of government or commercial sales by the potential company, but on whether the company sells specialized spare parts. On average, TransDigm considers up to 400 companies worldwide each year for potential acquisition. TransDigm removes up to 370 potential companies from consideration because the spare parts that the companies sell are not specialized spare parts. For the remaining 30 potential companies, TransDigm will perform additional research, reducing the list to 2 or 3 companies to acquire on average each year.⁶ See Table 2 for the number of TransDigm’s most recent acquisitions from 2015 through 2020.⁷ For a list of all legal entities that TransDigm has acquired since its inception, see Appendix C.

~~(CUI)~~ Table 2. [REDACTED]

(CUI) Year	Operating Units	Legal Entities
[REDACTED]	1	1
[REDACTED]	2	2
[REDACTED]	1	1

~~(CUI)~~

(U) Source: TransDigm.

⁶ (U) According to TransDigm officials, 2015 and 2019 were exceptions to this methodology because TransDigm acquired more than two or three companies.

⁷ ~~(CUI)~~ [REDACTED]

(U) Corporate Improvement and DoD Business Growth

(U) After purchasing a new business, referred to at that point as an operating unit, TransDigm assigns a manager, most often from the acquired company. TransDigm expects the operating unit manager to grow the sales and profitability of the products for which he or she is responsible by achieving an annual level of sales and profitability for the products. The operating units achieve this level of performance through capital investments, local decision making, customer-focused business teams, disciplined engineering development, and discretion in how to grow sales. In addition, according to TransDigm officials, the corporate office improves and adds value to TransDigm's operating units by increasing funding for new equipment, providing funds for research and development of new spare parts and new product lines, eliminating corporate bureaucracy, and promoting high performance standards. The operating units compete for business that presents the best opportunities for them, which can include many types of DoD contracts that may involve new DoD weapon system upgrades or modifications that fit the operating unit's product lines. However, TransDigm encourages the operating unit to transition to the TransDigm pricing strategy, market-based pricing, once the operating unit is acquired.

(U) According to TransDigm officials, TransDigm prices its products based on market-based pricing. TransDigm defines market-based pricing as a strategy in which a company sets prices of items that it sells based on what commercial or government entities are willing to pay for the item as opposed to basing prices on detailed costs to make the spare parts. However, in the case of a sole-source environment with contractors such as TransDigm, the price becomes what entities must pay because there are no other options to procure the part. According to TransDigm officials, TransDigm's operating units have a "general" idea of the costs to make a single spare part. They are unaware of an individual spare part's profit percentage and establish prices based on what customers are willing to pay using price analysis. In addition, TransDigm's operating units do not assess profit from a reasonableness perspective, such as that used by the U.S. Government, when determining price reasonableness. TransDigm officials stated that TransDigm's profit percentages remain consistent with the net profit margin earned within the aerospace industry. TransDigm officials stated that because TransDigm deals with commercial customers, TransDigm determines the price of an item based on what the market will bear, and then backs into the profit percentage based on the commercial price paid. According to TransDigm officials, from 2016 through 2020, the company's net profit margin has varied, between 10 percent and 24 percent, with an average of 15.9 percent.

(U) Goodwill

(U) TransDigm mergers and acquisitions have resulted in significant goodwill recognition on its financial statements. Goodwill occurs when TransDigm purchases a company for more than the recorded value of that company’s assets. Generally accepted accounting principles and Securities and Exchange Commission guidelines require that amounts paid in excess of the recorded value of a company’s assets, as well as the debts carried by that company, be recorded as goodwill.⁸ Specifically, as of September 30, 2020, TransDigm disclosed in its FY 2020 Annual Report that goodwill represented about 43 percent, or \$7.9 billion, of its total assets. According to TransDigm officials, TransDigm is willing to pay a goodwill amount consistent with the value or dollar amount that other companies in the aerospace industry would pay to acquire companies that fit its needs. TransDigm finances the purchase of some operating units that it buys at a premium with loans and debt, which creates an additional expense for interest on the loans. According to Defense Pricing and Contracting (DPC) officials TransDigm’s debt to asset ratio was over 100 percent, the highest of any of the Top 10 U.S. defense companies, ranked by revenue, on the Defense News’ Top 100 for 2019.⁹ Table 3 lists the 2020 goodwill amounts that TransDigm paid for 17 of the 19 specific operating units reviewed as part of this audit and the total for the remaining operating units.

(U) Table 3. TransDigm – 2020 Consolidated Goodwill

(CUI) Operating Unit	Amount (thousands)
██████████	██████████
██████████	██████████
██████████	██████████
██████████	██████████
██████████	██████████
██████████	██████████
██████████	██████████
██████████	██████████
██████████	██████████
██████████	██████████
██████████	██████████
██████████	██████████ (CUI)

⁸ (U) Statement of Financial Accounting Standards 142, “Goodwill and Other Intangible Assets,” June 2001. Security Exchange Act of 1934, as amended through Public Law 112-158, approved August 10, 2012.

⁹ (U) The debt to asset ratio, also known as the debt ratio, is a leverage ratio that indicates the percentage of assets that are being financed with debt.

(U) Table 3. TransDigm – 2020 Consolidated Goodwill (cont'd)

(CUI) Operating Unit	Amount (thousands)
[REDACTED]	[REDACTED]
TransDigm Consolidated	\$7,889,000

(CUI)

(U) Source: TransDigm.

(U) Aftermarket and OEM Sales

(U) Aftermarket sales refer to spare parts or components that a customer can use for replacement when the originally installed part exceeds its useful life, or wears out. According to TransDigm’s FY 2020 Annual Report, most of TransDigm’s products generate significant aftermarket revenue from spare parts used over the life of an aircraft, which is estimated to be approximately 25 to 30 years. A typical aircraft can be produced for 20 to 30 years, giving TransDigm an estimated total product life cycle of approximately 45 to 60 years for spare parts on some aircraft. TransDigm officials estimate that approximately 49 percent of TransDigm’s net sales in FY 2020 were generated from aftermarket sales that came from both the commercial and military aftermarkets.¹⁰

⋮ (U) *These aftermarket revenues have historically produced a higher profit margin and have been more stable than sales for parts for new aircraft.*

(U) These aftermarket revenues have historically produced a higher profit margin and have been more stable than sales for parts for new aircraft. When an aircraft is no longer in

production, and the spare parts reach the aftermarket stage, TransDigm recoups research and development costs of the spare parts and continues to earn higher profits over the life of the aircraft. Therefore, the profitability of aftermarket spare parts increases over time. According to TransDigm officials, although sales to the U.S. Government are primarily aftermarket, TransDigm is trying to increase sales

¹⁰ (U) Because FY 2020 was an anomaly due to the impact of the COVID-19 pandemic, we have included the breakdown for FY 2018 as well. Specifically, TransDigm officials estimate that approximately 60 percent of their net sales in FY 2018 were generated from aftermarket sales, the vast majority of which come from the commercial and military aftermarkets.

(U) to OEMs by developing spare parts for aircraft that are still in production, such as the F-35. However, TransDigm makes less profit on OEM spare parts sales versus aftermarket spare parts sales.

(U) According to TransDigm officials, sole-source spare parts in the aerospace industry are the result of multiple companies competing to manufacture spare parts during the development of an aircraft. The company that wins the competitive award during development often becomes the only provider for any spare parts going forward. For example, when the OEM for a weapon system initially designs a system, it requests bids from multiple companies for the spare parts. This competition results in less profit for TransDigm and the companies competing to win the award from the OEM designing the weapon system. As the OEM finalizes the design of the weapon system and moves into production, it selects one company to provide the spare parts. Once production of the weapon system ends, the company that the OEM selected begins selling the spare parts as aftermarket and can earn higher profits selling the spare parts because competition has been reduced or eliminated.

(U) Defense Logistics Agency

(U) The 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 needs to operate, and supplies nearly 86 percent of the military's spare parts through contracts awarded to contractors. The DLA has six major subordinate commands located throughout the country, including three commands that buy spare parts.¹¹

(U) DLA Aviation, headquartered in Richmond, Virginia, is the U.S. military's integrated materiel manager for more than 1.2 million items, industrial retail supply, and depot-level repairable acquisitions. DLA Aviation supports more than 1,700 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. DLA Troop Support, headquartered in Philadelphia, Pennsylvania, provides support to 51,000 global customers through a network of 3,700 suppliers with food and feeding equipment, clothing and textile items, construction and equipment materiel, medical materiel and pharmaceuticals, and industrial hardware consumable repair spare parts.

¹¹ (U) The other three major subordinate commands are DLA Energy, DLA Distribution, and DLA Disposition Services. These activities did not award any of the 153 contracts in our sample.

(U) Defense Pricing and Contracting

(U) DPC is under the Office of the Under Secretary of Defense for Acquisition and Sustainment (OUSD[A&S]) and 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 the needs of the Military Services, while ensuring that these acquisitions are in the best interests of the taxpayer through oversight and implementation of pricing policies, strategies, and initiatives. DPC is the focal point for developing new acquisition policies and improving existing DoD acquisition policies that are in the best interest of the DoD. In June 2019, DPC issued a memorandum titled, "Review of Prices Proposed by TransDigm and Affiliated Companies," which reinforced the requirements for obtaining "uncertified cost or pricing data" for procurement actions in which the prices were not based on adequate competition, or set by law or regulation.

(U) Certified and Data Other Than Certified Cost or Pricing Data

(U) The Federal Acquisition Regulation (FAR) requires that contracting officers purchase supplies and services from responsible sources at fair and reasonable prices.¹² The contracting officer determines price reasonableness by:

- (U) comparing competitive quotes or offers;
- (U) comparing prices to historical prices from previous purchases (historical price comparisons);
- (U) estimating methods to identify inconsistencies in price;
- (U) comparing prices to current price lists, catalogs, or advertisements;
- (U) comparing prices to an independent Government estimate;
- (U) comparing prices to those identified through market research for the same or similar items; or
- (U) conducting analysis using certified or data other-than-certified cost or pricing data (cost analysis).¹³

(U) The FAR states that contracting officers must obtain "certified cost or pricing data" for acquisitions exceeding the Truth in Negotiations Act (TINA) threshold.¹⁴ The FY 2018 National Defense Authorization Act increased the TINA threshold from \$750,000 to \$2 million on July 1, 2018. The FAR prohibits contracting officers from

¹² (U) FAR Part 15, "Contracting by Negotiation," Subpart 15.4, "Contract Pricing."

¹³ (U) FAR Part 15, "Contracting by Negotiation," Subpart 15.404, "Proposal Analysis."

¹⁴ (U) FAR Part 15, "Contracting by Negotiation," Subpart 15.403, "Obtaining Certified Cost or Pricing Data."

(U) requesting certified cost or pricing data for acquisitions at or below the simplified acquisition threshold, which, as of August 31, 2018, was increased to \$250,000. The FAR also states that contracting officers cannot require certified cost or pricing data when prices are based on adequate price competition; when prices agreed upon are based on prices set by law or regulation; when a commercial item is being acquired; or when a waiver has been granted. 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. In addition, data other than certified cost or pricing data can be requested when an exception to requesting certified cost or pricing data exists.¹⁵ Neither 10 U.S.C. § 2306a, the FAR, nor DFARS contains a specific element that requires or compels contractors to provide cost or pricing data to the contracting officer before contract award if the contract value is below the TINA threshold.

(U) Certified cost or pricing data refers to cost or pricing data that contractors are required to certify as accurate, complete, and current at the end of negotiations in accordance with the FAR.¹⁶ The FAR defines cost or pricing data as all facts that prudent buyers and sellers would reasonably expect to significantly affect price negotiations.¹⁷ Cost or pricing data are factual, not judgmental, and verifiable. These data include all the facts that can be reasonably expected to contribute to the soundness of future cost estimates and to the validity of costs already incurred. Cost or pricing data also includes:

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

¹⁵ (U) FAR Part 15, “Contracting by Negotiation,” Subpart 15.403, “Obtaining Certified Cost or Pricing Data.”

¹⁶ (U) FAR Part 15, “Contracting by Negotiation,” Subpart 15.403, “Obtaining Certified Cost or Pricing Data.”

¹⁷ (U) FAR Part 2, “Definitions of Words and Terms,” Subpart 2.1, “Definitions.”

(U) 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.¹⁸ Such data may include the identical types of data as certified cost or pricing data, but without the certification.

(U) TransDigm has instituted training for its employees on price reasonableness policy in the FAR; DFARS; and DFARS Procedures, Guidance, and Information to better support the DoD and help the operating units support the cost of a spare part. The training includes guidance on how to prepare a commercial item determination package, how the U.S. Government determines fair and reasonable prices, requirements for certified and data other than certified cost or pricing data, and when to escalate a reasonableness negotiation to TransDigm's upper management. However, according to TransDigm officials, it is difficult to reemphasize the rules to employees when DLA buying commands do not consistently follow the requirements. For example, TransDigm officials stated that DLA contracting officers are not always consistent when they request data other than certified cost or pricing data for contracts under the TINA threshold.

(U) Profit

(U) 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.¹⁹ The FAR states that it is in the U.S. Government's interest to offer contractors opportunities for financial rewards sufficient to stimulate efficient contract

(U) According to TransDigm officials, aerospace industry contractors using market-based pricing generally resulted in profits ranging from 8 percent to 22 percent.

performance, attract the best capabilities of qualified large and small business concerns to U.S. Government contracts, and maintain a viable industrial base.²⁰ According

to TransDigm officials, aerospace industry contractors using market-based pricing generally resulted in profits ranging from 8 percent to 22 percent. The FAR identifies profit percentages for three contract types, none of which were in our sample.²¹ To be conservative, we used 15 percent as a reasonable profit for our analysis, the highest profit percentage identified in the FAR, and determined any profit over 15 percent to be excess profit.²² See Appendix A for more details.

¹⁸ (U) FAR Subpart 2.1, "Definitions."

¹⁹ (U) FAR Part 15 "Contracting by Negotiation," Subpart 15.404, "Proposal Analysis."

²⁰ (U) FAR Part 15 "Contracting by Negotiation," Subpart 15.404, "Proposal Analysis."

²¹ (U) For experimental, developmental, or research work performed under a cost-plus-fixed-fee contract, the fee must not exceed 15 percent. For architect-engineer services for public works or utilities, the fee must not exceed 6 percent. For other cost-plus-fixed-fee contracts, the fee must not exceed 10 percent.

²² (U) We used the same excess profit percentage as Report No. DODIG-2019-060.

(U) Commerciality

(U) The FAR defines a commercial item as one that is customarily sold, leased, licensed, or offered for sale to the general public or non-governmental entities for purposes other than governmental.²³ Contractors are exempt from providing certified cost or pricing data for acquisitions of spare parts classified as commercial and as a result, contracting officers are limited in their ability to determine a fair and reasonable price. In addition, the FAR states that the contracting officer must not require certified cost or pricing data when a commercial item is being acquired. According to TransDigm officials, TransDigm considers most spare parts sold to the DoD as commercial. However, of the 153 DLA contracts that procured the 107 spare parts, only 4 of 153 contracts for 4 spare parts were classified as commercial by the DLA.

(U) Intellectual Property and Data Rights

(U) To answer congressional inquiries, we looked into the ownership of data rights for the spare parts in our sample. According to TransDigm officials, in most cases, each operating unit owns the intellectual property for its highly engineered spare parts. However, TransDigm officials would not definitively state that TransDigm owned the intellectual property or data rights for the 107 spare parts in our review because TransDigm had not conducted a conclusive legal determination as to its ownership rights. The TransDigm officials stated that each legal determination requires extensive research and legal analysis for each spare part. TransDigm officials explained that the research includes an assessment of technical data, licenses that support the product development, and any specially negotiated licenses or conveyances that TransDigm provided to specific customers over the course of the spare part's history. In addition, the legal review would require a thorough review of the relevant supply chain terms, sales history, and contract terms for each sale. According to the DLA, for the 107 spare parts sold on the 153 contracts reviewed, TransDigm owns the data rights for 31 spare parts (37 contracts), TransDigm does not own the data rights for 14 spare parts (19 contracts), and the DLA does not know who owns the data rights for 62 spare parts (97 contracts). The reason that the DLA may not know who owns the data rights is because DLA contracting officers only need to identify the sources for the spare parts to award a contract, not determine who owned the data rights for a spare part.

²³ (U) FAR Subpart 2.1, "Definitions."

(U) Over the years, DoD priority has shifted from the DoD owning data rights, to contractors owning the data rights, and then back to the DoD owning the data rights. For example, the Acquisition Strategy Guide, dated December 7, 1984, describes that sole-source production contracts may place the U.S. Government in the position of having to depend on the contractor for additional spare parts. The guide discusses options to avoid contractor dependence and states that data rights may be required to exercise options for avoiding sole-source dependence. However, Performance-Based Logistics became the preferred DoD sustainment strategy with the 2001 Quadrennial Defense Review to improve readiness. Under Performance-Based Logistics, the DoD pays for performance instead of paying for spare parts. Specifically, in the Performance-Based Logistics environment, the DoD relies on the contractor to provide spare parts when needed. In this environment, who owns the data rights is not a consideration. More recently, the FY 2018 National Defense Authorization Act, Section 835 added Title 10, United States Code Section 2439, which states that the Secretary of Defense must ensure that the DoD negotiates a price for technical data to be delivered before it selects a contractor for the engineering, manufacturing, or production of major weapon systems. Because DoD acquisition strategies have been inconsistent with regard to when it is most effective for the U.S. Government to own spare part data rights, the DoD did not initially purchase the data rights.

(U) Review of Internal Controls

(U) 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.²⁴ We identified internal control weaknesses within the DoD's pricing policy. Specifically, DoD policy does not compel contractors to provide uncertified cost data when requested by the U.S. Government for making fair and reasonable price determinations for spare parts in a sole-source environment. Additionally, DoD policy does not require contracting officers to use cost analysis when making fair and reasonable price determinations in a sole-source environment for spare parts under TINA. We will provide a copy of the report to the senior official responsible for internal controls in the DLA and the OUSD(A&S).

²⁴ (U) DoD Instruction 5010.40, "Manager's Internal Control Program Procedures," May 30, 2013.

(U) Finding

(U) TransDigm's Business Model Constrains the DoD's Ability to Pay Fair and Reasonable Prices

(U) Certified or uncertified cost data are the two most reliable sources of information that a contracting officer can use to ensure that the U.S. Government obtains the best prices when negotiating contracts for goods and services. However, section 2306a, title 10, United States Code, (10 U.S.C. § 2306a), the FAR, and DFARS do not require contracting officers to request certified or uncertified cost data for contracts under the TINA threshold, and the FAR and DFARS require the use of other price analysis methods, such as historical price comparisons, for contracting officers when negotiating contracts.²⁵ The FY 2018 National Defense Authorization Act increased the TINA threshold from \$750,000 to \$2 million. TransDigm executes a business model that results in the acquisition of companies that specialize in highly engineered, sole-source spare parts. The DoD generally purchases spare parts from these TransDigm operating units in small quantities, resulting in lower-dollar-value contracts. Contractors are required to provide certified cost or pricing data only for contracts valued at or above the TINA threshold. From January 2017 to June 2019, more than 95 percent of the contracts that the DoD awarded to TransDigm, valued at \$268.2 million, were below the TINA threshold.

(U) Contracting officers used price analysis methods authorized by the FAR and DFARS, including historical price comparisons and competition, to determine whether prices were fair and reasonable for the 107 spare parts we reviewed. Price analysis methods can be effective in determining fair and reasonable prices; however, in this sole-source market-based pricing environment, without competition, the methods were not effective for identifying excessive pricing. This occurred because 10 U.S.C. § 2306a, Federal, and DoD policies do not compel contractors to provide uncertified cost data for contracts below the TINA threshold when requested. Therefore, contracting officers were unable to use cost analysis to determine fair and reasonable prices for sole-source spare parts that were bought in small quantities at low dollar values and instead used other price analysis methods required by the FAR and DFARS, including historical price comparisons. In addition, 10 U.S.C. § 2306a, Federal, and DoD policies do not require contracting officers to use cost analysis when the DoD is making

²⁵ (U) The threshold for obtaining certified cost or pricing data is \$750,000 for prime contracts awarded before July 1, 2018, and \$2 million for prime contracts awarded on or after July 1, 2018 (FAR 15.403-4(a)(1)).

(U) fair and reasonable price determinations for sole-source spare part contracts below the TINA threshold. However, we were able to obtain uncertified cost data from TransDigm for 152 out of the 153 contracts in our sample. By using the uncertified cost data, which is one of the most reliable sources of information to perform cost analysis, we found that TransDigm earned excess profit of at least \$20.8 million on 105 spare parts on 150 contracts. This represents another example where the DoD will continue to pay higher prices on spare parts if contractors use market-based pricing in a sole-source environment when contract values are low and uncertified cost data is not provided.

(U) Multiple audit reports over the past 23 years have highlighted the problem of the DoD paying excess profits on sole-source contracts where cost analysis was not used to determine fair and reasonable prices and this problem continues to occur. Most recently, to address the lack of policy compelling contractors to provide uncertified cost data when requested, OUSD(A&S) officials submitted two legislative proposals in the FY 2021 legislative cycle. The first proposal sought to ensure that the DoD had appropriate authority and flexibility to make commercial item determinations and is able to obtain necessary cost or pricing data in order to negotiate fair and reasonable prices. The second proposal sought to include a paragraph amending an existing statute within the United States Code that requires the submission of uncertified cost data from offerors if the pricing data submitted is not sufficient to determine a fair and reasonable price. Neither proposal was included in the FY 2021 National Defense Authorization Act. The DoD is considering the submission of additional legislative proposals to address these issues in the FY 2023 legislative cycle.

(U) Without the necessary legislative changes, the DoD will continue to be unable to perform adequate price reasonableness determinations because contractors are not compelled to provide uncertified cost data under the TINA threshold and the other price analysis methods are not always effective in identifying excessive prices. However, we are not making additional recommendations to address this policy problem because policy recommendations from the February 2019 DoD OIG report that looked at other purchases made from TransDigm remain open. Additionally, the DoD will continue to pay higher prices if the DoD is not enabled to use cost analysis to determine price reasonableness for sole-source spare parts procured using market-based pricing on contracts valued under the TINA threshold.

(U) Cost or Pricing Data

(U) Certified or uncertified cost data are the two most reliable sources of information that a contracting officer can use to ensure that the U.S. Government obtains the best prices when negotiating contracts for goods and services. These data are factual, not judgmental, and are verifiable. Data other than certified cost or pricing data can be identical types of data as certified data but without the certification. The data could include sales data or purchase order history, but it could also include uncertified cost data.

(U) Certified or uncertified cost data are the two most reliable sources of information that a contracting officer can use to ensure that the U.S. Government obtains the best prices when negotiating contracts for goods and services.

In addition, certified and data other than certified cost or pricing data are more than historical accounting data; they are 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. The FAR defines certified and data other than certified cost or pricing data as all facts that prudent buyers and sellers would reasonably expect to significantly affect price negotiations. When contracting officers are provided certified or uncertified cost data for a spare part, they can perform a cost analysis to determine whether proposed prices are fair and reasonable with insight into costs. However, 10 U.S.C. § 2306a, the FAR, and DFARS do not require contracting officers to request certified or uncertified cost data for contracts under the TINA threshold, and the FAR and DFARS require the use of other price analysis methods, such as historical price comparisons, for contracting officers when negotiating contracts.

(U) TransDigm’s Business Model Impact

(U) TransDigm executes a business model that results in the acquisition of companies that specialize in highly engineered, sole-source spare parts. The acquisition of sole-source spare parts presents a unique problem for DoD contracting officers because 10 U.S.C. § 2306a, the FAR, and DFARS do not specifically require the use of uncertified cost data to determine price reasonableness under the TINA threshold. When sole-source spare parts are sold, contracting officers must successfully negotiate a reasonable price with the one source. If the contracting officers are unable to negotiate a reasonable price, they will have to award the contract at whatever price the contractor is willing to accept in order to meet mission requirements or risk weapon systems sitting idle from a lack of spare parts.

(U) According to TransDigm officials, TransDigm operating units were the only manufacturers (sole-source) of 94 spare parts sold on 134 contracts. Companies other than TransDigm operating units manufactured the remaining 13 spare parts sold on 19 contracts.²⁶ The DLA competitively awarded 16 of the 153 contracts for the spare parts reviewed during this audit. The DLA awarded the remaining 137 contracts as sole-source contracts. In some cases, either the OEM or a competitor in the aftermarket, with the ability to make the spare part, does not participate in competition for the spare part.²⁷ As a result, a competitive spare part may not be sold with competition because available competitors did not compete for the award.

(U) The DoD generally purchases spare parts from TransDigm operating units in small quantities, resulting in lower-dollar-value contracts. Contractors are required to provide certified cost or pricing data only for contracts valued at or above the TINA threshold. From January 2017 to June 2019, more than 95 percent of the contracts that the DoD awarded to TransDigm, valued at \$268.2 million out of the \$568.6 million, were below the TINA threshold. See Table 4 for dollar value of DoD contracts with TransDigm.

(U) Table 4. DoD Contracts Awarded to TransDigm from January 1, 2017, Through June 30, 2019

Contract Value	Contracts	Percentage of Contracts	Dollars (millions)	Percentage of Dollars
Contracts Greater Than \$750,000	90	2	\$300.4	53
Contracts Less Than \$750,000, Greater than \$600,000	39	1	26.8	5
Contracts Less Than \$600,000, Greater Than \$250,000	162	3	68.4	12
Contracts Less Than \$250,000	4,822	94	173.0	30
Total	5,113	100	\$568.6	100

(U) Source: FPDS-NG.

(U) TransDigm's business model bases pricing on what commercial or government entities are willing to pay for spare parts (market-based pricing) as opposed to pricing based on the actual material, labor, and overhead costs that TransDigm incurs to manufacture the spare parts. TransDigm's business model and commercial

²⁶ (U) TransDigm's sole-source determinations were to the best of its knowledge based on a listing of competitors and available sources for the 107 spare parts sold on the 153 fixed-price contracts.

²⁷ (U) In this instance, we are considering OEM at the platform level.

(U) accounting systems do not collect or use cost data by spare part when determining the price of spare parts. According to TransDigm officials, each operating unit uses its own accounting system and follows its own accounting procedures for measuring costs. As a result, the operating units generally use commercial accounting systems rather than accounting systems designed for government contractors. Furthermore, TransDigm officials explained that the use of separate accounting systems makes it difficult to compile the spare part’s cost data, if requested, during contract negotiations because the operating units do not maintain cost data by spare part in the same way.

(U) From January 2017 through June 2019, 99 percent of the business transactions that TransDigm conducted with the DLA were under \$750,000. We performed cost analysis on 106 spare parts on 152 contracts to determine what we considered to be fair and reasonable prices using uncertified cost data and a 15-percent profit; and the amount of excess profit that the DLA paid to TransDigm from January 2017 through June 2019. We did not perform cost analysis on one spare part on one contract because TransDigm could not provide uncertified cost data since the spare part had not been delivered to the DoD. In addition, according to TransDigm officials, the DoD buys fewer than 25 spare parts per contract on 60 percent of TransDigm’s spare parts sold to the DoD. Additionally, 80 percent of TransDigm’s spare parts sold to the DoD are on contracts valued under \$50,000. For the 153 contracts we reviewed, the DoD bought 25 or fewer spare parts per order on 43 percent (66 of 153) of the contracts. Also, of the 5,113 total contracts that the DoD awarded TransDigm from January 2017 through June 2019, 72 percent (3,684 of 5,113) were under \$50,000.

(U) TransDigm’s Acquisitions Impact on Spare Part Prices

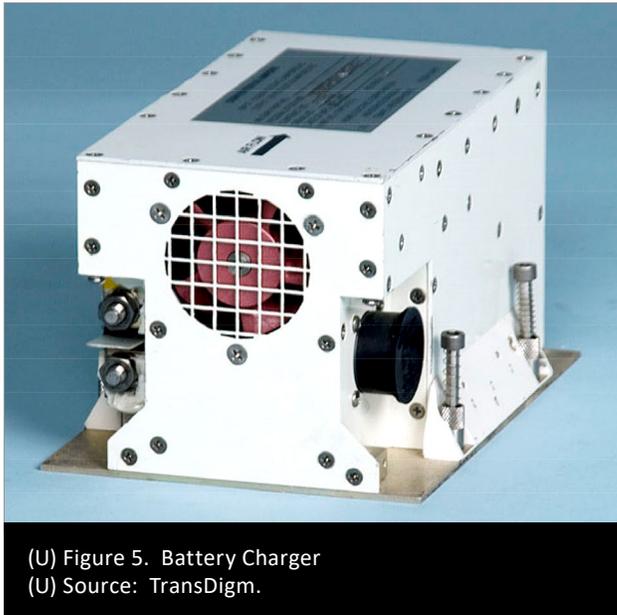
(U) TransDigm’s acquisition of some operating units has resulted in an increase in spare parts prices. We reviewed the historical prices for all 107 spare parts reviewed in this audit. However, only 46 of the 107 spare parts had procurement history data within 5 years both before and after TransDigm acquired the operating unit.²⁸ The remaining 61 spare parts did not have enough procurement history data for us to perform an analysis. Based on the procurement history for the 61 spare parts, the DoD had not purchased the spare parts before TransDigm’s

(U) TransDigm’s acquisition of some operating units has resulted in an increase in spare parts prices.

²⁸ (U) We used 5 years or less as a benchmark to help eliminate other factors (other than the acquisition of the operating unit) from affecting the price. These factors could include situations such as engineering changes to a spare part, or re-starting a production line for a spare part not made in several years.

(U) acquisition of the operating unit or had more than 5 years between procurements, which did not allow for a sufficient pricing comparison. For the 46 spare parts that had procurement history data, we performed an analysis to determine the immediate effect on the price of the spare part that occurred after TransDigm acquired the operating unit. We also performed a longer-term trend analysis to determine how prices of the spare parts changed over time after TransDigm acquired the operating unit.²⁹

~~(CUI)~~ We identified that 44 of the 46 spare parts (96 percent) immediately increased in price, and 2 spare parts immediately decreased in price after TransDigm acquired the operating unit. For 31 of the 44 spare parts that immediately increased in price (70 percent), the price increase percentage was larger than the historical price increase percentage before TransDigm's acquisition of the operating unit. For 14 of the 31 spare parts with an immediate price increase, the average annual price increase was more than 25 percent larger than the annual average increase in price of the spare part before TransDigm acquired the operating unit. For example, the DoD first procured a battery charger in August 2002 for [REDACTED] and last procured it in February 2009 for [REDACTED] before the operating unit was acquired by TransDigm. The price increased



by [REDACTED], which was an average annual increase in price of 2.3 percent over that 6 ½-year period. In February 2010, the DoD procured the battery charger after the operating unit was acquired by TransDigm for a price of [REDACTED], an increase of [REDACTED] from the price in 2009. That represents an increase in price of 60.4 percent in one year, which would be an annual average price increase of 60.4 percent. See Figure 5 for an example of a battery charger.

²⁹ (U) Due to the age of these contracts and the availability of data, for these analyses, we did not consider other factors that may have influenced the contract price of the procurements, such as the cost of materials, supply chain costs, or economic factors of the time period.

(U) Table 5 shows the largest annual average price increase percentages for the first procurement of spare parts after TransDigm acquired the operating unit that provided the spare part.

(U) Table 5. Largest Spare Part Annual Average Price Increase Percentages Immediately After TransDigm Acquisition of Operating Unit

(CUI) National Stock Number and Description	Last Pre-TransDigm Operating Unit Acquisition Purchase Price	Purchase Date	First Purchase Price After TransDigm Acquisition of Operating Unit	Purchase Date	Annual % Price Change From Last Pre-TransDigm to First Post TransDigm Purchase
[REDACTED]	[REDACTED]	12/29/2003	[REDACTED]	1/16/2004	247
[REDACTED]	[REDACTED]	8/5/2010	[REDACTED]	11/10/2010	229
[REDACTED]	[REDACTED]	8/1/1989	[REDACTED]	9/1/1993	93
[REDACTED]	[REDACTED]	9/1/1992	[REDACTED]	8/1/1993	90
[REDACTED]	[REDACTED]	4/16/2008	[REDACTED]	2/3/2012	65
[REDACTED]	[REDACTED]	2/26/2009	[REDACTED]	2/26/2010	60 (CUI)

(U) Source: IHS Haystack Gold.

(CUI) For the long-term trend analysis, we identified that 30 of the 46 spare parts also increased in price from the time after TransDigm acquired the operating unit to the present at a higher rate than the spare parts increased in price over time before TransDigm acquired the operating unit. Of those 30 spare parts, 11 spare parts had an average annual increase in price that was more than 25 percent larger than the annual average increase in price of the spare part

(CUI) before TransDigm acquired the operating unit. For example, the DoD first procured a quick disconnect coupling half in April 1985 for [REDACTED] and last procured it in April 1991 for [REDACTED] from an operating unit before it was acquired by TransDigm. The price increased by [REDACTED], which was an average annual increase in price of 19.4 percent over that 6-year period.³⁰ TransDigm acquired the operating unit in July 1993. In May 2017, the DoD procured the quick disconnect coupling half for a price of [REDACTED], an increase of [REDACTED] from the price in 1991. That represents an average annual increase in price of 219.5 percent per year over the 26 years since the 1991 procurement before TransDigm acquired the operating unit.³¹ See Figure 6 for an example of a quick disconnect coupling half.



³⁰ (CUI) To get to this percentage, take [REDACTED] divided by [REDACTED] which equals 1.1531. Then take the 1.1531 divided by 5.939 years to get to the 19.41 percent.

³¹ (CUI) To get to this percentage, take [REDACTED] divided by [REDACTED], which equals 57.3895. Then take the 57.3895 divided by 26.139 years to get to the 219.5 percent.

(U) Table 6 shows the largest annual average price increase percentages for the spare parts from the last procurement before TransDigm acquired the operating unit.

(U) Table 6. Largest Spare Part Annual Average Price Increase Percentages From the Last Procurement of the Spare Part Pre-TransDigm Operating Unit Acquisition to the Procurement of the Spare Part in Our Audit Sample

(CUI) National Stock Number and Description	Last Pre-TransDigm Operating Unit Acquisition Purchase Price	Purchase Date	Audit Sample Purchase Price	Purchase Date	Annual % Price Change From Last Pre-TransDigm to Audit Sample Purchase
[REDACTED]	[REDACTED]	4/1/1991	[REDACTED]	5/15/2017	220
[REDACTED]	[REDACTED]	8/1/1989	[REDACTED]	2/23/2017	118
[REDACTED]	[REDACTED]	8/1/1992	[REDACTED]	3/12/2018	87
[REDACTED]	[REDACTED]	4/16/2008	[REDACTED]	10/2/2017	57
[REDACTED]	[REDACTED]	11/27/1990	[REDACTED]	8/23/2017	56
[REDACTED]	[REDACTED]	2/1/1993	[REDACTED]	5/9/2018	46 (CUI)

(U) Source: IHS Haystack Gold.

(U) See Appendix D for the 46 spare parts and the price differences since TransDigm’s acquisition of the operating units.

(U) Price Analysis Methods Available to Contracting Officers Did Not Identify Excessive Prices

(U) To operate under the TransDigm business model environment, contracting officers used available price analysis methods to determine price reasonableness as the majority of the contracts with TransDigm were below the TINA threshold. Price analysis methods can be effective in determining fair and reasonable prices; however, in this sole-source market-based pricing environment, without competition, the methods were not effective for identifying excessive prices.

(U) Specifically, contracting officers used price analysis methods authorized by the FAR and DFARS, including historical price comparisons, to determine whether prices were fair and reasonable for the 107 spare parts we reviewed on 153 contracts.

(U) Price Analysis Methods

(U) Contracting officers used price analysis methods required by the FAR and DFARS, most often historical price comparisons and competition, to determine whether prices were fair and reasonable for the 107 spare parts we reviewed on 153 contracts. See Table 7 for fair and reasonable basis for contract awards reviewed.

(U) Table 7. Fair and Reasonable Basis for Contract Award

Fair and Reasonable Basis for Contract Award	Number of Contracts
Historical Price Comparisons	104
Adequate Price Competition	17
Best Attainable Price	12
Any Other Reasonable Basis	10
Analysis of Uncertified Cost Data	3
Comparison With Similar Items	2
Contracting Officer's Knowledge of the Item	2
DLA Decrement	1
Current Price Lists, Catalogs, or Advertisements	1
Best Interest to Avoid Significant Harm to Government	1
Total	153

(U) Source: The DoD OIG.

(U) TransDigm Earned Excess Profit

(U) The price analysis methods used by the contracting officers can be effective in determining fair and reasonable prices; however, in this sole-source market-based pricing environment, the methods were not effective for identifying excessive prices resulting in excess profits. Specifically, contracting officers determined that the 153 contracts for 107 spare parts in our sample had fair and reasonable prices. For example, as shown in Table 7, the contracting officers used historical price comparisons and competition on 121 of the 153 contracts to determine price reasonableness. However, these methods were unreliable in identifying when there were excessive prices allowing TransDigm to earn excess profit, especially when contracting officers are negotiating prices in an environment where most of the

(U) spare parts being purchased were considered sole-source spare parts sold only by TransDigm. In addition, because TransDigm prices its products on what customers are willing to pay (market-based pricing) instead of basing prices on the cost to produce the spare parts, the DoD may have been paying excessive prices for spare parts over time. However, some price analysis methods identified in the FAR, such as historical price comparison, are based on the assumption that previous prices paid were fair and reasonable. Specifically, if contracting officers are using historical price comparisons and the historical price is excessive, then it is not a reasonable basis for determining fair and reasonable prices.

(U) For example, in January 2018, a contracting officer determined that the price for a quick disconnect coupling half was fair and reasonable using historical price comparison. The January 2018 price was the same as the May 2017 historical price. However, we found that TransDigm earned 1697.7 percent excess profit on the January 2018 contract. In November 2017, another contracting officer determined that the price for a check valve was fair and reasonable using historical price comparison. The November 2017 price was 3.1 percent more than the May 2016 historical price. We found that TransDigm earned 1269.9 percent excess profit on the November 2017 contract. In these examples, the contracting officers did not identify excess profit paid for the spare part by using historical price comparison because the historical prices were based on prior awards that included excess profits, not because the price analysis method was ineffective. When contracts are below the TINA threshold and market-based pricing, as defined by TransDigm, is used, it is important to allow the contracting officers to have uncertified cost data to perform cost analysis. Cost analysis is the most reliable price analysis method to determine whether prices are fair and reasonable.

(U) We performed our review of fair and reasonable prices based on cost analysis, using uncertified cost data that TransDigm provided. We determined that 150 out of the 152 contracts for 105 out of the 106 spare parts were not obtained at fair and reasonable prices. However, although the contracting officers followed FAR guidelines for determining fair and reasonable prices, we were able to identify excess profit, because TransDigm provided us uncertified cost data that was not available to the contracting officers. Specifically, we found excess profit levels that ranged from 2.8 percent to 3850.6 percent after a 15-percent profit was applied.³² Our review identified that only one spare part purchased within our

³² (U) We used the percentage of cost calculation, where profit is divided by cost to make the part, to calculate the profit percentages to stay consistent with the February 2019 report. Another calculation that could be used would be the percentage of revenue calculation, where profit is divided by selling price. Using the percentage of revenue calculation, the percentages of excess profit would range from 2.4 to 97.1. However, the excess profit amount is the same for either calculation. See Appendix A for details.

(U) sample included a reasonable profit of 15 percent or less.³³ Therefore, using price analysis methods other than cost analysis is not useful in identifying excessive prices resulting in excess profit when dealing with contractors that sell sole-source spare parts in small quantities at low dollar values to the DoD. As a result, performing a cost analysis in these situations using certified or uncertified cost data, are the two most reliable ways to determine whether a price is fair and reasonable because certified or uncertified cost data provides the contracting officer with the most insight into the actual cost of the spare part. See Appendix E for the profit levels for the contracts and spare parts in the review.

(U) Lack of DoD Policy for Uncertified Cost Data on Low Dollar Value Contracts

(U) The DoD is paying higher prices for TransDigm spare parts because 10 U.S.C. § 2306a, Federal, and DoD policies do not compel contractors to provide uncertified cost data for contracts below the TINA threshold when requested.

(U) The DoD is paying higher prices for TransDigm spare parts because 10 U.S.C. § 2306a, Federal, and DoD policies do not compel contractors to provide uncertified cost data for contracts below the TINA threshold when requested. Therefore, contracting officers

were unable to use cost analysis to determine fair and reasonable prices for sole-source spare parts that were bought in small quantities at low dollar values. In addition, 10 U.S.C. § 2306a, Federal, and DoD policies do not require contracting officers to use cost analysis when the DoD is making fair and reasonable price determinations for sole-source spare part contracts below the TINA threshold. Multiple audit reports over the past 23 years have highlighted that the DoD is paying excess profits on sole-source contracts where cost analysis was not used to determine fair and reasonable prices. The OUSD(A&S) and the DLA have taken several initiatives to help fix this problem. However, to better determine fair and reasonable prices, the DoD should explore alternative contracting strategies when negotiating with companies such as TransDigm that sell sole-source spare parts in small quantities at low dollar values to the DoD.

³³ (U) There were two spare parts that included a reasonable price with 15 percent profit or less. One of the parts was awarded on four contracts, but only one contract was considered fair and reasonable. Therefore, we determined that overall the part was not awarded as fair and reasonable and was not included here.

(U) DoD Policy Does Not Compel the Contractor to Provide Uncertified Cost Data

(U) Title 10 U.S.C. § 2306a, Federal, and DoD policies do not compel contractors to provide uncertified cost data for contracts below the \$2 million TINA threshold when requested. All 153 contracts we reviewed were below the TINA threshold. In accordance with TINA, the FAR enables sole-source providers and manufacturers of spare parts to avoid providing uncertified cost data, even when requested, because of less stringent requirements for awarding small dollar value contracts. When contracting officers request uncertified cost data, contracting officers have limited options when contractors refuse to provide the uncertified cost data. For example, DLA contracting officers requested uncertified cost data for 26 of the 107 spare parts on 27 of the 153 contracts in our audit. However, TransDigm operating unit officials provided the requested uncertified cost data for only 2 spare parts on 2 contracts and did not provide uncertified cost data for the remaining 24 spare parts on 25 contracts. For the two spare parts where the uncertified cost data was provided, one spare part had excess profit of 201.6 percent and one had excess profit of 33.3 percent. However, the uncertified cost data provided to the audit team was different and more detailed than the uncertified cost data provided to the contracting officers. For the remaining 24 spare parts that did not have uncertified cost data provided, 18 spare parts had over 100 percent excess profit, with the highest being 1856.5 percent. The contracting officers for the remaining 25 contracts used other allowable price analysis methods, rather than continuing to wait to obtain uncertified cost data, to determine a fair and reasonable price. Contracting officers on the remaining 126 contracts used other price analysis methods to make a fair and reasonable determination and did not request uncertified cost data.

(U) According to TransDigm officials, TransDigm operating units were the sole-source manufacturers of 94 of the 107 spare parts we reviewed. These 94 spare parts included the remaining 24 spare parts on the 25 contracts where the contracting officers requested and were not given uncertified cost data. All 94 and all 24 spare parts had excess profits. Contracting officers had to either buy the spare parts without receiving the uncertified cost data or not buy the spare parts needed to meet mission requirements that at times were urgent. Neither the FAR nor DFARS contains a specific element that requires or compels contractors to provide uncertified cost data to the contracting officer before contract award. If the contractor is unwilling to provide uncertified cost data when requested, then contracting officers are compelled to award contracts

(U) at whatever price a company offers to meet customer needs. For example, contracting officers determined that prices for 12 of the 107 spare parts were fair and reasonable based on the price being the “best obtainable.” Contracting officers justified using this method because they had exhausted other methods, such as historical price comparisons, finding alternative sources, or price negotiations for determining price reasonableness. In addition, 12 contracting officers, for 15 contracts, stated that the spare parts were needed urgently, causing the spare parts to be purchased at the price TransDigm offered because TransDigm was sometimes unwilling to further negotiate the spare part prices.

(U) Policy Does Not Require the Use of Cost Analysis

(U) Title 10 U.S.C. § 2306a, Federal, and DoD policies do not require contracting officers to use cost analysis when the DoD is making fair and reasonable price determinations for sole-source spare part contracts below the TINA threshold. Current statutory and regulatory requirements discourage contracting officers from asking for uncertified cost data when determining whether a price is fair and reasonable.³⁴ For example, the FAR lists six price analysis methods, and DFARS lists three other price analysis methods that contracting officers should consider before requesting uncertified cost data when determining price reasonableness. Additionally, the FAR lists uncertified cost data as the last option for determining price reasonableness and states that uncertified cost data may be requested when there is no other means for determining a fair and reasonable price. For contracts awarded below the TINA threshold, 10 U.S.C. § 2306a, the FAR, and DFARS do not require the contracting officers to perform cost analysis, but the FAR and DFARS do require the use of alternate price analysis methods to determine fair and reasonable prices. All the contracts we reviewed were below the TINA threshold. Therefore, the DPC Principal Director should review DFARS and DFARS Procedures, Guidance, and Information to determine whether current policy adequately addresses when cost analysis should be required by contracting officials to determine price reasonableness for sole-source spare parts not subject to TINA. If the Principal Director determines that current policy is not sufficient, the Principal Director should initiate actions to revise and update policy and guidance.

³⁴ (U) FAR 15.404-1, “Proposal Analysis Techniques”; DFARS 215.404-1, “Proposal analysis techniques”; and Public Law 114-92, “National Defense Authorization Act for Fiscal Year 2016,” November 25, 2015.

(U) Lack of Policy Identified as a Systemic Problem

(U) Since 1998, several DoD OIG reports issued have highlighted the lack of policy for allowing contracting officers to obtain uncertified cost data from contractors to determine a fair and reasonable price for spare parts in a sole-source environment. Specifically,

(U) Since 1998, several DoD OIG reports issued have highlighted the lack of policy for allowing contracting officers to obtain uncertified cost data from contractors to determine a fair and reasonable price for spare parts in a sole-source environment.

at least nine DoD OIG reports over the past 23 years have identified uncertified cost data not being provided when requested.³⁵ For example, Report No. DODIG-2015-137, “Improvements Needed on DoD Procurements from Robertson Fuel Systems,” June 25, 2015, stated that Robertson refused to provide uncertified cost data to support fair and reasonable price determinations. In addition, 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, found that contracting officers stopped elevating Meggitt’s refusal to provide uncertified cost data. The contracting officers stopped elevating Meggitt’s refusal because Meggitt did not provide uncertified cost data even after the contracting officers elevated the refusal to the Head of the Contracting Activity as required by the FAR.

(U) Additionally, Report No. DODIG-2014-088, “Defense Logistics Agency Aviation Potentially Overpaid Bell Helicopter for Sole-Source Commercial Spare Parts,” July 3, 2014, stated that DLA Acquisition explained that Bell consistently refused to provide uncertified cost data for commercial spare parts when requested, and as a result, the DLA did not believe that it had the ability to obtain uncertified cost data. In the previous reports, the DoD OIG issued recommendations to fix similar problems identified in sole-source situations. The DoD took some actions in response to our recommendations in these reports by issuing and reiterating

³⁵ (U) DoD OIG Report No. 98-064, “Commercial and Noncommercial Sole-Source Items Procured on Contract N000383-93-G-M111,” June 24, 1998; Report No. D-2006-055, “Spare Parts Procurements from TransDigm, Inc.,” February 23, 2006; Report No. DODIG-2014-088, “Defense Logistics Agency Aviation Potentially Overpaid Bell Helicopter for Sole-Source Commercial Spare Parts,” July 3, 2014; 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; Report No. DODIG-2015-137, “Improvements Needed on DoD Procurements from Robertson Fuel Systems,” June 25, 2015; 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; Report No. DODIG-2016-047, “Defense Logistics Agency Did Not Appropriately Determine Fair and Reasonable Price for F108 Engine Sole-Source Commercial Parts,” February 16, 2016; Report No. DODIG-2017-053, “The Air Force Did Not Adequately Determine or Document Fair and Reasonable Prices for Lot 7 Sole-Source Initial Spare Parts for the C-5 Aircraft,” February 7, 2017; Report No. DODIG-2019-060, “Review of Parts Purchased From TransDigm Group, Inc.,” February 25, 2019.

(U) policy on fair and reasonable pricing of spare parts; providing additional training to contracting officers; meeting with contractors to discuss pricing; initializing reverse engineering for some parts; requiring contracting officers to verify price reasonableness of prior contractor prices; and elevating and reporting contractor denials of cost data. However, we are still identifying the same issues, as reflected in this audit. These previously issued DoD OIG reports demonstrate that pricing on sole-source spare parts is a systemic problem for the DoD and goes beyond DoD contracts with TransDigm.

(U) Ongoing Initiatives

(U) The OUSD(A&S) and the DLA have introduced several initiatives since the DoD OIG issued the previous TransDigm report, Report No. DODIG-2019-060, on February 25, 2019. Specifically, the OUSD(A&S) issued policy memorandums to DoD contracting officers and submitted two legislative proposals for the FY 2021 legislative cycle to address pricing. Additionally, the DLA is working on the Reverse Engineering Technical Data Initiative and the Strategic Supplier Alliance Initiative.

(U) Office of the Under Secretary of Defense for Acquisition and Sustainment

(U) On March 22, 2019, in response to recommendations made in Report No. DODIG-2019-060, OUSD(A&S) officials issued a memorandum outlining procedures for contracting officers to follow when determining price reasonableness for acquisitions under the TINA threshold.³⁶ This memorandum also established a requirement for the Heads of the Contracting Activities to report any instances when DoD contracting officers make an award to a contractor who refused to provide requested data other than certified cost or pricing data. On June 14, 2019, OUSD(A&S) officials issued a second memorandum directing contracting officers to require the submission of “uncertified cost or pricing data” to support TransDigm’s proposed prices when the proposed prices are not based on adequate price competition or set by law or regulation.³⁷

(U) Additionally, in response to recommendations made in Report No. DODIG-2019-060, OUSD(A&S) officials submitted two legislative proposals in the FY 2021 legislative cycle to Congress to address spare parts pricing. The first proposal sought to ensure that the DoD had appropriate authority and flexibility to make commercial item determinations and is able to obtain necessary cost or pricing data in order

³⁶ (U) Office of the Under Secretary of Defense for Acquisition and Sustainment memorandum, “Process and Reporting Requirements Pertaining to Contractor Denials of Contracting Officer Requests for Data Other Than Certified Cost or Pricing Data,” March 22, 2019.

³⁷ (U) Office of the Under Secretary of Defense for Acquisition and Sustainment memorandum, “Review of Prices Proposed by TransDigm and Affiliated Companies,” June 14, 2019.

(U) to negotiate fair and reasonable prices. This full proposal can be found in Appendix F. The second proposal sought to include a paragraph amending an existing statute within the United States Code that requires the submission of uncertified cost data from offerors if the pricing data submitted is not sufficient to determine a fair and reasonable price. This full proposal can be found in Appendix G. Neither proposal was included in the FY 2021 National Defense Authorization Act. The DoD is considering the submission of additional legislative proposals to address these issues in the FY 2023 legislative cycle. Because the policy recommendation from the February 2019 DoD OIG report that looked at other purchases made from TransDigm remains open, we are not making any additional recommendations to address this policy problem.

(U) Defense Logistics Agency

(U) The DLA is working on two initiatives to help ensure that the DoD receives fair and reasonable prices on spare parts—a Reverse Engineering Initiative and a Strategic Supplier Alliance Initiative. According to DLA officials, the DLA has established a Reverse Engineering Initiative (reverse engineering group), which is working with the Military Services to identify spare parts that can be reverse engineered. The Military Services have identified select spare parts that could potentially be reverse engineered and manufactured at a lower cost and have provided these spare parts to the reverse engineering group. The reverse engineering group is determining whether various manufacturers are interested in becoming an alternate source for the selected spare parts, many of which the DoD currently procures from TransDigm operating units.

(U) The DLA is working on two initiatives to help ensure that the DoD receives fair and reasonable prices on spare parts—a Reverse Engineering Initiative and a Strategic Supplier Alliance Initiative.

(U) As of March 2021, the DLA Aviation reverse engineering group had identified approximately 1,400 spare parts candidates, of which 971 are TransDigm spare parts. Of the 971 TransDigm parts, the DLA has approved 394 spare parts as reverse engineering candidates, are reviewing 36 spare parts, and has disapproved 541 spare parts. A spare part may be disapproved for reverse engineering for several reasons, such as the part’s complexity, the high costs associated with testing the part, or the part’s use on an obsolete weapon system. As of April 2021, DLA Land and Maritime had reviewed 98 TransDigm spare parts with 10 spare parts having an additional source added, 11 spare parts under review, and 77 spare parts not approved for reverse engineering mostly due to the complexity of the spare parts.

(U) In addition, DLA Aviation established a Strategic Supplier Alliance Initiative (strategic supplier group), which is working with 14 OEMs to encourage competition for spare parts that TransDigm currently makes. According to DLA officials, the strategic supplier group is requesting that certain OEMs cancel the manufacturing license agreements with TransDigm for select spare parts and start manufacturing the spare parts themselves.

(U) DoD and Contractor Working Group

(U) DPC, DLA, and TransDigm officials have established a working group since the DoD OIG issued the February 2019 DoD OIG report that looked at other purchases made from TransDigm to address pricing concerns associated with TransDigm spare parts. The working group discussed TransDigm providing certified and uncertified cost data to support contract proposals, the application of the FAR and DFARS procedures, policy and instructions for pricing, and commercial item pricing for TransDigm spare parts. In addition to what the working group is already working on, DoD members should collect and analyze the data related to the DoD's spare parts contracts with TransDigm and take steps, where practicable, to take advantage of potential savings to the DoD through reviewing and discussing with TransDigm different contracting strategies as part of the working group.

(U) Alternative Contracting Strategies

(U) The DoD should explore alternative contracting strategies for negotiating with companies, such as TransDigm that sell sole-source spare parts in small quantities at low dollar values to the DoD. Based on our analysis of the procurement history of the spare parts in our sample, the DoD may have opportunities to consider different contract strategies to procure spare parts from TransDigm, which could provide savings to the DoD. For example, contracting officers awarded 35 of the 107 spare parts reviewed on at least 4 contracts during either 2017 or 2018. Specifically, contracting officers awarded 5 of those 35 spare parts on at least 4 contracts in both years. These frequent buys show that a long-term contract, whether yearly or multiyear, may assist the DoD in reducing spare parts costs by consolidating the awards and increasing the quantities bought. Increased spare parts quantities may result in a discounted price. In addition, contracting officers awarded contracts for 19 of the 35 spare parts to 3 different TransDigm operating units. For example, contracting officers awarded contracts for 8 of the 19 spare parts to the TransDigm operating unit Aero Fluid Products. As a result, DLA contracting officers could consider negotiating a single contract for multiple spare parts procured from a single TransDigm operating unit. See Appendix H for a list of spare parts with multiple procurements.

(U) These and other possible contract strategies could enable DLA contracting officials to negotiate better pricing for the spare parts based on obtaining quantity discounts. Additionally, contract values could exceed the TINA threshold, which may allow contracting officers to obtain certified cost or pricing data to negotiate better prices. In some contract awards, DLA contracting officials attempted to award larger or multiple-year contracts. However, TransDigm officials did not always agree to the contracts because the number of items was often undefined and there were large variances between the quantity quoted and the quantity purchased. See Table 8 for examples of the spare parts acquired from TransDigm, which had multiple DoD procurements in 2017 and 2018, and the TransDigm operating units that supply those spare parts.

(U) Table 8. TransDigm Spare Parts With Multiple DoD Procurements in 2017 and 2018

(CUI)	National Stock Number and Description	Year	Contracts Awarded	Total Qty Purchased	Total Dollar Value of Contracts	Total Dollar Value of Contracts Per Year by Operating Unit
Aero Fluid Products						
1	[REDACTED]	2018	4	230	\$410,554	
2	[REDACTED]	2018	4	16	280,381	
3	[REDACTED]	2018	4	355	957,923	
					Total for 2018	\$1,648,858
4	[REDACTED]	2017	5	75	537,988	
5	[REDACTED]	2017	5	36	673,236	
6	[REDACTED]	2017	5	270	1,226,280	
7	[REDACTED]	2017	7	54	674,152	
	[REDACTED]	2017	5	131	484,369	
8	[REDACTED]	2017	4	141	444,714	
					Total for 2017	4,040,739 (CUI)

(U) Table 8. TransDigm Spare Parts With Multiple DoD Procurements in 2017 and 2018 (cont'd)

(CUI)	National Stock Number and Description	Year	Contracts Awarded	Total Qty Purchased	Total Dollar Value of Contracts	Total Dollar Value of Contracts Per Year by Operating Unit
Arkwin Industries						
9	[REDACTED]	2018	4	147	801,760	
10	[REDACTED]	2018	6	330	954,485	
11	[REDACTED]	2018	4	85	282,023	
12	[REDACTED]	2018	4	151	966,735	
13	[REDACTED]	2018	7	210	439,513	
					Total for 2018	3,444,516
	[REDACTED]	2017	6	95	437,932	
14	[REDACTED]	2017	5	748	297,811	
15	[REDACTED]	2017	5	125	479,109	
	[REDACTED]	2017	5	125	721,875	
					Total for 2017	\$1,936,727 (CUI)

(U) Source: IHS Haystack Gold.

(U) Therefore, the DPC Principal Director and the DLA Director should work together to identify alternative contracting strategies for procuring items from companies that sell sole-source spare parts in small quantities at low dollar values to the DoD more efficiently and at a lower price. For example, DPC and the DLA could determine whether it is beneficial to combine contract procurements for the same spare part or combine multiple spare parts bought from the same TransDigm operating unit. These types of contracting strategies may result in DoD contract values that could exceed TINA threshold constraints, which may allow contracting officers to receive certified cost or pricing data to assist in negotiating fair and reasonable prices.

(U) TransDigm Earned Excess Profit for Sole-Source Spare Parts

(U) Contracting officers awarded contracts to TransDigm in accordance with applicable policy. However, TransDigm earned excess profits of at least \$20.8 million on 150 spare parts contracts and will continue to earn higher profits on spare parts in a sole-source environment. According to TransDigm officials, aerospace industry contractors using market-based pricing generally resulted in profits ranging from 8 percent to 22 percent. However, we determined that profits for the spare parts in our sample were often much higher. Specifically, we identified excess profits ranging from 2.8 percent to 3850.6 percent after removing a 15 percent profit percentage in the sample of spare parts we reviewed. See Appendix E for the profits earned by TransDigm on each of the 106 spare parts. As a result, the DLA Director should direct contracting officers to seek a voluntary refund from TransDigm of at least \$20.8 million in excess profit for 105 spare parts on 150 contracts. See Appendix I for details on the refund amount.

(U) Recommendations, Management Comments, and Our Response

(U) Recommendation 1

(U) We recommend that the Defense Pricing and Contracting Principal Director review the Defense Federal Acquisition Regulation Supplement and Defense Federal Acquisition Regulation Supplement Procedures, Guidance, and Information to determine whether current policy adequately addresses when cost analysis should be required by contracting officials to determine price reasonableness for sole-source spare parts not subject to Truth in Negotiations Act. If the Principal Director determines that current policy is not sufficient, the Principal Director should initiate actions to revise and update policy and guidance.

(U) Defense Pricing and Contracting Principal Director Comments

(U) The DPC Principal Director agreed with the recommendation, stating that DPC will review and, if necessary, update DFARS and DFARS Procedures, Guidance, and Information for when cost analysis should be required to determine price reasonableness for sole-source parts not subject to TINA.

(U) Our Response

(U) Comments from the DPC Principal Director addressed the recommendation. Therefore, the recommendation is resolved but will remain open. We will close the recommendation when DPC provides evidence that the policy and guidance has been reviewed and provides us copies of the updates to the policies if made.

(U) Recommendation 2

(U) We recommend that the Defense Pricing and Contracting Principal Director work with the Defense Logistics Agency Director to identify alternative contracting strategies for procuring items from companies that sell sole-source spare parts in small quantities at low dollar values to the DoD more efficiently and at a lower price.

(U) Defense Pricing and Contracting Principal Director Comments

(U) The DPC Principal Director agreed with the recommendation, stating that DPC will work with the DLA to identify alternative contracting strategies for more efficiently procuring sole-source parts in small quantities for the DoD.

(U) Our Response

(U) Comments from the DPC Principal Director addressed the recommendation. Therefore, the recommendation is resolved but will remain open. We will close the recommendation when DPC provides evidence of the coordination with the DLA to address alternative contracting strategies for the pricing challenges has occurred.

(U) Defense Logistics Agency Acquisition Deputy Director Comments

(U) The DLA Acquisition Deputy Director, responding for the DLA Director, agreed with the recommendation, stating that the DLA will continue to seek alternative contracting strategies to increase efficiency and receive a better price for the Government. The DLA also agreed to coordinate with DPC to address pricing challenges and to support DPC's effort by adopting and adhering to additional DPC guidance.

(U) Our Response

(U) Comments from the DLA Acquisition Deputy Director addressed the recommendation. Therefore, the recommendation is resolved but will remain open. We will close the recommendation when the DLA provides evidence that coordination with DPC to address the pricing challenges has occurred.

(U) Recommendation 3

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

- a. (U) Direct Defense Logistics Agency Aviation contracting officers to seek a voluntary refund from TransDigm for approximately \$9.6 million in excess profit for the 63 contracts that we identified contained excess profit.**
- b. (U) Direct Defense Logistics Agency Land and Maritime contracting officers to seek a voluntary refund from TransDigm for approximately \$10.9 million in excess profit for the 84 contracts that we identified contained excess profit.**
- c. (U) Direct Defense Logistics Agency Troop Support contracting officers to seek a voluntary refund from TransDigm for approximately \$0.4 million in excess profit for the 3 contracts that we identified contained excess profit.**

(U) Defense Logistics Agency Acquisition Deputy Director Comments

(U) The DLA Acquisition Deputy Director, responding for the DLA Director, agreed with the recommendation, stating that the DLA Major Subordinate Commands have reviewed the TransDigm subsidiaries and concluded that the voluntary refunds are appropriate. The DLA Major Subordinate Commands will send voluntary refund letters to TransDigm and its subsidiaries for the amounts of excess profit identified.

(U) Our Response

(U) Comments from the DLA Acquisition Deputy Director addressed the recommendation. Therefore, the recommendation is resolved but will remain open. We will close the recommendation when the DLA provides evidence that the voluntary refund letters have been provided to TransDigm and its subsidiaries.

(U) Appendix A

(U) Scope and Methodology

(U) We conducted this performance audit from July 2019 through October 2021 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.

(U) Interviews and Documentation

(U) We interviewed DLA Aviation, DLA Land and Maritime, and DLA Troop Support officials to determine whether the DoD purchased spare parts at fair and reasonable prices from TransDigm. We met with contracting officials to discuss the spare parts procured, negotiations with TransDigm, evaluations of prices, and determinations of price reasonableness. We interviewed OUSD(A&S) officials to determine any ongoing acquisition initiatives, reforms, or policies related to TransDigm. We interviewed Defense Contract Audit Agency officials to determine their involvement or findings in TransDigm pricing audits. Finally, for the spare parts in our sample, we interviewed TransDigm officials to understand the uncertified cost data for the spare parts, identify who owned the data rights for spare parts, determine whether spare parts were sole-source spare parts, and understand the TransDigm business model. TransDigm personnel reviewed and commented on relevant portions of the draft report, and TransDigm's comments were considered in preparing the final report.

(U) We reviewed the DLA Aviation, DLA Land and Maritime, DLA Troop Support, and TransDigm documentation. Specifically, we reviewed:

- (U) contracts,
- (U) simplified acquisition award documents,
- (U) price negotiation memorandums,
- (U) justification and approvals,
- (U) small business coordination forms,
- (U) proposals and bids,
- (U) price analysis worksheets,
- (U) TransDigm uncertified cost data for the sampled spare parts,

- (U) TransDigm corporate cost allocations,
- (U) TransDigm annual reports, and
- (U) TransDigm operating unit acquisition history.

(U) Nonstatistical Audit Sample of TransDigm Spare Parts

(U) Based on the congressional request, we reviewed the Federal Procurement Data System-Next Generation (FPDS-NG) to identify all contracts that the DoD issued to TransDigm from January 2017 through June 2019. From January 2017 through June 2019, the DoD issued 5,113 contracts, valued at \$568.6 million. Specifically, we selected contracts awarded:

- (U) from January 1, 2017, through August 31, 2018, valued between \$125,000 and \$150,000;
- (U) from September 1, 2018, through June 30, 2019, valued between \$225,000 and \$250,000; and
- (U) from January 1, 2017, through June 30, 2019, valued between \$600,000 and 750,000.

(U) Based on these thresholds and time frames for the audit, the DoD awarded 176 contracts, valued at \$47.7 million, to TransDigm or its operating units. Of the remaining 23 contracts, 15 were repair contracts, 4 did not buy spare parts, 3 were negotiated outside of the audit timeframe, and 1 was canceled. As a result, we reviewed 107 spare parts, purchased on 153 DLA contracts valued at \$38.3 million.

(U) Table 11 shows the number of contracts at each DLA location.

(U) Table 11. Number of Contracts for Each DLA Location

Organizations	Number of Contracts
DLA Aviation	64
DLA Land and Maritime	86
DLA Troop Support	3
Total	153

(U) Source: FPDS-NG.

(U) Review of Price Reasonableness

(U) We reviewed the DLA contract files to determine whether the DLA contracting officers obtained sufficient documentation to determine a fair and reasonable price for 107 spare parts purchased on 153 contracts. We reviewed price negotiation memorandums and simplified acquisition award documentation to understand the processes that contracting officials used to determine whether prices were fair and reasonable. We reviewed how, or whether, the contracting officers validated the previous spare parts prices paid as fair and reasonable. We also reviewed whether contracting officers requested and received uncertified cost data.

(U) Business Model

(U) To identify TransDigm's corporate structure, including its business model and philosophy, we interviewed TransDigm officials, reviewed TransDigm's Annual Reports and corporate website information, and obtained and analyzed the operating unit acquisition history. We relied on testimonial evidence provided by TransDigm representatives to support TransDigm's business model and did not verify the accuracy of the information. In addition, we obtained and reviewed data that TransDigm provided to the DPC officials regarding TransDigm's business with the DoD. We analyzed prices for the sampled spare parts procured from operating units acquired by TransDigm to understand the TransDigm business model's impact on spare parts pricing. The analysis included reviewing prices both before and after TransDigm acquired the operating unit to determine whether the acquisition increased the price of the spare part. Finally, the team attempted to identify whether the spare part acquired from TransDigm became sole-source after the operating unit's acquisition by TransDigm.

(U) Uncertified Cost Data

(U) The team reviewed uncertified cost data that TransDigm provided for 106 of 107 spare parts on 152 of 153 contracts. Uncertified cost data for one spare part on one contract was not available because as of April 2021, the one spare part had not been delivered. According to TransDigm officials, TransDigm could not provide any uncertified cost data for spare parts that had not been delivered to the DoD. For the uncertified cost data received for each spare part/contract, the team validated all formulas and calculations, and performed an analysis to determine whether the methodology for accumulating the costs was reasonable. The team compared the following information to supporting documents, including purchase orders or invoices, to verify the reasonableness of the uncertified cost data.

- (U) Overhead rates
- (U) Material costs
- (U) Direct labor costs and hours

- (U) Other direct cost rates
- (U) Selling, general, and administrative rates
- (U) Corporate costs
- (U) Interest
- (U) Taxes
- (U) Specific costs
- (U) Special packaging

(U) Cost Analysis

(U) The team conducted a cost analysis to calculate a fair and reasonable price using the uncertified cost data that TransDigm provided and determined whether TransDigm earned a profit in excess of 15 percent on any of the spare parts. For our cost analysis, although we did determine the reasonableness of all costs, we did not determine the allowability of all costs. The FAR identifies certain costs that are unallowable, including interest and taxes when cost analysis is performed.³⁸ Because we performed cost analysis and interest and taxes were separately identified in the uncertified cost data provided, we excluded these costs from the uncertified cost data that TransDigm provided. Our exclusion should, in no way, be interpreted to mean that, in all instances, offerors are or should be precluded from including interest and taxes in price calculations for fixed-price contracts. For the contracts in the sample in which TransDigm declined the contracting officer's request for uncertified cost data, we are unaware of a basis the contracting officers would have had to successfully compel TransDigm to provide this data. When TransDigm declined to provide the data, the contracting officers were not ultimately prohibited from contracting with TransDigm. As we noted in our previous report, DODIG-2019-060, TransDigm complied with FAR requirements for providing certified cost or pricing data for a contract above the TINA threshold that had no exceptions. If TransDigm had provided uncertified cost data to the contracting officers, the contracting officers would have applied FAR Part 31.102 cost analysis principles and would have likely not agreed to any final price that included reimbursement to TransDigm of these costs. Therefore, for purposes of our analysis, we removed these costs. However, because TransDigm did not provide the requested uncertified cost data to DoD personnel during negotiations, the costs in question were allowable.

³⁸ (U) FAR Part 31, "Contract Cost Principles and Procedures," Subpart 31.2, "Contracts With Commercial Organizations."

(U) In addition, 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. For experimental, developmental, or research work performed under a cost-plus-fixed-fee contract, the fee must not exceed 15 percent. For architect-engineer services for public works or utilities, the fee must not exceed 6 percent. For other cost-plus-fixed-fee contracts, the fee must not exceed 10 percent. We used 15 percent, the highest profit percentage, for our analysis. We are not stating that 15 percent should be used as a benchmark when negotiating firm-fixed-price contracts; rather, this is the percentage we decided to use for the purposes of our audit analysis. In addition, this should not be interpreted to mean that any special profit ceiling applies solely to TransDigm contracts. During our discussions with TransDigm officials, they noted that, for many reasons, there may be instances where one offeror's fixed-price proposal that includes a profit over 15 percent provides greater value to the U.S. Government than a second offeror's proposal that includes a profit of less than 15 percent. We agree and reiterate that nothing in this report states, or should be interpreted to mean, that the DoD OIG advocates a 15 percent profit ceiling or any other specified profit ceiling on fixed-price contracts. When the audit team asked TransDigm what profit percentage TransDigm thought was fair, they were unable to identify a number, but stated that because TransDigm deals with the commercial market, TransDigm determines the cost of an item based on what the customer is willing to pay. Additionally, according to TransDigm officials, aerospace industry contractors' use of market-based pricing generally resulted in profits ranging from 8 percent to 22 percent. The 15 percent the audit team used falls within this industry average.

(U) To calculate potential excess profit for each spare part, the team multiplied the 15-percent profit by TransDigm's cost to manufacture the spare part. This calculation resulted in the reasonable amount of profit that TransDigm could earn on each spare part. The team then added the 15-percent profit amount to TransDigm's cost to manufacture the spare part and then subtracted the total from the spare part's price that TransDigm charged the DoD on the contract. We considered any positive difference from the calculation to be excess profit earned on that spare part. For the purposes of this audit, we used the same excess profit percentage (15-percent) and the same profit percentage calculation as Report No. DODIG-2019-060 to ensure consistency.

(U) Additionally, we calculated the profit percentage for the TransDigm spare part contracts based on the percentage of cost calculation. In that calculation the profit percentage is calculated by first determining the total costs involved in making the part, and then subtracting those costs from the selling price of the spare part to determine the total profit or fee. The profit or fee is then divided by the total cost to get the profit percentage (profit/cost=profit percentage). For example, if the selling price of a spare part was \$1000 and the cost to make it was \$70, the profit amount would be \$930 (1000-70) and the profit as a percentage of cost would be 1329 percent (930/70=13.29 or 1329 percent). This calculation was used by TransDigm in the cost data provided for the previous audit. The profit percentage can also be calculated based on the percentage of revenue. In that calculation, the total profit is again calculated by determining the total costs involved in making the spare part and subtracting that amount from the selling price to get the total profit or fee. However, in this calculation, the profit percentage is calculated by dividing the profit or fee by the selling price of the part (profit/selling price=profit percentage). Using the previous example, the profit amount would again be \$930 (1000-70) and the profit as a percentage of revenue would be 93 percent (930/1000 =.93 or 93 percent). TransDigm used this calculation in the uncertified cost data provided for this audit. In both calculations, the dollar amount of the excess profit or fee is the same. However, the calculated profit percentage is lower using the percentage of revenue because the selling price used in that calculation is higher than the cost used in the percentage of cost calculation. In the contracts we analyzed, the profit percentage calculated using the percentage of revenue calculation was significantly lower than the profit percentage calculated using the percentage of cost calculation. FAR and DFARS guidance provides procedures for contracting officers to calculate the negotiated profit for a contract based on costs when certified cost or pricing data is provided by the contractor.³⁹ For this reason, we used the information that would have been available to the contracting officer during negotiations, which would be consistent with using the percentage of cost calculation. In addition, for the February 2019 DoD OIG report that looked at other purchases made from TransDigm, TransDigm provided profit as a percentage of cost. So for consistency for this audit, we also used the percentage of cost calculation. Both percentage of cost and percentage of revenue are considered acceptable for determining the profit percentage, and excess profits exist under either calculation. As a result, our conclusions would not change had we used a different method.

³⁹ (U) FAR 15.404, "Proposal Analysis," and DFARS 215.404, "Proposal Analysis."

(U) Criteria

(U) We reviewed the following policy related to TransDigm's spare parts pricing.

- (U) FAR Part 7, "Acquisition Planning"
- (U) FAR Part 13, "Simplified Acquisition Procedures"
- (U) FAR Part 15, "Contracting by Negotiation"
- (U) FAR Part 31, "Contract Cost Principles and Procedures"
- (U) FAR 52.215-23, "Limitations on Pass-Through Charges"
- (U) DFARS 215.404, "Proposal analysis"
- (U) DFARS Procedures, Guidance, and Information 215.402, "Pricing policy"
- (U) DFARS Procedures, Guidance, and Information 215.403-3, "Requiring data other than certified cost or pricing data"
- (U) DFARS Procedures, Guidance, and Information 215.404, "Proposal analysis"
- (U) Public Law 114-92, "National Defense Authorization Act for Fiscal Year 2016"

(U) This report was reviewed by the DoD Components associated with this oversight project to identify whether any of their reported information, including legacy FOUO information, should be safeguarded and marked in accordance with the DoD CUI Program. In preparing and marking this report, we considered any comments submitted by the DoD Components about the CUI treatment of their information. If the DoD Components failed to provide any or sufficient comments about the CUI treatment of their information, we marked the report based on our assessment of the available information.

(U) Use of Computer-Processed Data

(U) We used computer-processed data from the FPDS-NG, IHS Haystack Gold, and Electronic Document Access. 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 spare parts purchased from TransDigm. To assess the reliability, we compared the contract actions obtained from the FPDS-NG to contract documents obtained from Electronic Document Access. We used IHS Haystack Gold to identify the procurement history, including quantities and unit prices, for the spare parts selected for

(U) audit. To assess the reliability of IHS Haystack Gold, we compared the procurement history information to contract documents obtained from Electronic Document Access. To assess the reliability of the Electronic Document Access data, we compared the documents obtained from Electronic Document Access to contract documentation obtained from the DLA contracting offices. As a result, we determined that the FPDS-NG, IHS Haystack Gold, and Electronic Document Access computer-processed data were sufficiently reliable to support our findings and conclusions.

(U) In addition, to calculate fair and reasonable prices, we obtained uncertified cost data from 10 TransDigm enterprise resource planning systems—MAPICS, MAX, Syspro, Info Visual, Epicor, Avante, MACPAC, Infor CloudSuite Industrial, Oracle, and Syteline. TransDigm provided that the data from the enterprise resource planning systems are verified through TransDigm’s internal and external audit processes; therefore, we did not conduct system-level reviews. However, to verify the accuracy of the data in the 10 enterprise resource planning systems, we:

- (U) compared the material cost to purchase orders or invoices;
- (U) compared corporate cost, interest, and tax rates with TransDigm annual financial statement reports from FY 2017 through FY 2019; and
- (U) reviewed material handling; manufacturing overhead; and selling, general, and administrative expenses applied to the costs and verified consistent application of cost allocations to all spare parts for each of the 18 TransDigm operating units reviewed.

(U) We used the uncertified cost data that TransDigm provided to calculate fair and reasonable prices and identified differences between the costs to manufacture the spare parts and the prices that TransDigm charged the DoD. We determined that the uncertified cost data were sufficiently reliable for the purposes of this audit.

(U) Use of Technical Assistance

(U) We used the technical expertise of a prior DoD contracting officer from our Financial Management and Reporting Directorate. The technical expert reviewed all the contracting files included in the audit sample and provided us a list of items that were not in line with policy based on experience. We then compared the technical expert’s items of concern to the team’s items of concern and asked any additional questions necessary to resolve any discrepancies. This second review allowed us to ensure that nothing was missed within the contracting file reviews.

(U) Appendix B

(U) Prior Coverage

(U) The GAO issued one report in the last 5 years related to commerciality determinations and fair and reasonable pricing. Unrestricted GAO reports can be accessed at <https://www.gao.gov/>. The DoD OIG issued 3 reports related to fair and reasonable pricing in the last 5 years. The DoD OIG also issued 15 reports more than 5 years ago related to commercial item procurements or fair and reasonable pricing. One of these 15 reports specifically discussed TransDigm and its subsidiaries. We included these reports in this summary of prior audit coverage because they were relevant to our audit objective. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

(U) GAO

(U) Report No. GAO-18-530, “Defense Contracts: Improved Information Sharing Could Help DOD Determine Whether Items Are Commercial and Reasonably Priced” July 2018

(U) The GAO found four interrelated factors, each with its set of challenges, that influenced how and whether the DoD determines if an item is commercial and if its price is reasonable. These factors are: (1) availability of marketplace information, (2) ability to obtain contractor data, (3) extent of modifications to an item, and (4) reliability of prior commercial item determinations.

(U) DoD OIG

(U) Report No. DODIG-2019-060, “Review of Parts Purchased from TransDigm Group, Inc.,” February 25, 2019

(U) The DoD OIG 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 the DoD OIG compared the awarded prices for the 47 parts on 113 contracts to TransDigm’s other-than-certified cost data, the 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 percent to 4,451 percent for 46 parts. The DoD OIG determined profit percentages of 15 percent or below to be reasonable.

(U) Report No. DODIG-2017-053, "The Air Force Did Not Adequately Determine or Document Fair and Reasonable Prices for Lot 7 Sole-Source Initial Spare Parts for the C-5 Aircraft," February 7, 2017

(U) The DoD OIG determined that the Air Force Life Cycle Management Center contracting officer did not adequately determine fair and reasonable prices for 11 nonstatistically selected commercial spare parts purchased from Lockheed Martin Aeronautics Company on Lot 7.

(U) Report No. DODIG-2017-050, "Defense Logistics Agency Aviation Negotiated Fair and Reasonable Prices for F402 Engine Spare Parts, but Pricing Errors and Late Deliveries Occurred," January 31, 2017

(U) The DoD OIG determined that the DLA Aviation contracting officials negotiated fair and reasonable prices for the 17 noncommercial, sole-source F402 engine spare parts reviewed, valued at \$55.3 million. However, after DLA Aviation awarded the contract to Rolls-Royce in January 2014, Rolls-Royce identified an error in the contract's unit prices for 49 F402 engine spare parts and notified DLA Aviation contracting officials in March 2014. DLA Aviation contracting officials modified the contract in April 2014 to correct unit prices for 49 spare parts; however, contracting officials did not modify 45 of 82 delivery orders that were placed from February 2014 through December 2015 with the incorrect unit prices.

(U) Report No. DODIG-2016-093, "The Naval Air Systems Command Did Not Obtain Fair and Reasonable Prices on ScanEagle Spare Parts," May 31, 2016

(U) The DoD OIG determined that the contracting officials did not obtain fair and reasonable prices on spare parts. Although contracting officials received prices lower than the contractor proposed, contracting officials did not substantiate the analysis used to determine price reasonableness. In addition, contracting officials did not take advantage of quantity discounts when determining fair and reasonable prices for spare parts.

(U) Report No. DODIG-2016-080, "Army's Management of Gray Eagle Spare Parts Needs Improvement," April 29, 2016

~~(CUI)~~ The DoD OIG determined that contracting officers did not receive fair and reasonable prices for 31 of 37 nonstatistically sampled spare parts, valued at [REDACTED] million, on the full production contract.

(U) Report No. DODIG-2016-074, "Army Contracting Officials Could Have Purchased Husky Mounted Detection System Spare Parts at Lower Prices," March 31, 2016

(U) The DoD OIG determined that the contracting officials for the Army Contracting Command–Aberdeen Proving Ground generally obtained fair and reasonable prices from NIITEK Inc. for 13 sole-source Husky Mounted Detection System spare parts reviewed, valued at \$209 million. However, Army Contracting Command–Aberdeen Proving Ground contracting officials established the minimum quantity for the Husky Mounted Detection System contract as a dollar value, instead of a number of spare parts, which limited the contracting officials' effectiveness in obtaining lower prices for Husky Mounted Detection System spare parts.

(U) 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

(U) The DoD OIG determined that the DLA Aviation contracting officer did not appropriately determine fair and reasonable prices for sole-source commercial spare parts purchased from CFM International.

(U) 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

(U) The DoD OIG determined that the DLA Aviation contracting officers did not perform adequate proposal analysis to determine fair and reasonable prices for supply-support services and selected spare parts.

(U) Report No. DODIG-2015-153, "Defense Logistics Agency Aviation Generally Purchased Sole-Source Spare Parts From the General Electric Company at Fair and Reasonable Prices, but Improvements Could Be Made," July 24, 2015

(U) The DoD OIG determined that the DLA Aviation contracting officer generally purchased sole-source spare parts from General Electric Company at fair and reasonable prices for the nonstatistical sample of sole-source spare parts reviewed, valued at \$23 million of the \$104 million sole-source spare parts purchased. However, the contracting officer did not adequately support the commercial item determinations for sole-source spare parts procured from General Electric Company.

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

(U) The DoD OIG determined that the DoD did not effectively procure fuel systems and parts from Robertson on the nine nonstatistically selected, sole-source contracts reviewed. Specifically, contracting officers could not support the commercial item or fair and reasonable price determinations.

(U) 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

(U) The DoD OIG determined that the DLA Aviation contracting officer did not obtain a fair and reasonable price for 51 of 54 statistically sampled sole-source commercial spare parts procured from the Meggitt Aircraft Braking Systems companies.

(U) Report No. DODIG-2015-103, "Summary of DoD Office of Inspector General Spare-Parts Pricing Audits: Additional Guidance is Needed," March 31, 2015

(U) The DoD OIG determined that the DoD did not have adequate processes to obtain fair and reasonable prices for spare parts. Since 1998, the DoD OIG has issued 32 reports related to spare parts pricing. In 3 of the 32 reports, the DoD obtained fair and reasonable prices for spare parts. However, 20 of the 32 reports identified that the DoD did not receive fair and reasonable prices for spare parts.

(U) Report No. DODIG-2014-110, "Ontic Engineering and Manufacturing Overcharged the Defense Logistics Agency for Sole-Source Spare Parts," September 15, 2014

(U) The DoD OIG determined that the DLA contracting officials did not obtain fair and reasonable prices for sole-source spare parts purchased from Ontic for 21 parts, valued at \$26.2 million. The DLA paid as much as 831 percent more for spare parts purchased from Ontic than it previously paid other suppliers for the same parts. This occurred because the DLA did not conduct sufficient analysis to establish the reasonableness of Ontic's proposed prices. Specifically, DLA contracting officials used previous DoD purchase prices without determining the price reasonableness of those prices. In addition, DLA contracting officials and Ontic did not consistently comply with Federal guidance for analyzing subcontractor prices to determine price reasonableness.

(U) Report No. DODIG-2014-088, "Defense Logistics Agency Aviation Potentially Overpaid Bell Helicopter for Sole-Source Commercial Spare Parts," July 3, 2014

(U) The DoD OIG determined that the contracting officers did not sufficiently determine whether prices were fair and reasonable for sole-source commercial parts.

(U) Report No. DODIG-2014-054, "Defense Logistics Agency Land and Maritime Paid Too Much for High Mobility Multipurpose Wheeled Vehicle Repair Parts," April 4, 2014

(U) The DoD OIG determined that DLA Land and Maritime contracting officials negotiated questionable prices for High Mobility Multipurpose Wheeled Vehicle repair parts purchased on its sole-source, commercial integrated logistics partnership contract with AM General.

(U) Report No. DODIG-2014-038, "Air Force Cycle Management Center Could Not Identify Actual Cost of F119 Engine Spare Parts Purchased From Pratt and Whitney," February 10, 2014

(U) The DoD OIG determined that the contracting officers awarded a contract valued at about \$1.6 billion for F119 engine sustainment, including engine spare parts for 2008 through 2012, but did not validate actual unit costs of engine spare parts purchased

(U) Report No. DODIG-2014-020, "U.S. Army Contracting Command Did Not Obtain Fair and Reasonable Prices for Communications Equipment," December 5, 2013

(U) The DoD OIG determined that contracting officers did not obtain fair and reasonable prices for communications equipment procured from Datron to support the Afghan National Security Forces.

(U) Report No. D-2006-055, "Spare Parts Procurements From TransDigm, Inc.," February 23, 2006

(U) The DoD OIG determined that the DLA contracting officers were unable to effectively negotiate prices for the spare parts procured from TransDigm subsidiaries.

(U) Appendix C

(U) List of TransDigm Business Segments, Operating Units, Legal Entities, and the Date of Acquisition as of FY 2019

(CUI) Business Segment, Operating Unit, Legal Entity	Date of Acquisition
I. Power and Control	
██████████	██
██████████████████	██
██████████████	████
██████████████████████	██
██████████████████	██
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██████████████████████	████
████████████████████	████
██████████████████	████
██████████████████	████
██████████████	████ (CUI)

(U) List of TransDigm Business Segments, Operating Units, Legal Entities, and the Date of Acquisition as of FY 2019 (cont'd)

(CUI) Business Segment, Operating Unit, Legal Entity	Date of Acquisition
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	
[REDACTED]	[REDACTED]
II. Airframe	
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED] (CUI)

(U) List of TransDigm Business Segments, Operating Units, Legal Entities, and the Date of Acquisition as of FY 2019 (cont'd)

(CUI) Business Segment, Operating Unit, Legal Entity	Date of Acquisition
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	
[REDACTED]	[REDACTED]
III. Non-Aviation	
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	(CUI)

(U) List of TransDigm Business Segments, Operating Units, Legal Entities, and the Date of Acquisition as of FY 2019 (cont'd)

(CUI) Business Segment, Operating Unit, Legal Entity	Date of Acquisition
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED] (CUI)

* (CUI) [REDACTED]

(U) Source: TransDigm.

(U) Appendix D

(U) Initial Price Changes After TransDigm Acquired Companies

(U) This appendix lists the price differences for the 46 spare parts in our sample for which there was a procurement within a 5-year period before and after TransDigm’s acquisition of the operating units.

(CUI) National Stock Number and Description	First Purchase From Subsidiary Before TransDigm Acquisition		Last Purchase Before TransDigm Acquisition		Annual % Price Change for Pre-TransDigm Acquisition Procurements	First Purchase After TransDigm Acquisition		Annual % Price Change From Last Pre-TransDigm to First Post TransDigm Purchase	Purchase in Our Sample		Annual % Price Change From Last Pre-TransDigm to Audit Sample Purchase	TransDigm’s Cost Per Spare Part
	Date	Price	Date	Price		Date	Price		Date	Price		
[REDACTED]	7/1/1986	[REDACTED]	1/8/1993	[REDACTED]	0	11/1/1994	[REDACTED]	9	4/23/2018	[REDACTED]	39	[REDACTED]
[REDACTED]	1/1/1987	[REDACTED]	2/1/1993	[REDACTED]	4	10/1/1997	[REDACTED]	37	5/9/2018	[REDACTED]	46	[REDACTED]
[REDACTED]	7/20/1982	[REDACTED]	5/6/2014	[REDACTED]	12	7/30/2018	[REDACTED]	33	7/30/2018	[REDACTED]	33	[REDACTED]
[REDACTED]	8/1/1973	[REDACTED]	7/6/2010	[REDACTED]	30	6/30/2014	[REDACTED]	3	4/5/2017	[REDACTED]	3	[REDACTED]
[REDACTED]	12/1/1978	[REDACTED]	7/26/2012	[REDACTED]	4	1/31/2014	[REDACTED]	5	3/13/2019	[REDACTED]	6	[REDACTED]
[REDACTED]	10/23/2002	[REDACTED]	6/6/2014	[REDACTED]	1	8/11/2017	[REDACTED]	43	8/11/2017	[REDACTED]	43	[REDACTED]
[REDACTED]	2/1/1994	[REDACTED]	8/20/2014	[REDACTED]	7	10/3/2017	[REDACTED]	32	10/20/2017	[REDACTED]	30	[REDACTED]
[REDACTED]	2/1/1986	[REDACTED]	9/14/2011	[REDACTED]	1	6/21/2013	[REDACTED]	32	12/1/2018	[REDACTED]	17	[REDACTED] (CUI)

(U) Initial Price Changes After TransDigm Acquired Companies (cont'd)

(CUI) National Stock Number and Description	First Purchase From Subsidiary Before TransDigm Acquisition		Last Purchase Before TransDigm Acquisition		Annual % Price Change for Pre-TransDigm Acquisition Procurements	First Purchase After TransDigm Acquisition		Annual % Price Change From Last Pre-TransDigm to First Post TransDigm Purchase	Purchase in Our Sample		Annual % Price Change From Last Pre-TransDigm to Audit Sample Purchase	TransDigm's Cost Per Spare Part
	Date	Price	Date	Price		Date	Price		Date	Price		
[REDACTED]	1/1/1982	[REDACTED]	3/29/2017	[REDACTED]	5	11/7/2018	[REDACTED]	3	11/19/2018	[REDACTED]	4	[REDACTED]
[REDACTED]	2/1/1981	[REDACTED]	5/26/2010	[REDACTED]	2	6/13/2013	[REDACTED]	5	6/1/2017	[REDACTED]	6	[REDACTED]
[REDACTED]	10/1/1980	[REDACTED]	3/5/2013	[REDACTED]	2	7/16/2015	[REDACTED]	36	7/20/2017	[REDACTED]	29	[REDACTED]
[REDACTED]	9/1/1993	[REDACTED]	12/4/2008	[REDACTED]	24	10/8/2010	[REDACTED]	14	10/27/2017	[REDACTED]	3	[REDACTED]
[REDACTED]	8/1/1990	[REDACTED]	8/1/2013	[REDACTED]	10	4/11/2018	[REDACTED]	34	4/11/2018	[REDACTED]	34	[REDACTED]
[REDACTED]	8/30/1985	[REDACTED]	9/30/2004	[REDACTED]	8	9/9/2005	[REDACTED]	53	11/1/2018	[REDACTED]	34	[REDACTED]
[REDACTED]	4/1/1982	[REDACTED]	12/29/2003	[REDACTED]	2	1/16/2004	[REDACTED]	247	5/2/2019	[REDACTED]	22	[REDACTED]
[REDACTED]	10/1/1972	[REDACTED]	11/2/2010	[REDACTED]	50	1/24/2014	[REDACTED]	4	7/20/2018	[REDACTED]	5	[REDACTED]
[REDACTED]	7/17/1998	[REDACTED]	6/7/2010	[REDACTED]	2	1/5/2011	[REDACTED]	3	5/4/2018	[REDACTED]	23	[REDACTED]
[REDACTED]	5/1/2007	[REDACTED]	8/29/2014	[REDACTED]	3	6/5/2017	[REDACTED]	29	6/5/2017	[REDACTED]	29	[REDACTED]
[REDACTED]	8/1/1989	[REDACTED]	1/31/2013	[REDACTED]	0	4/2/2015	[REDACTED]	6	2/16/2018	[REDACTED]	8	[REDACTED]

(CUI)

(U) Initial Price Changes After TransDigm Acquired Companies (cont'd)

(CUI) National Stock Number and Description	First Purchase From Subsidiary Before TransDigm Acquisition		Last Purchase Before TransDigm Acquisition		Annual % Price Change for Pre-TransDigm Acquisition Procurements	First Purchase After TransDigm Acquisition		Annual % Price Change From Last Pre-TransDigm to First Post TransDigm Purchase	Purchase in Our Sample		Annual % Price Change From Last Pre-TransDigm to Audit Sample Purchase	TransDigm's Cost Per Spare Part
	Date	Price	Date	Price		Date	Price		Date	Price		
[REDACTED]	10/1/1975	[REDACTED]	9/1/1992	[REDACTED]	44	8/1/1993	[REDACTED]	90	11/7/2017	[REDACTED]	35	[REDACTED]
[REDACTED]	4/24/1985	[REDACTED]	4/16/1991	[REDACTED]	19	7/1/1994	[REDACTED]	46	5/15/2017	[REDACTED]	220	[REDACTED]
[REDACTED]	6/1/1982	[REDACTED]	8/1/1989	[REDACTED]	6	9/1/1993	[REDACTED]	93	2/23/2017	[REDACTED]	118	[REDACTED]
[REDACTED]	4/1/1981	[REDACTED]	8/1/1992	[REDACTED]	36	1/1/1997	[REDACTED]	20	6/15/2017	[REDACTED]	9	[REDACTED]
[REDACTED]	2/1/1984	[REDACTED]	10/11/2005	[REDACTED]	-2	9/28/2009	[REDACTED]	29	2/7/2018	[REDACTED]	19	[REDACTED]
[REDACTED]	2/1/1977	[REDACTED]	5/16/2013	[REDACTED]	31	3/18/2014	[REDACTED]	6	3/13/2017	[REDACTED]	4	[REDACTED]
[REDACTED]	7/1/1993	[REDACTED]	11/12/2014	[REDACTED]	2	1/20/2017	[REDACTED]	12	1/20/2017	[REDACTED]	12	[REDACTED]
[REDACTED]	12/17/2002	[REDACTED]	4/2/2016	[REDACTED]	10	12/11/2017	[REDACTED]	10	12/11/2017	[REDACTED]	9	[REDACTED]
[REDACTED]	8/1/1993	[REDACTED]	2/3/2009	[REDACTED]	-2	7/31/2013	[REDACTED]	3	8/29/2017	[REDACTED]	28	[REDACTED]
[REDACTED]	5/16/2007	[REDACTED]	4/9/2009	[REDACTED]	3	4/19/2011	[REDACTED]	25	2/20/2018	[REDACTED]	22	[REDACTED]
[REDACTED]	6/30/2000	[REDACTED]	3/24/2016	[REDACTED]	3	3/9/2017	[REDACTED]	2	3/9/2017	[REDACTED]	2	[REDACTED]
[REDACTED]	7/1/1975	[REDACTED]	11/28/2012	[REDACTED]	23	9/8/2013	[REDACTED]	14	7/11/2017	[REDACTED]	11	[REDACTED]

(CUI)

(U) Initial Price Changes After TransDigm Acquired Companies (cont'd)

(CUI) National Stock Number and Description	First Purchase From Subsidiary Before TransDigm Acquisition		Last Purchase Before TransDigm Acquisition		Annual % Price Change for Pre-TransDigm Acquisition Procurements	First Purchase After TransDigm Acquisition		Annual % Price Change From Last Pre-TransDigm to First Post TransDigm Purchase	Purchase in Our Sample		Annual % Price Change From Last Pre-TransDigm to Audit Sample Purchase	TransDigm's Cost Per Spare Part
	Date	Price	Date	Price		Date	Price		Date	Price		
[REDACTED]	3/1/1977	[REDACTED]	3/28/2013	[REDACTED]	21	1/15/2015	[REDACTED]	7	3/16/2018	[REDACTED]	6	[REDACTED]
[REDACTED]	3/1/1979	[REDACTED]	11/27/1990	[REDACTED]	15	10/1/1995	[REDACTED]	18	8/23/2017	[REDACTED]	56	[REDACTED]
[REDACTED]	6/1/1987	[REDACTED]	2/24/2010	[REDACTED]	20	1/24/2013	[REDACTED]	-5	10/13/2017	[REDACTED]	21	[REDACTED]
[REDACTED]	7/1/1992	[REDACTED]	8/1/1992	[REDACTED]	0	1/1/1994	[REDACTED]	28	3/12/2018	[REDACTED]	87	[REDACTED]
[REDACTED]	12/22/1987	[REDACTED]	9/8/2010	[REDACTED]	15	2/10/2011	[REDACTED]	9	5/3/2017	[REDACTED]	5	[REDACTED]
[REDACTED]	5/27/1986	[REDACTED]	10/5/2006	[REDACTED]	20	10/31/2007	[REDACTED]	-10	7/5/2018	[REDACTED]	20	[REDACTED]
[REDACTED]	8/1/1982	[REDACTED]	4/16/2008	[REDACTED]	56	2/3/2012	[REDACTED]	65	10/2/2017	[REDACTED]	57	[REDACTED]
[REDACTED]	8/1/1989	[REDACTED]	6/16/2010	[REDACTED]	1	3/22/2011	[REDACTED]	25	11/2/2017	[REDACTED]	12	[REDACTED]
[REDACTED]	8/1/1989	[REDACTED]	7/28/2014	[REDACTED]	2	1/12/2018	[REDACTED]	13	1/12/2018	[REDACTED]	13	[REDACTED]
[REDACTED]	2/1/1979	[REDACTED]	7/19/2012	[REDACTED]	11	2/12/2015	[REDACTED]	3	4/23/2018	[REDACTED]	8	[REDACTED]
[REDACTED]	8/15/2002	[REDACTED]	2/26/2009	[REDACTED]	2	2/26/2010	[REDACTED]	60	8/30/2017	[REDACTED]	24	[REDACTED]
[REDACTED]	6/1/1996	[REDACTED]	3/24/2009	[REDACTED]	-1	4/15/2011	[REDACTED]	12	12/15/2017	[REDACTED]	15	[REDACTED]

(CUI)

(U) Initial Price Changes After TransDigm Acquired Companies (cont'd)

(CUI) National Stock Number and Description	First Purchase From Subsidiary Before TransDigm Acquisition		Last Purchase Before TransDigm Acquisition		Annual % Price Change for Pre-TransDigm Acquisition Procurements	First Purchase After TransDigm Acquisition		Annual % Price Change From Last Pre-TransDigm to First Post TransDigm Purchase	Purchase in Our Sample		Annual % Price Change From Last Pre-TransDigm to Audit Sample Purchase	TransDigm's Cost Per Spare Part
	Date	Price	Date	Price		Date	Price		Date	Price		
[REDACTED]	12/1/1993	[REDACTED]	7/16/2010	[REDACTED]	12	10/27/2010	[REDACTED]	26	2/27/2018	[REDACTED]	7	[REDACTED]
[REDACTED]	7/1/1993	[REDACTED]	10/14/2009	[REDACTED]	7	8/15/2011	[REDACTED]	16	9/11/2018	[REDACTED]	7	[REDACTED]
[REDACTED]	5/1/1990	[REDACTED]	8/5/2010	[REDACTED]	9	11/10/2010	[REDACTED]	229	6/5/2018	[REDACTED]	19	[REDACTED] (CUI)

(U) Source: DLA contract, TransDigm-provided uncertified cost data and IHS Haystack Gold.

(U) Appendix E

(U) Spare Part Cost and Excess Profit

(U) Our review determined that 105 out of the 106 spare parts on 150 out of the 152 contracts were not obtained at fair and reasonable prices and had excess profit levels that ranged from 2.8 percent to 3850.6 percent. See the following table for the excess profits on each of the 105 spare parts.

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Spare Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit	TransDigm's Excess Profit Percentage of Costs	TransDigm's Excess Profit Percentage of Revenue
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	\$145,553	3850.6%	97.1%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	137,141	2565.3	95.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	225,162	1856.5	94.2
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	218,570	1777.3	93.9
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	140,433	1729.9	93.8
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	140,268	1697.7	93.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	123,333	1503.0	92.9
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	126,931	1354.9	92.2
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	134,696	1295.8	91.8
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	137,536	1269.9	91.7
									(CUI)

(U) Spare Part Cost and Excess Profit (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Spare Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit	TransDigm's Excess Profit Percentage of Costs	TransDigm's Excess Profit Percentage of Revenue
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	132,812	1237.8	91.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	205,555	1174.6	91.1
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	116,910	1144.2	90.9
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	119,599	980.5	89.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	118,315	786.1	87.2
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	565,187	778.7	87.1
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	535,781	770.5	87.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	116,463	748.4	86.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	112,617	652.4	85.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	127,094	641.9	84.8
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	114,484	625.2	84.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	122,318	574.8	83.3
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	116,461	561.0	83.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	112,013	549.4	82.7 (CUI)

(U) Spare Part Cost and Excess Profit (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Spare Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit	TransDigm's Excess Profit Percentage of Costs	TransDigm's Excess Profit Percentage of Revenue
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	117,199	529.6	82.2
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	106,060	518.2	81.8
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	121,937	506.3	81.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	525,516	487.7	80.9
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	115,078	480.0	80.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	112,408	469.3	80.3
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	600,964	467.9	80.3
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	119,974	460.7	80.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	108,389	437.6	79.2
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	113,889	429.6	78.9
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	100,450	424.4	78.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	113,296	419.2	78.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	192,836	411.5	78.2
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	111,294	399.0	77.6
									(CUI)

(U) Spare Part Cost and Excess Profit (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Spare Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit	TransDigm's Excess Profit Percentage of Costs	TransDigm's Excess Profit Percentage of Revenue
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	98,280	396.3	77.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	106,607	386.9	77.1
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	111,198	385.4	77.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	104,669	374.3	76.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	188,768	365.3	76.1
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	105,510	362.2	75.9
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	96,202	358.4	75.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	457,890	350.7	75.3
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	98,426	339.9	74.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	104,269	337.7	74.6
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	543,756	333.7	74.4
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	179,394	333.0	74.3
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	96,803	327.9	74.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	96,735	320.0	73.6
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	99,103	317.6	73.4

(CUI)

(U) Spare Part Cost and Excess Profit (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Spare Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit	TransDigm's Excess Profit Percentage of Costs	TransDigm's Excess Profit Percentage of Revenue
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	94,188	316.6	73.4
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	103,071	312.1	73.1
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	179,292	304.1	72.6
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	101,231	292.4	71.8
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	91,888	289.4	71.6
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	525,829	278.8	70.8
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	88,303	274.7	70.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	521,024	272.4	70.3
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	91,704	269.0	70.1
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	87,181	263.2	69.6
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	100,252	262.1	69.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	97,226	260.9	69.4
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	497,536	256.7	69.1
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	90,383	256.5	69.0
									(CUI)

(U) Spare Part Cost and Excess Profit (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Spare Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit	TransDigm's Excess Profit Percentage of Costs	TransDigm's Excess Profit Percentage of Revenue
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	494,496	253.4	68.8
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	89,957	252.6	68.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	89,678	242.7	67.9
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	87,759	233.9	67.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	487,566	215.4	65.2
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	471,314	205.7	64.1
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	84,710	205.3	64.1
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	85,680	203.6	63.9
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	437,138	201.6	63.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	420,091	197.5	63.2
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	86,836	196.7	63.1
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	94,498	196.2	63.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	93,525	191.8	62.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	83,790	188.5	62.1
									(CUI)

(U) Spare Part Cost and Excess Profit (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Spare Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit	TransDigm's Excess Profit Percentage of Costs	TransDigm's Excess Profit Percentage of Revenue
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	84,865	187.7	62.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	84,865	187.7	62.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	84,026	183.4	61.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	91,443	180.0	61.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	91,443	180.0	61.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	91,443	180.0	61.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	151,431	177.1	60.6
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	92,725	172.4	60.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	392,883	170.0	59.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	78,825	169.2	59.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	80,402	163.7	58.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	73,104	161.0	58.3
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	392,389	157.5	57.8
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	85,706	156.5	57.6
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	67,720	134.7	53.9
									(CUI)

(U) Spare Part Cost and Excess Profit (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Spare Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit	TransDigm's Excess Profit Percentage of Costs	TransDigm's Excess Profit Percentage of Revenue
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	68,964	131.4	53.3
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	74,800	116.9	50.4
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	72,718	108.6	48.6
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	68,235	106.1	48.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	67,297	105.5	47.8
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	67,153	105.1	47.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	64,907	100.1	46.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	64,209	96.6	45.6
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	66,865	94.3	45.1
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	100,195	90.9	44.2
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	301,575	89.4	43.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	64,110	85.9	42.8
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	62,908	83.2	42.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	280,560	82.1	41.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	55,588	81.0	41.3
									(CUI)

(U) Spare Part Cost and Excess Profit (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Spare Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit	TransDigm's Excess Profit Percentage of Costs	TransDigm's Excess Profit Percentage of Revenue
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	55,680	79.2	40.8
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	56,416	77.0	40.1
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	95,511	76.2	39.9
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	92,056	73.9	39.1
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	57,230	72.0	38.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	48,185	71.0	38.2
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	56,197	70.3	37.9
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	52,039	67.7	37.1
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	53,008	66.8	36.8
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	47,656	65.8	36.4
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	52,440	62.7	35.3
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	45,701	61.0	34.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	85,021	61.0	34.6
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	48,436	60.2	34.3

(CUI)

(U) Spare Part Cost and Excess Profit (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Spare Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit	TransDigm's Excess Profit Percentage of Costs	TransDigm's Excess Profit Percentage of Revenue
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	47,868	55.1	32.4
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	40,504	50.4	30.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	208,049	49.8	30.2
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	39,501	46.2	28.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	40,156	45.8	28.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	168,150	43.5	27.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	34,513	43.3	27.4
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	177,058	39.3	25.4
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	157,862	33.3	22.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	154,347	33.0	22.3
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	31,963	31.6	21.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	29,796	29.6	20.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	27,493	29.4	20.3
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	█	47,096	27.5	19.3

(CUI)

(U) Spare Part Cost and Excess Profit (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Spare Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit	TransDigm's Excess Profit Percentage of Costs	TransDigm's Excess Profit Percentage of Revenue
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	■	41,253	24.4	17.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	■	24,470	22.8	16.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	■	42,459	22.4	16.3
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	■	34,736	20.7	15.3
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	■	81,536	14.4	11.2
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	■	69,318	14.1	10.9
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	■	14,345	12.2	9.6
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	■	10,951	10.9	8.6
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	■	7,309	6.4	5.3
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	■	33,732	5.7	4.7
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	■	3,488	2.8	2.4
	Total Excess Profit						\$20,805,153		(CUI)

* (U) The spare parts sold on this contract had delivery scheduled in two fiscal years. The price paid in the second fiscal year was higher.

(U) Source: DLA contract and TransDigm provided uncertified cost data.

(U) Spare Part Cost Without Excess Profit

(U) The following spare parts had a total profit of 15 percent or less.

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Spare Part With 15-Percent Profit	TransDigm Profit (Loss) Per Spare Part	Total Spare Parts	TransDigm Total Profit (Loss)	TransDigm's Profit (Loss) % of Cost	TransDigm's Profit (Loss) % of Revenue
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	-\$17,018	-13.4%	-13.2%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	-31,865	-20.2	-21.3 (CUI)

* (U) This part was bought on four contracts in our sample. We counted this part as not being obtained at a fair and reasonable price, because three of the four contracts had excess profits.

(U) Source: DLA contract and TransDigm provided uncertified cost data.

(U) Appendix F

(U) Legislative Proposal 1: Commercial Product or Commercial Service

(U) This was transmitted in the fifth package of Legislative Proposals sent to Congress for inclusion in the NDAA for FY 2021 – Individual Proposals (Sent to Congress on April 9, 2020).

1 **SEC. __. COMMERCIAL PRODUCT OR COMMERCIAL SERVICE**

2 **DETERMINATIONS**

3 (a) IN GENERAL.—Section 2306a(b) of title 10, United States Code, is amended—

4 (1) by striking paragraph (4); and

5 (2) by redesignating paragraphs (5) and (6) as paragraphs (4) and (5),

6 respectively.

7 (b) CONFORMING AMENDMENT.—Section 2380(b)(2)(B) of such title is amended by

8 striking “following—” and all that follows through “(ii) a written” and inserting “following a

9 written”.

[Please note: The “Changes to Existing Law” section below sets out in red-line format how the legislative text would amend existing law.]

Section-by-Section Analysis

This proposal is a top Acquisition and Sustainment efficiency initiative to ensure that the Department has the authority and flexibility to make appropriate commercial product and commercial service determinations, based on the unique circumstances of individual procurements, and obtain the necessary cost or pricing information in order to negotiate fair and reasonable prices and prevent excessive pricing practices. The definition of commercial products or commercial services can be applied in a very broad manner and requires judgment on the part of individual contracting officers. However, once one individual contracting officer makes a determination of commerciality, this has broad implications for every subsequent contracting officer who may be under a different set of circumstances but who no longer has discretion to make a determination in the best interest of the Department. Furthermore, once the decision has been made to determine commerciality, this decision has additional implications with respect to the Truth in Negotiations Act. Even though previous buys may have been subject to the requirement for certified cost or pricing data, once an item is converted to a commercial product or commercial service, it is no longer subject to the requirements for certified cost or pricing data. As illustrated by the TransDigm Group, Inc’s pricing practices, generally once a conversion to a commercial product or commercial service is made, it is common for prices to increase and subsequent contracting officers find it difficult to obtain data necessary to determine price reasonableness and negotiate fair and reasonable prices on behalf of the taxpayer.

Budget Implications: This proposal has no significant budgetary impact. Resources impacted are incidental in nature and amount, and are included within the Fiscal Year (FY) 2021 President’s Budget Request.

(U) Legislative Proposal 1: Commercial Product or Commercial Service (cont'd)

Changes to Existing Law: This proposal would make the following changes to sections 2306a and 2380 of title 10, United States Code (as amended by Public Law 115-232):

§2306a. Cost or pricing data: truth in negotiations

(a) Required Cost or Pricing Data and Certification.-(1) The head of an agency shall require offerors, contractors, and subcontractors to make cost or pricing data available as follows:

(A) An offeror for a prime contract under this chapter to be entered into using procedures other than sealed-bid procedures that is only expected to receive one bid shall be required to submit cost or pricing data before the award of a contract if-

(i) in the case of a prime contract entered into after June 30, 2018, the price of the contract to the United States is expected to exceed \$2,000,000; and

(ii) in the case of a prime contract entered into on or before June 30, 2018, the price of the contract to the United States is expected to exceed \$750,000.

(B) The contractor for a prime contract under this chapter shall be required to submit cost or pricing data before the pricing of a change or modification to the contract if-

(i) in the case of a change or modification made to a prime contract referred to in subparagraph (A)(i), the price adjustment is expected to exceed \$2,000,000;

(ii) in the case of a change or modification made after July 1, 2018, to a prime contract that was entered into on or before June 30, 2018, and that has been modified pursuant to paragraph (6), the price adjustment is expected to exceed \$750,000; and

(iii) in the case of a change or modification not covered by clause (i) or (ii), the price adjustment is expected to exceed \$750,000.

(C) An offeror for a subcontract (at any tier) of a contract under this chapter shall be required to submit cost or pricing data before the award of the subcontract if the prime contractor and each higher-tier subcontractor have been required to make available cost or pricing data under this section and-

(i) in the case of a subcontract under a prime contract referred to in subparagraph (A)(i), the price of the subcontract is expected to exceed \$2,000,000;

(ii) in the case of a subcontract entered into after July 1, 2018, under a prime contract that was entered into on or before June 30, 2018, and that has been modified pursuant to paragraph (6), the price of the subcontract is expected to exceed \$2,000,000; and

(iii) in the case of a subcontract not covered by clause (i) or (ii), the price of the subcontract is expected to exceed \$750,000.

(D) The subcontractor for a subcontract covered by subparagraph (C) shall be required to submit cost or pricing data before the pricing of a change or modification to the subcontract if-

(i) in the case of a change or modification to a subcontract referred to in subparagraph (C)(i) or (C)(ii), the price adjustment is expected to exceed \$2,000,000; and

(ii) in the case of a change or modification to a subcontract referred to in subparagraph (C)(iii), the price adjustment is expected to exceed \$750,000.

(2) A person required, as an offeror, contractor, or subcontractor, to submit cost or pricing data under paragraph (1) (or required by the head of the agency concerned to submit such data under subsection (c)) shall be required to certify that, to the best of the person's knowledge and belief, the cost or pricing data submitted are accurate, complete, and current.

(U) Legislative Proposal 1: Commercial Product or Commercial Service (cont'd)

(3) Cost or pricing data required to be submitted under paragraph (1) (or under subsection (c)), and a certification required to be submitted under paragraph (2), shall be submitted-

(A) in the case of a submission by a prime contractor (or an offeror for a prime contract), to the contracting officer for the contract (or to a designated representative of the contracting officer); or

(B) in the case of a submission by a subcontractor (or an offeror for a subcontract), to the prime contractor.

(4) Except as provided under subsection (b), this section applies to contracts entered into by the head of an agency on behalf of a foreign government.

(5) A waiver of requirements for submission of certified cost or pricing data that is granted under subsection (b)(1)(C) in the case of a contract or subcontract does not waive the requirement under paragraph (1)(C) for submission of cost or pricing data in the case of subcontracts under that contract or subcontract unless the head of the procuring activity granting the waiver determines that the requirement under that paragraph should be waived in the case of such subcontracts and justifies in writing the reasons for the determination.

(6) Upon the request of a contractor that was required to submit cost or pricing data under paragraph (1) in connection with a prime contract entered into on or before June 30, 2018, the head of the agency that entered into such contract shall modify the contract to reflect subparagraphs (B)(ii) and (C)(ii) of paragraph (1). All such modifications shall be made without requiring consideration.

(7) Effective on October 1 of each year that is divisible by 5, each amount set forth in paragraph (1) shall be adjusted in accordance with section 1908 of title 41.

(b) Exceptions.-

(1) In general .-Submission of certified cost or pricing data shall not be required under subsection (a) in the case of a contract, a subcontract, or modification of a contract or subcontract-

(A) for which the price agreed upon is based on-

(i) adequate competition that results in at least two or more responsive and viable competing bids; or

(ii) prices set by law or regulation;

(B) for the acquisition of a commercial product or a commercial service;

(C) in an exceptional case when the head of the procuring activity, without delegation, determines that the requirements of this section may be waived and justifies in writing the reasons for such determination; or

(D) to the extent such data-

(i) relates to an offset agreement in connection with a contract for the sale of a weapon system or defense-related item to a foreign country or foreign firm; and

(ii) does not relate to a contract or subcontract under the offset agreement for work performed in such foreign country or by such foreign firm that is directly related to the weapon system or defense-related item being purchased under the contract.

(2) Modifications of contracts and subcontracts for commercial products or commercial services .-In the case of a modification of a contract or subcontract for a commercial product or commercial services that is not covered by the exception to the

(U) Legislative Proposal 1: Commercial Product or Commercial Service (cont'd)

submission of certified cost or pricing data in paragraph (1)(A) or (1)(B), submission of certified cost or pricing data shall not be required under subsection (a) if-

(A) the contract or subcontract being modified is a contract or subcontract for which submission of certified cost or pricing data may not be required by reason of paragraph (1)(A) or (1)(B); and

(B) the modification would not change the contract or subcontract, as the case may be, from a contract or subcontract for the acquisition of a commercial product or commercial services to a contract or subcontract for the acquisition of an item other than a commercial product or commercial services.

(3) Noncommercial modifications of commercial products .-(A) The exception in paragraph (1)(B) does not apply to cost or pricing data on noncommercial modifications of a commercial product that are expected to cost, in the aggregate, more than the amount specified in subsection (a)(1)(A)(i), as adjusted from time to time under subsection (a)(7), or 5 percent of the total price of the contract (at the time of contract award), whichever is greater.

(B) In this paragraph, the term "noncommercial modification", with respect to a commercial product, means a modification of such product that is not a modification described in section 103(3)(A) of title 41.

(C) Nothing in subparagraph (A) shall be construed-

(i) to limit the applicability of the exception in subparagraph (A) or (C) of paragraph (1) to cost or pricing data on a noncommercial modification of a commercial product; or

(ii) to require the submission of cost or pricing data on any aspect of an acquisition of a commercial product other than the cost and pricing of noncommercial modifications of such product.

~~(4) Commercial product or commercial service determination .-(A) For purposes of applying the exception under paragraph (1)(B) to the required submission of certified cost or pricing data, the contracting officer may presume that a prior commercial product or commercial service determination made by a military department, a Defense Agency, or another component of the Department of Defense shall serve as a determination for subsequent procurements of such product or service.~~

~~(B) If the contracting officer does not make the presumption described in subparagraph (A) and instead chooses to proceed with a procurement of a product or service previously determined to be a commercial product or a commercial service using procedures other than the procedures authorized for the procurement of a commercial product or a commercial service, as the case may be, the contracting officer shall request a review of the commercial item determination by the head of the contracting activity.~~

~~(C) Not later than 30 days after receiving a request for review of a determination under subparagraph (B), the head of a contracting activity shall-~~

~~(i) confirm that the prior determination was appropriate and still applicable; or~~

~~(ii) issue a revised determination with a written explanation of the basis for the revision.~~

~~(5) A contracting officer shall consider evidence provided by an offeror of recent purchase prices paid by the Government for the same or similar commercial products or commercial services in establishing price reasonableness on a subsequent purchase~~

(U) Legislative Proposal 1: Commercial Product or Commercial Service (cont'd)

if the contracting officer is satisfied that the prices previously paid remain a valid reference for comparison after considering the totality of other relevant factors such as the time elapsed since the prior purchase and any differences in the quantities purchased or applicable terms and conditions.

(65) Determination by prime contractor .-A prime contractor required to submit certified cost or pricing data under subsection (a) with respect to a prime contract shall be responsible for determining whether a subcontract under such contract qualifies for an exception under paragraph (1)(A) from such requirement.

(c) Cost or Pricing Data on Below-Threshold Contracts.-

(1) Authority to require submission.-Subject to paragraph (2), when certified cost or pricing data are not required to be submitted by subsection (a) for a contract, subcontract, or modification of a contract or subcontract, such data may nevertheless be required to be submitted by the head of the procuring activity, but only if the head of the procuring activity determines that such data are necessary for the evaluation by the agency of the reasonableness of the price of the contract, subcontract, or modification of a contract or subcontract. In any case in which the head of the procuring activity requires such data to be submitted under this subsection, the head of the procuring activity shall justify in writing the reason for such requirement.

(2) Exception.-The head of the procuring activity may not require certified cost or pricing data to be submitted under this paragraph for any contract or subcontract, or modification of a contract or subcontract, covered by the exceptions in subparagraph (A) or (B) of subsection (b)(1).

(3) Delegation of authority prohibited.-The head of a procuring activity may not delegate functions under this paragraph.

(d) Submission of Other Information.-

(1) Authority to require submission .-When certified cost or pricing data are not required to be submitted under this section for a contract, subcontract, or modification of a contract or subcontract, the offeror shall be required to submit to the contracting officer data other than certified cost or pricing data (if requested by the contracting officer), to the extent necessary to determine the reasonableness of the price of the contract, subcontract, or modification of the contract or subcontract. Except in the case of a contract or subcontract covered by the exceptions in subsection (b)(1)(A), the contracting officer shall require that the data submitted include, at a minimum, appropriate information on the prices at which the same item or similar items have previously been sold that is adequate for evaluating the reasonableness of the price for the procurement. If the contracting officer determines that the offeror does not have access to and cannot provide sufficient information on prices for the same or similar items to determine the reasonableness of price, the contracting officer shall require the submission of information on prices for similar levels of work or effort on related products or services, prices for alternative solutions or approaches, and other information that is relevant to the determination of a fair and reasonable price.

(2) Limitations on authority .-The Federal Acquisition Regulation shall include the following provisions regarding the types of information that contracting officers may require under paragraph (1):

(U) Legislative Proposal 1: Commercial Product or Commercial Service (cont'd)

(A) Reasonable limitations on requests for sales data relating to commercial products or commercial services.

(B) A requirement that a contracting officer limit, to the maximum extent practicable, the scope of any request for information relating to commercial products or commercial services from an offeror to only that information that is in the form regularly maintained by the offeror in commercial operations.

(C) A statement that any information received relating to commercial products or commercial services that is exempt from disclosure under [section 552\(b\) of title 5](#) shall not be disclosed by the Federal Government.

(e) Price Reductions for Defective Cost or Pricing Data.-(1)(A) A prime contract (or change or modification to a prime contract) under which a certificate under subsection (a)(2) is required shall contain a provision that the price of the contract to the United States, including profit or fee, shall be adjusted to exclude any significant amount by which it may be determined by the head of the agency that such price was increased because the contractor (or any subcontractor required to make available such a certificate) submitted defective cost or pricing data.

(B) For the purposes of this section, defective cost or pricing data are cost or pricing data which, as of the date of agreement on the price of the contract (or another date agreed upon between the parties), were inaccurate, incomplete, or noncurrent. If for purposes of the preceding sentence the parties agree upon a date other than the date of agreement on the price of the contract, the date agreed upon by the parties shall be as close to the date of agreement on the price of the contract as is practicable.

(2) In determining for purposes of a contract price adjustment under a contract provision required by paragraph (1) whether, and to what extent, a contract price was increased because the contractor (or a subcontractor) submitted defective cost or pricing data, it shall be a defense that the United States did not rely on the defective data submitted by the contractor or subcontractor.

(3) It is not a defense to an adjustment of the price of a contract under a contract provision required by paragraph (1) that-

(A) the price of the contract would not have been modified even if accurate, complete, and current cost or pricing data had been submitted by the contractor or subcontractor because the contractor or subcontractor-

(i) was the sole source of the property or services procured; or

(ii) otherwise was in a superior bargaining position with respect to the property or services procured;

(B) the contracting officer should have known that the cost and pricing data in issue were defective even though the contractor or subcontractor took no affirmative action to bring the character of the data to the attention of the contracting officer;

(C) the contract was based on an agreement between the contractor and the United States about the total cost of the contract and there was no agreement about the cost of each item procured under such contract; or

(D) the prime contractor or subcontractor did not submit a certification of cost and pricing data relating to the contract as required under subsection (a)(2).

(4)(A) A contractor shall be allowed to offset an amount against the amount of a contract price adjustment under a contract provision required by paragraph (1) if-

(U) Legislative Proposal 1: Commercial Product or Commercial Service (cont'd)

(i) the contractor certifies to the contracting officer (or to a designated representative of the contracting officer) that, to the best of the contractor's knowledge and belief, the contractor is entitled to the offset; and

(ii) the contractor proves that the cost or pricing data were available before the date of agreement on the price of the contract (or price of the modification) or, if applicable consistent with paragraph (1)(B), another date agreed upon between the parties, and that the data were not submitted as specified in subsection (a)(3) before such date.

(B) A contractor shall not be allowed to offset an amount otherwise authorized to be offset under subparagraph (A) if-

(i) the certification under subsection (a)(2) with respect to the cost or pricing data involved was known to be false when signed; or

(ii) the United States proves that, had the cost or pricing data referred to in subparagraph (A)(ii) been submitted to the United States before the date of agreement on the price of the contract (or price of the modification) or, if applicable consistent with paragraph (1)(B), another date agreed upon between the parties, the submission of such cost or pricing data would not have resulted in an increase in that price in the amount to be offset.

(f) Interest and Penalties for Certain Overpayments.-(1) If the United States makes an overpayment to a contractor under a contract subject to this section and the overpayment was due to the submission by the contractor of defective cost or pricing data, the contractor shall be liable to the United States-

(A) for interest on the amount of such overpayment, to be computed-

(i) for the period beginning on the date the overpayment was made to the contractor and ending on the date the contractor repays the amount of such overpayment to the United States; and

(ii) at the current rate prescribed by the Secretary of the Treasury under section 6621 of the Internal Revenue Code of 1986; and

(B) if the submission of such defective data was a knowing submission, for an additional amount equal to the amount of the overpayment.

(2) Any liability under this subsection of a contractor that submits cost or pricing data but refuses to submit the certification required by subsection (a)(2) with respect to the cost or pricing data shall not be affected by the refusal to submit such certification.

(g) Right of United States To Examine Contractor Records.-For the purpose of evaluating the accuracy, completeness, and currency of cost or pricing data required to be submitted by this section, the head of an agency shall have the authority provided by section 2313(a)(2) of this title.

(h) Definitions .-In this section:

(1) Cost or pricing data .-The term "cost or pricing data" means all facts that, as of the date of agreement on the price of a contract (or the price of a contract modification), or, if applicable consistent with subsection (e)(1)(B), another date agreed upon between the parties, a prudent buyer or seller would reasonably expect to affect price negotiations significantly. Such term does not include information that is

(U) Legislative Proposal 1: Commercial Product or Commercial Service (cont'd)

judgmental, but does include the factual information from which a judgment was derived.

(2) Subcontract.-The term "subcontract" includes a transfer of commercial products or commercial services between divisions, subsidiaries, or affiliates of a contractor or a subcontractor.

* * * * *

§2380. Commercial product and commercial service determinations by Department of Defense

(a) In General.-The Secretary of Defense shall-

(1) establish and maintain a centralized capability with necessary expertise and resources to provide assistance to the military departments and Defense Agencies in making commercial product and commercial service determinations, conducting market research, and performing analysis of price reasonableness for the purposes of procurements by the Department of Defense; and

(2) provide to officials of the Department of Defense access to previous Department of Defense commercial product and commercial service determinations, market research, and analysis used to determine the reasonableness of price for the purposes of procurements by the Department of Defense.

(b) Items Previously Acquired Using Commercial Acquisition Procedures.-

(1) Determinations.-A contract for a product or service acquired using commercial acquisition procedures under part 12 of the Federal Acquisition Regulation shall serve as a prior commercial product or service determination with respect to such product or service for purposes of this chapter unless the senior procurement executive of the military department or the Department of Defense as designated for purposes of section 1702(c) of title 41 determines in writing that it is no longer appropriate to acquire the product or service using commercial acquisition procedures.

(2) Limitation.- (A) Except as provided under subparagraph (B), funds appropriated or otherwise made available to the Department of Defense may not be used for the procurement under part 15 of the Federal Acquisition Regulation of a product or service that was previously acquired under a contract using commercial acquisition procedures under part 12 of the Federal Acquisition Regulation.

(B) The limitation under subparagraph (A) does not apply to the procurement of a product or service that was previously acquired using commercial acquisition procedures under part 12 of the Federal Acquisition Regulation following-

~~(i) a written determination by the head of contracting activity pursuant to section 2306a(b)(4)(B) of this title that the use of such procedures was improper; or~~

(ii) a written following a written determination by the senior procurement executive of the military department or the Department of Defense as designated for purposes of section 1702(c) of title 41 that it is no longer appropriate to acquire the product or service using such procedures.

(U) Appendix G

(U) Legislative Proposal 2: Submission of Uncertified Cost Information

(U) This was transmitted in the fifth package of Legislative Proposals sent to Congress for inclusion in the NDAA for FY 2021 – Individual Proposals (Sent to Congress on April 9, 2020).

1 **SEC. __. SUBMISSION OF UNCERTIFIED COST INFORMATION.**

2 Section 2306a(d)(1) of title 10, United States Code, is amended—

3 (1) by inserting “or contractor” after “the offeror” both places it appears; and

4 (2) by inserting after “a fair and reasonable price.” the following: “If the

5 contracting officer determines that the price information submitted by the offeror or

6 contractor is not adequate for evaluating the reasonableness of the price of the contract,

7 subcontract, or modification of the contract or subcontract, the offeror or contractor shall

8 be required to submit to the contracting officer uncertified cost information to the extent

9 necessary to determine the reasonableness of such price.”.

[Please note: The “Changes to Existing Law” section below sets out in red-line format how the legislative text would amend existing law.]

Section-by-Section Analysis

This proposal is a top Acquisition and Sustainment efficiency initiative to ensure that the Department has insight into the costs of sole source items, and is in a more favorable position to negotiate with sole source companies to prevent excessive pricing practices. In light of the recent congressional hearings surrounding the TransDigm Group Inc. excessive pricing practices, it is evident that providing the Department with the statutory authority to obtain uncertified cost or pricing data to the extent necessary to determine price reasonableness is paramount in ensuring that such excessive pricing practices are curtailed.

Budget Implications: This proposal has no significant budgetary impact. Resources impacted are incidental in nature and amount, and are included within the Fiscal Year (FY) 2021 President’s Budget request.

Changes to Existing Law: This proposal would amend section 2306a of title 10, United States Code (as amended by Public Law 115–232), as follows:

§2306a. Cost or pricing data: truth in negotiations

(a) Required Cost or Pricing Data and Certification.—(1) The head of an agency shall require offerors, contractors, and subcontractors to make cost or pricing data available as follows:

(A) An offeror for a prime contract under this chapter to be entered into using procedures other than sealed-bid procedures that is only expected to receive one bid shall be required to submit cost or pricing data before the award of a contract if—

(i) in the case of a prime contract entered into after June 30, 2018, the price of the contract to the United States is expected to exceed \$2,000,000; and

(U) Legislative Proposal 2: Submission of Uncertified Cost Information (cont'd)

- (ii) in the case of a prime contract entered into on or before June 30, 2018, the price of the contract to the United States is expected to exceed \$750,000.
- (B) The contractor for a prime contract under this chapter shall be required to submit cost or pricing data before the pricing of a change or modification to the contract if-
- (i) in the case of a change or modification made to a prime contract referred to in subparagraph (A)(i), the price adjustment is expected to exceed \$2,000,000;
- (ii) in the case of a change or modification made after July 1, 2018, to a prime contract that was entered into on or before June 30, 2018, and that has been modified pursuant to paragraph (6), the price adjustment is expected to exceed \$750,000; and
- (iii) in the case of a change or modification not covered by clause (i) or (ii), the price adjustment is expected to exceed \$750,000.
- (C) An offeror for a subcontract (at any tier) of a contract under this chapter shall be required to submit cost or pricing data before the award of the subcontract if the prime contractor and each higher-tier subcontractor have been required to make available cost or pricing data under this section and-
- (i) in the case of a subcontract under a prime contract referred to in subparagraph (A)(i), the price of the subcontract is expected to exceed \$2,000,000;
- (ii) in the case of a subcontract entered into after July 1, 2018, under a prime contract that was entered into on or before June 30, 2018, and that has been modified pursuant to paragraph (6), the price of the subcontract is expected to exceed \$2,000,000; and
- (iii) in the case of a subcontract not covered by clause (i) or (ii), the price of the subcontract is expected to exceed \$750,000.
- (D) The subcontractor for a subcontract covered by subparagraph (C) shall be required to submit cost or pricing data before the pricing of a change or modification to the subcontract if-
- (i) in the case of a change or modification to a subcontract referred to in subparagraph (C)(i) or (C)(ii), the price adjustment is expected to exceed \$2,000,000; and
- (ii) in the case of a change or modification to a subcontract referred to in subparagraph (C)(iii), the price adjustment is expected to exceed \$750,000.
- (2) A person required, as an offeror, contractor, or subcontractor, to submit cost or pricing data under paragraph (1) (or required by the head of the agency concerned to submit such data under subsection (c)) shall be required to certify that, to the best of the person's knowledge and belief, the cost or pricing data submitted are accurate, complete, and current.
- (3) Cost or pricing data required to be submitted under paragraph (1) (or under subsection (c)), and a certification required to be submitted under paragraph (2), shall be submitted-
- (A) in the case of a submission by a prime contractor (or an offeror for a prime contract), to the contracting officer for the contract (or to a designated representative of the contracting officer); or
- (B) in the case of a submission by a subcontractor (or an offeror for a subcontract), to the prime contractor.
- (4) Except as provided under subsection (b), this section applies to contracts entered into by the head of an agency on behalf of a foreign government.

(U) Legislative Proposal 2: Submission of Uncertified Cost Information (cont'd)

(5) A waiver of requirements for submission of certified cost or pricing data that is granted under subsection (b)(1)(C) in the case of a contract or subcontract does not waive the requirement under paragraph (1)(C) for submission of cost or pricing data in the case of subcontracts under that contract or subcontract unless the head of the procuring activity granting the waiver determines that the requirement under that paragraph should be waived in the case of such subcontracts and justifies in writing the reasons for the determination.

(6) Upon the request of a contractor that was required to submit cost or pricing data under paragraph (1) in connection with a prime contract entered into on or before June 30, 2018, the head of the agency that entered into such contract shall modify the contract to reflect subparagraphs (B)(ii) and (C)(ii) of paragraph (1). All such modifications shall be made without requiring consideration.

(7) Effective on October 1 of each year that is divisible by 5, each amount set forth in paragraph (1) shall be adjusted in accordance with [section 1908 of title 41](#).

(b) Exceptions.-

(1) In general .-Submission of certified cost or pricing data shall not be required under subsection (a) in the case of a contract, a subcontract, or modification of a contract or subcontract-

(A) for which the price agreed upon is based on-

(i) adequate competition that results in at least two or more responsive and viable competing bids; or

(ii) prices set by law or regulation;

(B) for the acquisition of a commercial product or a commercial service;

(C) in an exceptional case when the head of the procuring activity, without delegation, determines that the requirements of this section may be waived and justifies in writing the reasons for such determination; or

(D) to the extent such data-

(i) relates to an offset agreement in connection with a contract for the sale of a weapon system or defense-related item to a foreign country or foreign firm; and

(ii) does not relate to a contract or subcontract under the offset agreement for work performed in such foreign country or by such foreign firm that is directly related to the weapon system or defense-related item being purchased under the contract.

(2) Modifications of contracts and subcontracts for commercial products or commercial services .-In the case of a modification of a contract or subcontract for a commercial product or commercial services that is not covered by the exception to the submission of certified cost or pricing data in paragraph (1)(A) or (1)(B), submission of certified cost or pricing data shall not be required under subsection (a) if-

(A) the contract or subcontract being modified is a contract or subcontract for which submission of certified cost or pricing data may not be required by reason of paragraph (1)(A) or (1)(B); and

(B) the modification would not change the contract or subcontract, as the case may be, from a contract or subcontract for the acquisition of a commercial product or commercial services to a contract or subcontract for the acquisition of an item other than a commercial product or commercial services.

(U) Legislative Proposal 2: Submission of Uncertified Cost Information (cont'd)

(3) Noncommercial modifications of commercial products .-(A) The exception in paragraph (1)(B) does not apply to cost or pricing data on noncommercial modifications of a commercial product that are expected to cost, in the aggregate, more than the amount specified in subsection (a)(1)(A)(i), as adjusted from time to time under subsection (a)(7), or 5 percent of the total price of the contract (at the time of contract award), whichever is greater.

(B) In this paragraph, the term "noncommercial modification", with respect to a commercial product, means a modification of such product that is not a modification described in section 103(3)(A) of title 41.

(C) Nothing in subparagraph (A) shall be construed-

(i) to limit the applicability of the exception in subparagraph (A) or (C) of paragraph (1) to cost or pricing data on a noncommercial modification of a commercial product; or

(ii) to require the submission of cost or pricing data on any aspect of an acquisition of a commercial product other than the cost and pricing of noncommercial modifications of such product.

(4) Commercial product or commercial service determination .-(A) For purposes of applying the exception under paragraph (1)(B) to the required submission of certified cost or pricing data, the contracting officer may presume that a prior commercial product or commercial service determination made by a military department, a Defense Agency, or another component of the Department of Defense shall serve as a determination for subsequent procurements of such product or service.

(B) If the contracting officer does not make the presumption described in subparagraph (A) and instead chooses to proceed with a procurement of a product or service previously determined to be a commercial product or a commercial service using procedures other than the procedures authorized for the procurement of a commercial product or a commercial service, as the case may be, the contracting officer shall request a review of the commercial item determination by the head of the contracting activity.

(C) Not later than 30 days after receiving a request for review of a determination under subparagraph (B), the head of a contracting activity shall-

(i) confirm that the prior determination was appropriate and still applicable; or

(ii) issue a revised determination with a written explanation of the basis for the revision.

(5) A contracting officer shall consider evidence provided by an offeror of recent purchase prices paid by the Government for the same or similar commercial products or commercial services in establishing price reasonableness on a subsequent purchase if the contracting officer is satisfied that the prices previously paid remain a valid reference for comparison after considering the totality of other relevant factors such as the time elapsed since the prior purchase and any differences in the quantities purchased or applicable terms and conditions.

(6) Determination by prime contractor .-A prime contractor required to submit certified cost or pricing data under subsection (a) with respect to a prime contract shall be responsible for determining whether a subcontract under such contract qualifies for an exception under paragraph (1)(A) from such requirement.

(U) Legislative Proposal 2: Submission of Uncertified Cost Information (cont'd)

(c) Cost or Pricing Data on Below-Threshold Contracts.-

(1) Authority to require submission.-Subject to paragraph (2), when certified cost or pricing data are not required to be submitted by subsection (a) for a contract, subcontract, or modification of a contract or subcontract, such data may nevertheless be required to be submitted by the head of the procuring activity, but only if the head of the procuring activity determines that such data are necessary for the evaluation by the agency of the reasonableness of the price of the contract, subcontract, or modification of a contract or subcontract. In any case in which the head of the procuring activity requires such data to be submitted under this subsection, the head of the procuring activity shall justify in writing the reason for such requirement.

(2) Exception.-The head of the procuring activity may not require certified cost or pricing data to be submitted under this paragraph for any contract or subcontract, or modification of a contract or subcontract, covered by the exceptions in subparagraph (A) or (B) of subsection (b)(1).

(3) Delegation of authority prohibited.-The head of a procuring activity may not delegate functions under this paragraph.

(d) Submission of Other Information.-

(1) Authority to require submission .-When certified cost or pricing data are not required to be submitted under this section for a contract, subcontract, or modification of a contract or subcontract, the offeror or contractor shall be required to submit to the contracting officer data other than certified cost or pricing data (if requested by the contracting officer), to the extent necessary to determine the reasonableness of the price of the contract, subcontract, or modification of the contract or subcontract. Except in the case of a contract or subcontract covered by the exceptions in subsection (b)(1)(A), the contracting officer shall require that the data submitted include, at a minimum, appropriate information on the prices at which the same item or similar items have previously been sold that is adequate for evaluating the reasonableness of the price for the procurement. If the contracting officer determines that the offeror or contractor does not have access to and cannot provide sufficient information on prices for the same or similar items to determine the reasonableness of price, the contracting officer shall require the submission of information on prices for similar levels of work or effort on related products or services, prices for alternative solutions or approaches, and other information that is relevant to the determination of a fair and reasonable price. If the contracting officer determines that the price information submitted by the offeror or contractor is not adequate for evaluating the reasonableness of the price of the contract, subcontract, or modification of the contract or subcontract, the offeror or contractor shall be required to submit to the contracting officer uncertified cost information to the extent necessary to determine the reasonableness of such price. Contracting officers shall not determine the price of a contract or subcontract to be fair and reasonable based solely on historical prices paid by the Government.

(2) Ineligibility for award.- (A) In the event the contracting officer is unable to determine proposed prices are fair and reasonable by any other means, an offeror who fails to make a good faith effort to comply with a reasonable request to submit data in accordance with paragraph (1) is ineligible for award unless the head of the contracting activity, or the designee of the head of contracting activity, determines

(U) Legislative Proposal 2: Submission of Uncertified Cost Information (cont'd)

that it is in the best interest of the Government to make the award to that offeror, based on consideration of pertinent factors, including the following:

- (i) The effort to obtain the data.
- (ii) Availability of other sources of supply of the item or service.
- (iii) The urgency or criticality of the Government's need for the item or service.
- (iv) Reasonableness of the price of the contract, subcontract, or modification of the contract or subcontract based on information available to the contracting officer.
- (v) Rationale or justification made by the offeror for not providing the requested data.

(vi) Risk to the Government if award is not made.

(B)(i) Any new determination made by the head of the contracting activity under subparagraph (A) shall be reported to the Principal Director, Defense Pricing and Contracting on a quarterly basis.

(ii) The Under Secretary of Defense for Acquisition and Sustainment, or a designee, shall produce an annual report identifying offerors that have denied multiple requests for submission of uncertified cost or pricing data over the preceding three-year period, but nevertheless received an award. The report shall identify products or services offered by such offerors that should undergo should-cost analysis. The Secretary of Defense may include a notation on such offerors in the system used by the Federal Government to monitor or record contractor past performance. The Under Secretary shall assess the extent to which those offerors are sole source providers within the defense industrial base and shall develop strategies to incentivize new entrants into the industrial base to increase the availability of other sources of supply for the product or service.

(3) Limitations on authority .-The Federal Acquisition Regulation shall include the following provisions regarding the types of information that contracting officers may require under paragraph (1):

(A) Reasonable limitations on requests for sales data relating to commercial products or commercial services.

(B) A requirement that a contracting officer limit, to the maximum extent practicable, the scope of any request for information relating to commercial products or commercial services from an offeror to only that information that is in the form regularly maintained by the offeror in commercial operations.

(C) A statement that any information received relating to commercial products or commercial services that is exempt from disclosure under section 552(b) of title 5 shall not be disclosed by the Federal Government.

(e) Price Reductions for Defective Cost or Pricing Data.- (1)(A) A prime contract (or change or modification to a prime contract) under which a certificate under subsection (a)(2) is required shall contain a provision that the price of the contract to the United States, including profit or fee, shall be adjusted to exclude any significant amount by which it may be determined by the head of the agency that such price was increased because the contractor (or any subcontractor required to make available such a certificate) submitted defective cost or pricing data.

(B) For the purposes of this section, defective cost or pricing data are cost or pricing data which, as of the date of agreement on the price of the contract (or another date agreed upon between the parties), were inaccurate, incomplete, or noncurrent. If for purposes of the preceding

(U) Legislative Proposal 2: Submission of Uncertified Cost Information (cont'd)

sentence the parties agree upon a date other than the date of agreement on the price of the contract, the date agreed upon by the parties shall be as close to the date of agreement on the price of the contract as is practicable.

(2) In determining for purposes of a contract price adjustment under a contract provision required by paragraph (1) whether, and to what extent, a contract price was increased because the contractor (or a subcontractor) submitted defective cost or pricing data, it shall be a defense that the United States did not rely on the defective data submitted by the contractor or subcontractor.

(3) It is not a defense to an adjustment of the price of a contract under a contract provision required by paragraph (1) that-

(A) the price of the contract would not have been modified even if accurate, complete, and current cost or pricing data had been submitted by the contractor or subcontractor because the contractor or subcontractor-

(i) was the sole source of the property or services procured; or

(ii) otherwise was in a superior bargaining position with respect to the property or services procured;

(B) the contracting officer should have known that the cost and pricing data in issue were defective even though the contractor or subcontractor took no affirmative action to bring the character of the data to the attention of the contracting officer;

(C) the contract was based on an agreement between the contractor and the United States about the total cost of the contract and there was no agreement about the cost of each item procured under such contract; or

(D) the prime contractor or subcontractor did not submit a certification of cost and pricing data relating to the contract as required under subsection (a)(2).

(4)(A) A contractor shall be allowed to offset an amount against the amount of a contract price adjustment under a contract provision required by paragraph (1) if-

(i) the contractor certifies to the contracting officer (or to a designated representative of the contracting officer) that, to the best of the contractor's knowledge and belief, the contractor is entitled to the offset; and

(ii) the contractor proves that the cost or pricing data were available before the date of agreement on the price of the contract (or price of the modification) or, if applicable consistent with paragraph (1)(B), another date agreed upon between the parties, and that the data were not submitted as specified in subsection (a)(3) before such date.

(B) A contractor shall not be allowed to offset an amount otherwise authorized to be offset under subparagraph (A) if-

(i) the certification under subsection (a)(2) with respect to the cost or pricing data involved was known to be false when signed; or

(ii) the United States proves that, had the cost or pricing data referred to in subparagraph (A)(ii) been submitted to the United States before the date of agreement on the price of the contract (or price of the modification) or, if applicable consistent with paragraph (1)(B), another date agreed upon between the parties, the submission of such cost or pricing data would not have resulted in an increase in that price in the amount to be offset.

(f) Interest and Penalties for Certain Overpayments.-(1) If the United States makes an overpayment to a contractor under a contract subject to this section and the overpayment was due

(U) Legislative Proposal 2: Submission of Uncertified Cost Information (cont'd)

to the submission by the contractor of defective cost or pricing data, the contractor shall be liable to the United States-

(A) for interest on the amount of such overpayment, to be computed-

(i) for the period beginning on the date the overpayment was made to the contractor and ending on the date the contractor repays the amount of such overpayment to the United States; and

(ii) at the current rate prescribed by the Secretary of the Treasury under section 6621 of the Internal Revenue Code of 1986; and

(B) if the submission of such defective data was a knowing submission, for an additional amount equal to the amount of the overpayment.

(2) Any liability under this subsection of a contractor that submits cost or pricing data but refuses to submit the certification required by subsection (a)(2) with respect to the cost or pricing data shall not be affected by the refusal to submit such certification.

(g) Right of United States To Examine Contractor Records.-For the purpose of evaluating the accuracy, completeness, and currency of cost or pricing data required to be submitted by this section, the head of an agency shall have the authority provided by section 2313(a)(2) of this title.

(h) Definitions .-In this section:

(1) Cost or pricing data .-The term "cost or pricing data" means all facts that, as of the date of agreement on the price of a contract (or the price of a contract modification), or, if applicable consistent with subsection (e)(1)(B), another date agreed upon between the parties, a prudent buyer or seller would reasonably expect to affect price negotiations significantly. Such term does not include information that is judgmental, but does include the factual information from which a judgment was derived.

(2) Subcontract .-The term "subcontract" includes a transfer of commercial products or commercial services between divisions, subsidiaries, or affiliates of a contractor or a subcontractor.

(U) Appendix H

(U) TransDigm Spare Parts With Multiple DoD Procurements in 2017 and 2018

(U) Thirty-five TransDigm spare parts had multiple DoD procurements in 2017 and 2018.

(CUI)	National Stock Number and Description	Year	Contracts Awarded	Total Qty Purchased	Total Dollar Value of Contracts	Total Dollar Value of Contracts Per Year by Operating Unit
Aero Fluid Products						
1	[REDACTED]	2018	4	230	\$410,554	
2	[REDACTED]	2018	4	16	280,381	
3	[REDACTED]	2018	4	355	957,923	
					Total for 2018	\$1,648,858
4	[REDACTED]	2017	5	75	537,988	
5	[REDACTED]	2017	5	36	673,236	
6	[REDACTED]	2017	5	270	1,226,280	
7	[REDACTED]	2017	7	54	674,152	
	[REDACTED]	2017	5	131	484,369	
8	[REDACTED]	2017	4	141	444,714	
					Total for 2017	4,040,739
Arkwin Industries						
9	[REDACTED]	2018	4	147	801,760	
10	[REDACTED]	2018	6	330	954,485	
11	[REDACTED]	2018	4	85	282,023	
12	[REDACTED]	2018	4	151	966,735	
13	[REDACTED]	2018	7	210	439,513	
					Total for 2018	3,444,516
						(CUI)

(U) TransDigm Spare Parts With Multiple DoD Procurements in 2017 and 2018 (cont'd)

(CUI)	National Stock Number and Description	Year	Contracts Awarded	Total Qty Purchased	Total Dollar Value of Contracts	Total Dollar Value of Contracts Per Year by Operating Unit
	[REDACTED]	2017	6	95	437,932	
14	[REDACTED]	2017	5	748	297,811	
15	[REDACTED]	2017	5	125	479,109	
	[REDACTED]	2017	5	125	721,875	
					Total for 2017	1,936,727
AeroControlex						
16	[REDACTED]	2018	7	83	1,245,245	
17	[REDACTED]	2018	4	23	506,997	
18	[REDACTED]	2018	4	327	2,355,592	
					Total for 2018	4,107,834
19	[REDACTED]	2017	6	85	630,597	
					Total for 2017	630,597
Champion Aerospace						
20	[REDACTED]	2018	4	216	505,125	
21	[REDACTED]	2018	6	1296	856,116	
					Total for 2018	1,361,241
	[REDACTED]	2017	5	241	543,138	
					Total for 2017	543,138

(CUI)

(U) TransDigm Spare Parts With Multiple DoD Procurements in 2017 and 2018 (cont'd)

(CUI)	National Stock Number and Description	Year	Contracts Awarded	Total Qty Purchased	Total Dollar Value of Contracts	Total Dollar Value of Contracts Per Year by Operating Unit
Adel Wiggins						
22	[REDACTED]	2018	4	36	393,076	
					Total for 2018	393,076
23	[REDACTED]	2017	8	73	749,527	
					Total for 2017	749,527
Electromech Technologies						
24	[REDACTED]	2018	5	52	875,378	
25	[REDACTED]	2018	4	186	1,925,884	
26	[REDACTED]	2018	4	60	335,460	
27	[REDACTED]	2018	4	228	1,347,811	
					Total for 2018	4,484,533
Tactair Fluid Controls						
28	[REDACTED]	2018	4	266	821,864	
					Total for 2018	821,864
29	[REDACTED]	2017	4	29	623,368	
30	[REDACTED]	2017	5	40	302,296	
	[REDACTED]	2017	4	201	596,568	
					Total for 2017	1,522,232
						(CUI)

(U) TransDigm Spare Parts With Multiple DoD Procurements in 2017 and 2018 (cont'd)

(CUI)	National Stock Number and Description	Year	Contracts Awarded	Total Qty Purchased	Total Dollar Value of Contracts	Total Dollar Value of Contracts Per Year by Operating Unit
HarcoSemco						
31	[REDACTED]	2018	4	103	657,096	
32	[REDACTED]	2018	6	189	533,112	
					Total for 2018	1,190,208
Acme Aerospace						
33	[REDACTED]	2017	6	68	1,652,869	
34	[REDACTED]	2017	6	609	975,958	
					Total for 2017	2,628,827
Hartwell Corporation						
35	[REDACTED]	2017	7	229	814,756	
					Total for 2017	814,756 (CUI)

(U) Source: IHS Haystack Gold.

(U) Appendix I

(U) Voluntary Refunds

(U) We found excess profits from 2.8 to 3850.6 percent after removing a 15-percent reasonable profit percentage. See the following table for the details on the voluntary refund amount.

(U) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit
DLA Aviation							
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	\$565,187
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	535,781
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	525,829
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	525,516
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	487,566
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	471,314
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	457,890
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	437,138
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	420,091
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	392,389
							(U)

(U) Voluntary Refunds (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	225,162
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	208,049
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	192,836
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	179,292
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	168,150
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	157,862
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	154,347
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	151,431
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	145,553
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	127,094
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	119,974
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	117,199
							(CUI)

(U) Voluntary Refunds (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	116,461
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	115,078
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	112,013
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	111,294
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	106,607
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	100,252
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	98,280
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	97,226
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	96,803
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	96,735
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	95,511
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	92,725
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	92,056
							(CUI)

(U) Voluntary Refunds (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	85,706
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	85,021
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	80,402
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	78,825
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	69,318
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	68,964
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	68,235
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	67,720
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	62,908
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	57,230
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	56,197
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	55,680
							(CUI)

(U) Voluntary Refunds (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	55,588
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	53,008
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	52,039
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	48,436
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	47,868
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	47,656
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	42,459
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	41,253
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	40,504
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	40,156
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	34,736
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	34,513
							(CUI)

(U) Voluntary Refunds (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	33,732
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	27,493
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	10,951
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	7,309
Total Voluntary Refund Request for DLA Aviation							\$9,550,597
DLA Land and Maritime							
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	600,964
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	543,756
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	521,024
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	497,536
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	494,496
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	392,883
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	301,575
							(CUI)

(U) Voluntary Refunds (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	280,560
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	218,570
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	188,768
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	179,394
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	177,058
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	140,433
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	140,268
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	137,536
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	137,141
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	134,696
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	132,812
							(CUI)

(U) Voluntary Refunds (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	126,931
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	123,333
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	122,318
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	121,937
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	119,599
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	118,315
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	116,910
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	116,463
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	114,484
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	113,889
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	113,296
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	112,617
							(CUI)

(U) Voluntary Refunds (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	112,408
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	111,198
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	108,389
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	106,060
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	105,510
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	104,669
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	104,269
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	103,071
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	101,231
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	100,450
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	100,195
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	98,426
							(CUI)

(U) Voluntary Refunds (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	96,202
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	94,498
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	94,188
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	93,525
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	91,888
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	91,704
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	91,443
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	91,443
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	91,443
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	90,383
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	89,957
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	89,678
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	88,303
							(CUI)

(U) Voluntary Refunds (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	87,759
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	87,181
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	86,836
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	85,680
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	84,865
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	84,865
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	84,710
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	84,026
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	83,790
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	81,536
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	74,800
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	73,104
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	72,718
							(CUI)

(U) Voluntary Refunds (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	67,297
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	67,153
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	66,865
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	64,907
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	64,209
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	56,416
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	52,440
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	48,185
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	47,096
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	45,701
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	39,501
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	31,963
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1	29,796
							(CUI)

(U) Voluntary Refunds (cont'd)

(CUI) Contract Number	National Stock Number and Description	TransDigm's Cost Per Spare Part	Contract Price Per Spare Part	Cost Per Part With 15-Percent Profit	Excess Profit Per Spare Part	Total Spare Parts	Total Excess Profit
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	24,470
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	14,345
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	3,488
Total Voluntary Refund Request for DLA Land & Maritime							\$10,885,788
DLA Troop Support							
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$205,555
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	99,103
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	64,110
Total Voluntary Refund Request for DLA Troop Support							\$368,768
Total Refund Request							\$20,805,153 (CUI)

* (U) The spare parts sold on this contract had delivery scheduled in two fiscal years. The price paid in the second fiscal year was higher.

(U) Source: The DoD OIG.

(U) Management Comments

(U) Defense Logistics Agency



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

November 3, 2021

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

SUBJECT: Response to the Office of Inspector General Draft Report “Audit of the Business Model for TransDigm Group Inc. and Its Impact on Department of Defense Spare Parts Pricing” (Project No. D2019-D000AT-0181.000)

DLA appreciates the opportunity to review and comment on the entirety of the report. We agree with the recommendations to work with Defense Pricing and Contracting (DPC) to identify alternative contracting strategies for procuring items from companies that sell sole-source spare parts and to seek a voluntary refund from TransDigm for the excess profit identified. As you mention in your findings, “Federal and DoD policies do not compel contractors to provide uncertified cost data for contracts below the TINA threshold, even when requested by the contracting officer” and “contracting officers have limited options when contractors refuse to provide the uncertified cost data.” DLA contracting officers will continue to comply with all applicable requirements for determining fair and reasonable pricing and work to develop alternative contracting strategies for these types of items. However, DLA does not have the same subpoena power as the DoD OIG, which is a limiting factor to obtain cost and pricing data and precludes DLA’s ability to identify excessive profits.

The point of contact for this audit is [REDACTED], DLA Office of the Inspector General, [REDACTED].

BANKS, ROXANNE, J.A. Digitally signed by BANKS, ROXANNE, J.A. RAMILLO
RAMILLO [REDACTED] Date: 2021.11.03 10:05:26 -0400

ROXANNE J. BANKS
Deputy Director, DLA Acquisition

Attachment:
Response to the report recommendations

(U) Defense Logistics Agency (cont'd)

DOD OIG DRAFT REPORT DATED OCTOBER 15, 2021 “AUDIT OF THE BUSINESS MODEL FOR TRANSDIGM GROUP INC. AND ITS IMPACT ON DEPARTMENT OF DEFENSE SPARE PARTS PRICING” (PROJECT NO. D2019-D000AT-0181.000)

DEFENSE LOGISTICS AGENCY’S RESPONSE TO THE DOD OIG RECOMMENDATIONS

RECOMMENDATION 2: We recommend that the Defense Pricing and Contracting Principal Director work with the Defense Logistics Agency Director to identify alternative contracting strategies for procuring items from companies that sell sole-source spare parts in small quantities at low dollar values to the DoD more efficiently and at a lower price.

DLA RESPONSE: Agree. DLA continuously seeks any alternative contracting strategies that can potentially increase efficiency and result in better prices for the government. DLA agrees to continue coordinating with DPC to address pricing challenges that arise and to support DPC’s effort on this issue by adopting and adhering to additional guidance that DPC develops. DLA considers this commitment to meet the intent of the DoD OIG recommendation and requests closure.

RECOMMENDATION 3: We recommend that the Defense Logistics Agency Director consider all available corrective actions with TransDigm, including but not limited to the following.

- a. Direct Defense Logistics Agency Aviation contracting officers to seek a voluntary refund from TransDigm for at least \$9.5 million in excess profit for the 63 contracts that we identified contained excess profit.
- b. Direct Defense Logistics Agency Land and Maritime contracting officers to seek a voluntary refund from TransDigm for at least \$10.9 million in excess profit for the 84 contracts that we identified contained excess profit.
- c. Direct Defense Logistics Agency Troop Support contracting officers to seek a voluntary refund from TransDigm for at least \$0.4 million in excess profit for the 3 contracts that we identified contained excess profit.

DLA RESPONSE: Agree. The DLA Major Subordinate Commands (MSC), identified in recommendation 3, have reviewed the TransDigm subsidiaries that the DoD OIG identified as having excess profits and concluded that voluntary refunds are appropriate. The DLA MSCs will send voluntary refund letters to TransDigm and its subsidiaries for the amounts of excess profit identified by DoD OIG in this report. Since TransDigm’s response to the requests for refund are voluntary and out of DLA’s control, DLA considers the corrective actions complete, and the intent of the recommendation met once the letters are issued.

(U) Defense Pricing and Contracting



ACQUISITION AND SUSTAINMENT

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

MEMORANDUM FOR PROGRAM DIRECTOR ACQUISITION, CONTRACTING, AND SUSTAINMENT, OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Draft Report on Audit of the Business Model for TransDigm Group Inc. and Its Impact on Department of Defense Spare Parts Pricing (Project No. D2019-D000AT-0180.000)

As requested, I am providing responses to Recommendations 1 and 2 in the subject draft report. The response to Recommendation 2 was coordinated with the Defense Logistics Agency (DLA), they will submit their response to Recommendation 3 separately. The completed "Request for Security Marking Review" form is attached.

Recommendation 1: Defense Pricing and Contracting (DPC) Principal Director (PD) review the Defense Federal Acquisition Regulation Supplement (DFARS) and DFARS Procedures, Guidance, and Information (PGI) to determine whether current policy adequately addresses when cost analysis should be required by contracting officials to determine price reasonableness for sole-source spare parts not subject to the Truth in Negotiations Act. If the PD determines that current policy is not sufficient, they should initiate actions to revise and update policy and guidance

Response: Concur. DPC will review the DFARS and DFARS PGI to determine whether current policy adequately addresses when cost analysis should be required to determine price reasonableness for sole source spare parts not subject to the Truth in Negotiations Act. DPC will initiate action to update current policy or guidance regarding cost analysis if policy and guidance are insufficient.

Recommendation 2: DPC PD should work with DLA Director to identify alternative contracting strategies for procuring items from companies that sell sole-source spare parts in small quantities at low dollar values to the DoD more efficiently and at a lower price.

Response: Concur. DPC will work with DLA to identify alternative contracting strategies for procuring items from companies that sell-sole source spare parts in small quantities at low dollar values to DoD more efficiently and at a lower price.

My point of contact for this subject is [REDACTED] who may be reached at [REDACTED].

TENAGLIA
.JOHN.M
Digitally signed by
TENAGLIA.JOHN.
M [REDACTED]
Date: 2021.11.04
16:31:58 -04'00'

John M. Tenaglia
Principal Director,
Defense Pricing and Contracting

Attachment:
As stated

(U) Acronyms and Abbreviations

DFARS	Defense Federal Acquisition Regulation Supplement
DLA	Defense Logistics Agency
DPC	Defense Pricing and Contracting
FAR	Federal Acquisition Regulation
FPDS-NG	Federal Procurement Data System-Next Generation
OEM	Original Equipment Manufacturer
OUSDA&S	Office of the Under Secretary of Defense for Acquisition and Sustainment
TINA	Truth in Negotiations Act

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