



# Results in Brief: Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays

## What We Did

Our objective was to determine whether DoD personnel performed proper oversight, management, and pricing of two Counter Narcoterrorism Technology Program Office (CNTPO) task orders for the overhaul of Mi-17 helicopters.

## What We Found

Army contracting and program management officials did not perform adequate oversight and management of CNTPO contracts for the overhaul of Mi-17 aircraft. Specifically, the contracting officers and program management officials did not adequately support Northrop Grumman Space & Mission Systems' (Northrop Grumman) oversight of its subcontractor, AviaBaltika Aviation Ltd/Saint Petersburg Aircraft Repair Company (AVB/SPARC). Further, AVB/SPARC denied the DoD, Northrop Grumman, and Flight Test Aerospace (FTA) quality assurance personnel access to its overhaul facility. As a result, AVB/SPARC aircraft overhaul took 12 to 20 months longer than planned, failed to identify unsanctioned parts that must be replaced, and cost the U.S. Government \$16.4 million in unnecessary costs. (*See Unnecessary Costs on page ii.*)

The U.S. Army Space and Missile Defense Command, Contracting and Acquisition Management Office (CAMO) contracting officers did not adequately determine pricing and negotiation for contract modifications to task orders 0021 and 0035. As a result, the contracting officer did not adequately justify that \$90.4 million in task order modifications were fair and reasonable. For example, the CAMO contracting officers approved the procurement of aircraft parts from AVB/SPARC, at a price that was 29 percent higher than the same set of parts bought from FTA. (*See Overpayment for Parts on page ii.*)

## What We Recommend

We recommend that the U.S. Army debarment official consider whether suspension or debarment is warranted for AVB/SPARC and its affiliates; the Deputy Assistant Secretary of the Army for Procurement review the contracting officers' performance at CAMO and Army Contracting Command (ACC)-Redstone; the Program Executive Officer, Aviation conduct training for CORs; and the Assistant Secretary of the Army for Acquisition, Logistics and Technology conduct a review of project management personnel actions.

Further, the Executive Director, Aviation and Missile Life Cycle Management Command/Space and Missile Defense Command Contracting Center, ACC, should implement a process to use cost and price analysts to assist in contracting officers making fair and reasonable price determinations and establish controls to verify that the contracting officers use cost or price analyses, obtain cost and pricing data, and document fair and reasonable price determinations.

## Management Comments and Our Response

Management comments on the draft report, in general, were partially responsive. We request that management provide comments in response to this report by October 29, 2012. Please see the recommendations table on page iii.

### Mi-17 Aircraft in Preparation for Loading



Source: Northrop Grumman July 2010 Progress Report

## Unnecessary Costs

Although it is common for overhauls to require additional over and above work not covered by the basic overhaul contract, CAMO contracting officers obligated DoD to \$16.4 million in unnecessary costs. The \$16.4 million included:

- AVB/SPARC's unauthorized parts purchase,
- the final inspection at AVB/SPARC's Lithuanian facility to compensate for AVB/SPARC's denial of access,
- unplanned demilitarization costs caused by the improper importation of two Mi-17s by AVB/SPARC that were later determined to be military variants, and
- an extension of aircraft insurance policies and additional transportation costs due to schedule delays caused by the parts dispute between FTA and AVB/SPARC.

## Overpayment for Parts

We compared the prices of selected individual parts purchased under task order 0035 to analyze the differences in price between the FTA and AVB/SPARC parts. The cost of individual parts purchased by AVB/SPARC varied by as much as 76 percent less to 495 percent more than the identical parts initially purchased by FTA on the task order; and yet CAMO contracting officers approved all the purchases. According to CNTPO personnel, parts supplied by FTA were new; however, we were unable to determine the condition of the AVB/SPARC supplied parts because AVB/SPARC purchased and installed the parts without authorization when there was no provision in its subcontracts with FTA to do so.

**Swash Plate**



AVB/SPARC's price for this part was 100 percent more than FTA's price.

Source: Northrop Grumman Defect and Induction Report for Aircraft 58620, 58630, 58642, 58644, March 2010

**Gyro Horizon**



AVB/SPARC's price for this part was 66 percent more than FTA's price.

Source: Northrop Grumman Defect and Induction Report for Aircraft 108M06, 108M10, February 2010

## Recommendations Table

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Assistant Secretary of the Army for Acquisition, Logistics, and Technology	A.5	
Deputy Assistant Secretary of the Army for Procurement, Office of Assistant Secretary of the Army for Acquisition, Logistics, and Technology		A.2
Chief, Procurement Fraud Branch, U.S. Army Legal Services Agency	A.1	
Program Executive Officer, Aviation	A.6	
Executive Director, Aviation and Missile Life Cycle Management Command/Army Space and Missile Defense Command, Army Contracting Command	A.7, B.2, and B.3	B.1
Head of the Contracting Activity, U.S. Army Contracting Command-Redstone		A.3
Non-Standard Rotary Wing Aircraft, Project Manager	A.8	
Contracting Officer, U.S. Army Contracting Command-Redstone		A.4

**Please provide comments by October 29, 2012.**