



Changes Are Needed to the Army Contract With Sikorsky to Use Existing DoD Inventory and Control Costs at the Corpus Christi Army Depot

What We Did

We evaluated the Army Aviation and Missile Life Cycle Management Command (AMCOM) material purchases from Sikorsky Aircraft Corporation (Sikorsky) supporting the Corpus Christi Army Depot (CCAD) to determine whether the partnership agreement effectively minimized the cost of direct materials to the depot. AMCOM entered into the partnership to address parts availability problems and improve readiness. This report addresses excess DoD inventory, a metric for reducing material costs, and splitting requirements.

What We Found

AMCOM did not effectively use DoD inventory before procuring the same items from Sikorsky because AMCOM did not develop adequate procedures addressing inventory use. We identified \$47.5 million to \$58.7 million of excess inventory that AMCOM could use to satisfy CCAD contract requirements.

AMCOM, as directed by the Army Materiel Command, added a material cost reduction clause into the contract, which was not effective in reducing CCAD repair costs. The clause was designed for Sikorsky and CCAD to share savings associated with reduced material usage for repair programs. However, AMCOM did not use reliable data, did not consider depot labor, and omitted repair programs that experienced material cost increases in its calculation of material cost reduction. Consequently, AMCOM made an unjustified incentive payment of \$11.8 million to Sikorsky for reducing material costs. Our calculations showed that depot costs increased by \$29.3 million.

AMCOM officials did not use the most cost-effective source of supply for consumable items purchased on the contract because AMCOM had not developed an effective material management strategy. The Defense Logistics Agency (DLA) had sufficient inventory to satisfy annual contract requirements for 3,267 items, and the Sikorsky contract price for those items was \$7.6 million, or 85.1 percent, higher than the DLA price. In addition, from 2008 through 2010, Sikorsky was allowed to make excessive profit of about \$930,760 by procuring items from DLA that it then sold to CCAD.

Recommendations, Management Comments, and Our Response

Among other recommendations, we recommend that DoD develop an effective strategy to use existing inventory before procuring new items from Sikorsky and to effectively procure consumable items. The Army Contracting Command – Redstone Arsenal (ACC-RSA) needs to immediately remove the material cost reduction clause from the contract and obtain a refund of \$11.8 million. Also, ACC-RSA needs to include a contract clause that requires Sikorsky to obtain consumable items from DLA as the first source of supply when cost-effective and practical; pursue a refund of \$930,760 for excessive profits charged on purchases from DLA; and modify contract clauses to prevent Sikorsky from making excessive profits. Overall, management comments were responsive except for comments on the recommendations to obtain refunds for the unjustified incentive payment and excessive profits. Therefore, we request additional comments by December 5, 2011. Please see the recommendations table on page iii.

Excess Inventory

The Army is procuring parts from Sikorsky instead of using \$47.5 million to \$58.7 million of excess DoD inventory to satisfy CCAD requirements. (Finding A, Page 8 of the report provide additional details.)

DoD Inventory Could Be Used to Meet CCAD Contract Requirements
(millions)

	Contract Year		Subtotal	Remaining for Future Requirement	Total
	2011	2012			
3 Years of Contingency Stock (113 items)					
CCAD Contract Requirement	\$66.7	\$68.7			\$135.4
Excess Inventory	\$24.6	\$9.8	\$34.5	\$24.2	\$58.7
5 Years of Contingency Stock (87 items)					
CCAD Contract Requirement	\$60.3	\$62.0			\$122.3
Excess Inventory	\$22.2	\$6.6	\$28.8	\$18.7	\$47.5
Excess inventory was calculated by removing 3 or 5 years of DoD demand outside CCAD requirements.					

Example of Excess DoD Inventory Not Being Used

National Stock Number 1680-01-482-3952 is a guide assembly used on the Blackhawk helicopter. As of May 2010, AMCOM had 4,047 in inventory valued at \$5.9 million or \$1,449.41 each at the DLA Distribution Depot, Susquehanna, Pennsylvania. AMCOM officials stated annual demand outside of CCAD is 53 and the CCAD/Sikorsky contract requirements were 54 in 2010 for total annual requirements of 107. Consequently, based on total 2010 demand requirements, the Army has roughly 37.8 years of inventory for the guide assembly that should be used before procuring additional parts from Sikorsky. In response to the audit, AMCOM reduced the 2011 CCAD/Sikorsky contract requirement from 90 to 0.



Guide Assembly



Guide Assembly Inventory

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Commander, Army Aviation and Missile Life Cycle Management Command		A.1, A.2
Executive Director, Army Contracting Command – Redstone Arsenal	B.1, B.2, C.2	C.1, C.3
Director, Defense Logistics Agency Aviation		A.1

Please provide comments by December 5, 2011.