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Report No. DODIG-2012-135 September 27, 2012

Inspector General

United States Department of Defense

Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays

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Acronyms and Abbreviations

ACC	Army Contracting Command
(b)(4)	(b)(4)
CAMO	Contracting and Acquisition Management Office
CNTPO	Counter Narcoterrorism Technology Program Office
COR	Contracting Officer's Representative
FAR	Federal Acquisition Regulation
FSMTC	Federal Service for Military-Technology Cooperation Russia
(b)(4)	(b)(4)
GAO	Government Accountability Office
(b)(4)	(b)(4) (b)(4)
IDIQ	Indefinite-Delivery, Indefinite-Quantity
NSRWA	Non-Standard Rotary Wing Aircraft
PMO	Project Management Office
REA	Request for Equitable Adjustment
(b)(4)	(b)(4)
USD(AT&L)	Under Secretary of Defense (Acquisition, Technology, and Logistics)

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

September 27, 2012

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Report No. DODIG-2012-135)

We are providing this report for review and comment. We determined that DoD officials did not perform adequate oversight and management of Counter Narcoterrorism Technology Program Office contracts for the overhaul of (b)(4) Mi-17 aircraft, and the contracting officers did not ensure that the prices for (b)(4) [redacted] in contract modifications to two task orders were reasonable in accordance with the Federal Acquisition Regulation. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that recommendations be resolved promptly. The Deputy Assistant Secretary of the Army for Procurement comments were responsive. The Commander, U.S. Army Legal Services Agency, comments were partially responsive. As a result of the Commander's comments, we redirected Recommendation A.1. The Executive Deputy to the Commanding General, U.S. Army Materiel Command, comments were partially responsive. The Program Executive Officer, Aviation, comments were not responsive. Based on the Program Executive Officer, Aviation comments, we renumbered Recommendation A.5.a as A.5 and A.5.b as A.6. We also revised and redirected Recommendation A.5, revised recommendation A.6, and added recommendation A.7. Additionally, based on updated information, we added Recommendation A.8. We request that the Director, Soldier and Family Legal Services, Office of the Judge Advocate General, U.S. Army, as the Army Suspension and Debarment Official, in consultation with and/or assistance of the Chief, Procurement Fraud Branch, U.S. Army Legal Services Agency, provide comments on Recommendation A.1, the Assistant Secretary of the Army for Acquisition, Logistics and Technology provide comments on Recommendation A.5; the Program Executive Officer, Aviation, provide comments on Recommendation A.6; the Project Manager, Non-Standard Rotary Wing Aircraft Project Management Office, provide comments on Recommendation A.8, and the Principal Assistant Responsible for Contracting, Army Contracting Command-Redstone, provide comments on Recommendations A.7, B.2, and B.3 by October 29, 2012.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, send management comments in electronic format (Adobe Acrobat file only) to audacm@dodig.mil. Copies of management comments must have the actual signature of the authorizing official for your organization. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to [redacted] at (703) 604-[redacted] (DSN 664-[redacted]).

Jacqueline L. Wicecarver
Assistant Inspector General
Acquisition and Contract Management

Report No. DODIG-2012-135 (Project No. D2011-D000AS-0241.000) September 27, 2012

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

~~(FOUO)~~ 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, [redacted] Further, [redacted] denied the DoD, Northrop Grumman, and [redacted] quality assurance personnel access to its overhaul facility. As a result, [redacted] 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.)* Because of the delays, [redacted] aircraft were unavailable for rescue and recovery operations during the 2010 floods in Pakistan. The [redacted] aircraft were delayed for their intended training mission at Fort Rucker, Alabama.

~~(FOUO)~~ 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 [redacted] in task order modifications were fair and reasonable. For ~~(FOUO)~~ example, the CAMO contracting officers approved [redacted] to procure aircraft parts from [redacted], a price that was [redacted] than the same set of parts bought from [redacted]. *(See Overpayment for Parts on page ii.)* Among the parts that CAMO approved for purchase from [redacted] were a storage battery and an air speed indicator for [redacted] and [redacted], respectively, when the parts were in inventory and cost [redacted] and [redacted], respectively.

What We Recommend

We recommend that the U.S. Army debarment official consider whether suspension or debarment is warranted for [redacted] 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.

Unnecessary Costs

~~(FOUO)~~ 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:

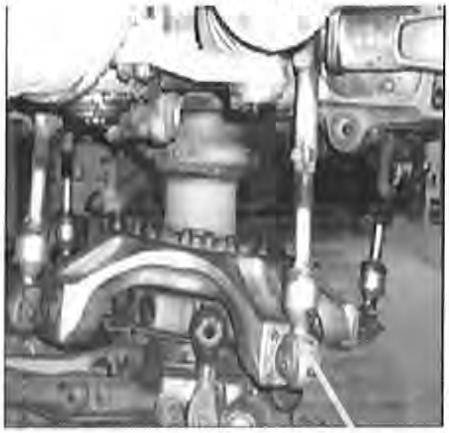
- [redacted] for [redacted] unauthorized parts purchase,
- [redacted] for the final inspection at [redacted] Lithuanian facility to compensate for [redacted] denial of access,
- [redacted] for unplanned demilitarization costs caused by the improper importation of [redacted] Mi-17s by [redacted] that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

Finding A and Appendix C provide additional details on the unnecessary costs. (The bulleted numbers total $16.5 million due to rounding. See Table 2 on page 16 for the exact total cost).

Overpayment for Parts

We compared the prices of selected individual parts purchased under task order 0035 to analyze the differences in price between the [redacted] and [redacted] parts. The cost of individual parts purchased by [redacted] varied by as much as 76 percent less to 495 percent more than the identical parts initially purchased by [redacted] on the task order; and yet CAMO contracting officers approved all the purchases. According to CNTPO personnel, parts supplied by [redacted] were new; however, we were unable to determine the condition of the [redacted] supplied parts because [redacted] purchased and installed the parts without authorization when there was no provision in its subcontracts with [redacted] to do so. Finding B Table 7 on page 36 provides additional details on the parts comparison.

Swash Plate



~~(FOUO)~~
[redacted] price:
[redacted] price:
Pricing Difference:
Percent Difference:
[redacted]

Gyro Horizon

~~(FOUO)~~
[redacted] price:
[redacted] price:
Pricing Difference:
Percent Difference:
[redacted]

See Report Page 36 for photo source information.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
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
Director, Soldier and Family Legal Services, Office of the Judge Advocate General, U.S. Army and the 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
Project Manager, Non-Standard Rotary Wing Aircraft	A.8	
Contracting Officer, U.S. Army Contracting Command-Redstone		A.4

Please provide comments by October 29, 2012.

Table of Contents

Introduction 1

Objective 1
Background on CNTPO Contracts 1
Review of Internal Controls 4

Finding A. Mi-17 Overhauls Performed Without Oversight 5

Contracting Officers and Program Management Officials Did Not Adequately Support Oversight of Subcontracts 6
Contracting Officers Continued to Obligate the U.S. Government for Additional Costs, and CORs Accepted Mi-17s Without Complete Quality Assurance 7
Overhauls Cost More Than Necessary 15
Delayed Delivery of Mi-17s 16
Requests for Equitable Adjustment Submitted by (b)(4) [redacted] 18
Another NSRWA PMO Prime Contractor Continued to Subcontract With (b)(4) [redacted] 21
Review Contractor Actions for Potential Suspension and Debarment 22
Conclusion 22
Management Comments on the Finding and Our Response 23
Recommendations, Management Comments, and Our Response 23

Finding B. Task Order Modifications Awarded Without Determining Fair and Reasonable Prices 29

Evaluating the Reasonableness of Contract Modification Prices 29
Contracting Officers Did Not Obtain Cost and Pricing Data or Perform Cost Analyses 30
Price Reasonableness Determinations 32
Contractor Proposals Accepted Without Negotiations 33
Contracting Officers Paid More Than Fair and Reasonable Prices For Parts 34
Conclusion 36
Management Comments on the Finding and Our Response 37
Recommendations, Management Comments, and Our Response 37

Appendices

A. Scope and Methodology 40
Use of Computer-Processed Data 41
Use of Technical Assistance 41
Prior Coverage 42
B. 1,500-Hour Overhaul Process 43
C. Mi-17 Overhaul Costs 45

Table of Contents (cont'd)

Appendices (cont'd)
D. Actual Timeline of the (b)(4) Mi-17 Overhauls 46
E. Analysis of Price Reasonableness for Modifications to Task Orders 0021 and 0035 53
F. Management Comments on Finding A and Our Response 57
G. Management Comments on Finding B and Our Response 71

Management Comments

Assistant Secretary of the Army (Acquisition, Logistics, and Technology)
Army Acquisition Executive 83
Deputy Assistant Secretary of the Army (Procurement) 85
U.S. Army Legal Services Agency 88
U.S. Army Materiel Command 89
Program Executive Officer, Aviation 117

Introduction

Objective

Our audit objective was to determine whether DoD personnel performed the oversight and management of Counter Narcoterrorism Technology Program Office (CNTPO) contracts for the overhaul of Mi-17 helicopters in accordance with Federal Acquisition Regulation (FAR) requirements. We also determined whether the contracting officer ensured that DoD obtained fair and reasonable prices for the overhaul services. See Appendix A for a discussion of our scope and methodology and prior coverage.

~~(FOUO)~~ Based on our preliminary review results, we reduced our audit scope to concentrate on reviewing [redacted] Mi-17s overhauled at [redacted] under task orders W9113M-07-D-0007-0021 and W9113M-07-D-0007-0035. During our preliminary review of the Government contracting files, we found documentation that indicated a lack of quality assurance oversight for the overhauls being performed at [redacted] as contrasted to the other subcontractors. As a result, we reviewed documentation for [redacted] Mi-17 aircraft overhauled at [redacted] that were owned and operated by Pakistan and [redacted] Mi-17 aircraft overhauled at [redacted] that were owned and operated by DoD. This report does not address the Mi-17 aircraft overhauled at other overhaul facilities, nor does it make any assumptions about the cost of the [redacted] overhauls in comparison to the Mi-17 aircraft overhauled at the other overhaul facilities.

Background on CNTPO Contracts

~~(FOUO)~~ The mission of the CNTPO is to execute the DoD's strategy to provide global detection, monitoring, and disruption of narcoterrorist activities through effective interagency mission support, technology, and acquisition solutions. CNTPO provides its services to DoD, other Federal agencies, partner nations, and State and local authorities engaged in counterdrug and counter narcoterrorism operations. The Naval Surface Warfare Center, Dahlgren Division, serves as the host command for CNTPO. Before January 2012, CNTPO reported to the Operations Integration Group under the Deputy Under Secretary of the Navy. On January 9, 2012, the Acting Assistant Secretary of Defense, Special Operations and Low Intensity Conflict and the Air Force Deputy Chief of Staff, Operations, Plans and Requirements signed a memorandum of understanding that began the transition of management and oversight responsibility of CNTPO from the Department of the Navy to the Air Force.

The U.S. Army Space and Missile Defense Command, Contracting and Acquisition Management Office (CAMO), provided contracting support for CNTPO.[1] Contracting

[1] As of August 2011, the U.S. Army Space and Missile Defense Command/Army Forces Strategic Command transitioned all CAMO activity to the U.S. Army Materiel Command, Army Contracting Command-Redstone. The transition included all contract and procurement activities. Therefore, the Army Contracting Command-Redstone is now overseeing all Mi-17 work.

officers at the CAMO awarded five indefinite-delivery, indefinite-quantity (IDIQ) contracts on August 24, 2007. The five IDIQ contracts had a total cost ceiling of $15 billion with a 5-year period of performance, composed of a base year and 4 option years. The CAMO contracting officials issued the IDIQ contracts to five prime contractors, one of which was Northrop Grumman Space & Mission Systems Corporation (Northrop Grumman) (formerly TASC, Inc.).

~~(FOUO)~~ On January 19, 2010, the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[AT&L]) issued an Acquisition Decision Memorandum. The memorandum directed the Army to establish a Project Management Office (PMO) responsible for executing all procurement, sustainment, and technical support to meet requirements for Mi-17s and potentially other Non-Standard Rotary Wing Aircraft (NSRWA) for DoD and partner nations, such as Afghanistan, Iraq, and Pakistan.

~~(FOUO)~~ U.S. Army officials established the NSRWA PMO at Redstone Arsenal in Huntsville, Alabama, under the U.S. Army Program Executive Office for Aviation. The NSRWA PMO's mission is to procure, field, and sustain NSRWA for DoD, allied countries, or as directed by the Under Secretary of Defense for Policy in support of other contingency operations. Specifically, the NSRWA PMO efforts consist of the procurement of aircraft, parts, modification and overhauls, and logistical support for maintaining and sustaining the aircraft. As of March 2011, NSRWA PMO had program management and oversight responsibility for the Mi-17 task orders issued under the CNTPO contracts.

Mi-17 Aircraft

~~(FOUO)~~ The Mi-17 helicopter is a Russian-made, medium-lift utility aircraft that can perform both attack and movement missions and is one of the most common helicopters in the world. The Mi-17 supports the efforts of the United States and partner nations in antiterrorism efforts. For example, the governments of Iraq, Pakistan, and Afghanistan requested the aircraft to support their respective counterterrorism efforts. The Afghans have used Mi-17 helicopters since the early 1980s due to the aircraft's ability to operate in the country's severe environment and fly at high altitudes and in high temperatures with heavy loads. Figure 1 shows an Mi-17 helicopter.

Figure 1. Mi-17 Helicopter

Northrop Grumman Task Orders

During September 2009, a CAMO contracting officer exercised option year one under the cost-plus fixed fee task order W9113M-07-D-0007-0021 (task order 0021) awarded to Northrop Grumman. The task order included options to perform 1,500-hour overhauls for up to (b)(4) Mi-17s. The period of performance for task order 0021 was from September 30, 2008 through August 22, 2011. The CAMO contracting officer initially awarded task order 0021 for $94 million and subsequently modified the task order to increase the value to $141.9 million.

Additionally, the CAMO contracting officer awarded the cost-plus fixed fee task order W9113M-07-D-0007-0035 (task order 0035) to Northrop Grumman. Task order 0035 included options to perform 1,500-hour overhauls for up to (b)(4) Mi-17s. The period of performance for task order 0035 was from September 30, 2009, through September 29, 2011. The CAMO contracting officer initially awarded task order 0035 for $26.3 million and subsequently modified the task order to increase the value to $75.1 million.

An Mi-17 1,500-hour overhaul includes checking the status of the aircraft's technical documents and the condition of the airframe, engine, and all parts of the aircraft. It also includes dismantling and overhaul of the airframe and spare parts, plus the repair and replacement of various other systems and parts of the aircraft. See Appendix B for a detailed description of what is included in the 1,500-hour overhaul process.

Northrop Grumman Subcontractors for Task Order 0021 and Task Order 0035

Northrop Grumman subcontracted with (b)(4) to perform overall program management, and oversight and quality assurance of the (b)(4) Mi-17 overhauls we reviewed. (b)(4) subcontracted with (b)(4) (b)(4), to perform the Mi-17 overhauls. Subsequently, (b)(4) partnered with its affiliated company, (b)(4)[3] and decided to perform the overhauls of these (b)(4) Mi-17s at (b)(4) facilities in Saint Petersburg, Russia.

Contracting With Other Nations

Normally, the Defense Contract Management Agency performs contract administration services on behalf of other nations or requests that other nations perform contract administration services on behalf of the United States through memoranda of understanding between the United States and other Nations. Currently, the United States does not have memoranda of understanding with Lithuania and Russia.

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[2] (FOUO) (b)(4) and (b)(4) were awarded 3 contracts for the (b)(4) aircraft overhauls. (b)(4) -CNTPO-003 was for (b)(4) Pakistan aircraft, (b)(4) -CNTPO-004 was for (b)(4) Pakistan aircraft, and (b)(4) -CNTPO-005 was for (b)(4) DoD aircraft.

[3] Because (b)(4) and (b)(4) are affiliated companies, we refer to them as (b)(4) in our report.

Of concern is that the United States does not have a memorandum of understanding with Russia given the potential for corruption in the Russian military technology and equipment industry. DoD officials need to be aware of prevalent corruption when conducting business with these companies. This corruption was illustrated in a *Financial Times* article dated May 24, 2011. In the article, Russia's chief military prosecutor stated that funds Russia allocated for military equipment and arms each year were siphoned off due to corruption. He further stated that

> . . . fake and fictitious invoices for supposedly completed work, kickbacks for state contracts – these are all part of the swindlers' arsenals. As a result, vast amounts of money are plundered – every fifth ruble – and the military continues to take delivery of low-quality technology and equipment.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010, 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. We identified internal control weaknesses in the oversight and management of Northrop Grumman task orders for the overhaul of Mi-17s. Specifically, the contracting officers and program management officials did not adequately support prime contractor oversight of its subcontractor. In addition, controls were not in place to verify that contracting officers obtained cost and pricing data or performed cost analysis, adequately documented price reasonableness determinations, or negotiated modifications that added or repriced work in accordance with the FAR. We will provide a copy of the report to the senior official responsible for internal controls in the Army.

Finding A. Mi-17 Overhauls Performed Without Oversight

The CAMO contracting officer and program management personnel including contracting officer's representatives (CORs)[4] did not perform adequate oversight and management of Northrop Grumman task orders for the overhaul of Mi-17 aircraft in accordance with the FAR. Specifically, the contracting officers and program management personnel did not adequately support Northrop Grumman (the prime contractor) with oversight of its subcontractor, (b)(4), during the overhaul of (b)(4) Mi-17 aircraft.[5] This occurred because the CAMO contracting officers continued to obligate DoD for unquestioned and unnecessary additional costs for the (b)(4) Mi-17 aircraft overhaul efforts and the PMO CORs accepted the completed aircraft even though (b)(4) did not meet the terms and conditions of its contracts with (b)(4), a Northrop Grumman subcontractor. (b)(4)

- denied DoD's, Northrop Grumman's, and (b)(4) quality assurance personnel access to its overhaul facility;
- did not identify all unsanctioned parts that affected flight airworthiness;
- purchased and installed parts without authorization when there was no provision in its subcontracts to do so; and
- imported military variants[6] of the Mi-17 aircraft owned by DoD in violation of Russian law.

~~(FOUO)~~ As a result, the planned overhaul of the (b)(4) Mi-17 aircraft may cost up to (b)(4) more than the original contracted value of $37.7 million. This increase included:

- ~~(FOUO)~~ approximately $16.4 million of unnecessary costs for the purchase of duplicate parts, additional insurance and inspections costs, and unplanned demilitarization costs and
- ~~(FOUO)~~ approximately (b)(4) for (b)(4) request for equitable adjustment that the contracting officer was evaluating for approval.

~~(FOUO)~~ In addition, the overhaul of the (b)(4) Mi-17s took at least 12 to 20 months longer than the 6 months projected by Northrop Grumman. The delayed delivery of (b)(4) of the (b)(4) Mi-17s meant they were unavailable for rescue and recovery operations during the 2010

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[4] This includes CORs from both the CNTPO and NSRWA PMOs. The NSRWA PMO is the current PMO.
[5] ~~(FOUO)~~ Task order 0021 included the overhaul of (b)(4) Pakistani Mi-17 aircraft, and task order 0035 included the overhaul of (b)(4) Mi-17s belonging to DoD (see Appendix C for tail numbers and cost information for both task orders).
[6] According to the Federal Service for Military-Technology Cooperation Russia, (b)(4) improperly imported (b)(4) DoD Mi-17s into Russia in violation of Russian law.
[7] ~~(FOUO)~~ Of the (b)(4) increase, $10.1 million was unquestioned additional costs as shown in Table 2, page 16.

~~(FOUO)~~ floods in Pakistan. Additionally, the delayed delivery of the (b)(4) Mi-17s adversely affected pilot training at Fort Rucker, Alabama.

Contracting Officers and Program Management Officials Did Not Adequately Support Oversight of Subcontracts

The CAMO contracting officers and program management personnel including CORs did not perform adequate oversight and management of Northrop Grumman task orders for the overhaul of Mi-17 aircraft in accordance with the FAR. Specifically, contracting officers and PMO officials did not adequately support Northrop Grumman's oversight of its subcontractor, (b)(4), during the overhaul of (b)(4) Mi-17 aircraft at the (b)(4) facility in Saint Petersburg, Russia.

Northrop Grumman's planned surveillance approach included having (b)(4) quality assurance personnel on-site full-time at the overhaul facility to monitor the overhaul process. In addition, Northrop Grumman implemented FAR- and DoD-required contract provisions for quality assurance and oversight of its subcontracts with (b)(4) and (b)(4) in the written terms and conditions of the subcontracts. Specifically, the subcontracts required (b)(4) to provide (b)(4) quality control specialists access to its overhaul facility to oversee the overhaul process. The subcontract also stipulated that DoD's quality assurance representatives have access to (b)(4) facility to oversee the overhaul process. Representatives from both (b)(4) and (b)(4) signed the subcontracts. The Mi-17 aircraft began arriving at the (b)(4) facility in Saint Petersburg, Russia, in September 2009. In December 2009, (b)(4) denied access to the overhaul facilities in Saint Petersburg, Russia, and continued to deny access throughout the Mi-17 overhauls. See Appendix D for a complete timeline of events.

In July 2010, Northrop Grumman informed the CAMO Director of Contract Operations Directorate A that the CNTPO and NSRWA officials' actions caused (b)(4) to be under the impression that it could circumvent Northrop Grumman's authority by dealing directly with DoD officials. Specifically, Northrop Grumman informed the CAMO Director of Contract Operations Directorate A that (b)(4) was uncooperative and failed to fulfill its contractual responsibilities. Additionally, an e-mail from Northrop Grumman personnel to the CNTPO contracting officer representative stated that when Northrop Grumman personnel met with (b)(4) management on June 18, 2010, (b)(4) refused to discuss the completion of the overhauls.

To remedy this issue, Northrop Grumman requested in July 2010 that both CNTPO and NSRWA program management personnel send a letter to (b)(4) stating that only Northrop Grumman had the authority to direct and pay for the completion of the overhauls. On July 28, 2010, the CAMO Director of Contract Operations Directorate A wrote a letter stating that contractual authority for task orders 0021 and 0035 is only between the U.S. Government and Northrop Grumman. Additionally, on July 29, 2010, the CAMO Director of Contract Operations Directorate A wrote a letter of concern to Northrop Grumman that stated the Government considered Northrop Grumman's failure to make adequate progress on the delivery of the overhauled aircraft a condition that was endangering the performance of the task orders. In addition, the Director of Contract Operations

Directorate A stated that [redacted] did not consider the desires of [redacted] to do business with the Government a mitigating factor to the delinquency.

We asked the contracting officer whether the letter addressing Northrop Grumman's authority was sent to [redacted]. The contracting officer stated that the letter was sent to Northrop Grumman and the CNTPO and NSRWA PMO offices but it was not sent to [redacted] because the U.S. Government did not have privity of contract with [redacted] In addition, CNTPO and NSRWA program management personnel did not send a letter to [redacted] clarifying that only Northrop Grumman had the authority to direct and pay for completion of the overhauls under task orders 0021 and 0035. Instead, the contracting officer and CNTPO and NSRWA program management personnel circumvented Northrop Grumman, the prime contractor, and communicated directly with [redacted] subcontractor. For example, CNTPO and CAMO officials telephoned [redacted] personnel directly and excluded Northrop Grumman personnel on various e-mail communications regarding updates and directions on the completion of the overhauls. Also, the NSRWA Program Manager stated that he communicated directly with [redacted] to facilitate the completion of the overhauls, including requesting information regarding status updates and other programmatic issues. Further, the NSRWA PMO discussed future Mi-17 work with [redacted] although it was not meeting the terms of its subcontracts. As a result, Northrop Grumman and [redacted] had no control or leverage over [redacted] personnel, who continued to disregard their subcontractual commitments with Northrop Grumman and [redacted]. *Therefore, the contracting officers, contracting officer's representatives, and program managers should receive training regarding the need to comply with contract and subcontract terms and conditions, the need to implement corrective measures when contractor performance is not compliant with the terms and conditions of contracts and subcontracts, and the need to both maintain privity of contract with prime contractors and to enforce inspection clauses, such as FAR 52.246 as well as other contract clauses that are either flowed down to subcontracts or substantively reiterated in subcontracts.*

> *CNTPO and NSRWA program management personnel circumvented Northrop Grumman, the prime contractor, and communicated directly with [redacted].*

Contracting Officers Continued to Obligate the U.S. Government for Additional Costs, and CORs Accepted Mi-17s Without Complete Quality Assurance

~~(FOUO)~~ The CAMO contracting officers continued to obligate DoD for additional costs on the [redacted] Mi-17 aircraft overhaul efforts, and the CORs from both PMOs accepted the completed aircraft even though [redacted] did not meet its contractual obligations with [redacted]. The contracting officer added [redacted] to complete the overhauls and could add [redacted] if [redacted] request for equitable adjustment (REA) is approved,

~~(FOUO)~~ for a total of [redacted] increase over the basic overhaul cost of $37.7 million. This increase included:

- ~~(FOUO)~~ approximately $16.4 million of unnecessary costs for the purchase of duplicate parts, additional insurance and inspections costs, and unplanned demilitarization costs incurred as a result of [redacted] actions and
- ~~(FOUO)~~ approximately [redacted] for [redacted] REA that the contracting officer was evaluating for approval.

Figure 2. Aircraft Unloaded at Chakala Airbase, Pakistan

[redacted]

[redacted] *Denied Quality Assurance Personnel Access to Its Overhaul Facility*

CNTPO and NSRWA program management officials and the CAMO contracting officers did not have required quality assurance oversight during the overhauls of [redacted] Mi-17 aircraft at the [redacted] facility in Saint Petersburg, Russia. FAR Clause 52.246-5, "Inspection of Services–Cost-Reimbursement," states that the contractor must provide and maintain an inspection system acceptable to the U.S. Government covering the services under the contract. Northrop Grumman established a quality assurance process that included aircraft documentation reviews throughout the overhauls; technical and diagnostic data validation in the overhaul facility; and aircraft disassembly, repair, and reassembly oversight. Quality control requirements were incorporated in the subcontracts between [redacted] and [redacted]. Specifically, [redacted] contracts with [redacted] would be allowed access to the [redacted] facility to perform quality control. In addition, the [redacted] and [redacted] subcontracts state that the U.S. Government has the right to dispatch its representatives to the [redacted] facility to oversee the overhaul process. The [redacted] Mi-17 aircraft arrived at the [redacted] facility in Saint Petersburg, Russia, between September and November of 2009.

However, in December 2009, February 2010, March 2010, and April 2010, [redacted] officials denied DoD, Northrop Grumman, and [redacted] personnel access to its overhaul

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[8] ~~(FOUO)~~ Of the [redacted] increase, $10.1 million was unquestioned additional costs as shown in Table 2 on page 16.

facility in Saint Petersburg, Russia, to inspect and report on the progress and the status of the [redacted] Mi-17 aircraft, asserting that it was against Russian law. According to an August 2, 2010 letter from [redacted] requesting access to the [redacted] overhaul facilities, [redacted] assertion was refuted by Russian governmental aviation agencies. Further [redacted] personnel noted that they were granted access to other Russian overhaul facilities. Despite this, [redacted] did not allow DoD, Northrop Grumman, and [redacted] quality assurance personnel access to its Saint Petersburg overhaul facility to perform quality assurance and oversight. As a result, Northrop Grumman could not implement its quality assurance plan through [redacted] for the [redacted] Mi-17 overhauls. See Appendix D for a complete timeline of events.

[redacted] did not allow DoD, Northrop Grumman, and [redacted] quality assurance personnel access to its Saint Petersburg overhaul facility

Contracting Officers Did Not Take Action

~~(FOUO)~~ The contracting officers did not take immediate and decisive action to enforce FAR-required quality assurance oversight requirements for the overhaul of the [redacted] Mi-17 aircraft at the [redacted] facility in Saint Petersburg, Russia, when [redacted] denied access[9] to its facilities in violation of its subcontracts. Instead of issuing a stop work order, the CAMO contracting officers obligated the U.S. Government for an additional [redacted] to complete work at the [redacted] overhaul facility.

FAR Part 46, "Quality Assurance," states that Government agencies must ensure that contracts include inspection and other quality requirements to protect the Government's interest and that contract quality assurance will be performed as necessary. It also states that Government agencies must ensure that no contract precludes the Government from performing inspections, including at subcontractor plants. In addition, FAR 1.602-2, "Responsibilities," states that contracting officials are responsible for ensuring performance of all necessary actions for effective contracting and compliance with terms of the contract and for safeguarding the interests of the United States in its contractual relationships.

~~(FOUO)~~ The CAMO contracting officers should not have obligated DoD to pay for additional costs for work performed by [redacted] until the required quality assurance oversight was established for the overhaul of the [redacted] Mi-17 aircraft at the [redacted] facility in Saint Petersburg, Russia. The contracting officers' decisions and lack of action cost the DoD [redacted] for unverified work performed without required quality assurance oversight. *Therefore, the Deputy Assistant Secretary of the Army for Procurement, Office of Assistant Secretary of the Army for Acquisition, Logistics, and Technology should conduct a review of the performance of the contracting officers at the U.S. Army Space and Missile Defense Command, Contracting and Acquisition Management Office, who oversaw the management of task orders W9113M-07-D-0007-0021 and W9113M-07-D-0007-0035 and initiate administrative action, as appropriate.*

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[9] See report page 22 for a discussion on [redacted] violation of its subcontracts with [redacted].

CORs Did Not Follow Quality Assurance Requirements

~~(FOUO)~~ The CORs from CNTPO and NSRWA PMO accepted overhaul and repair work valued at $64.2 million for [redacted] Mi-17s without verifying whether the aircraft were overhauled in accordance with the contract quality requirements as required by the FAR.

FAR 46.502, "Responsibility for Acceptance," states that the contracting officer is responsible for acceptance of supplies or services. For task orders 0021 and 0035, the contracting officer delegated the acceptance duties to the CORs. Specifically, the CORs' delegation letters stated that CORs would perform final inspection and acceptance of all work required under the contract or task order, including the review and approval of reports. In addition, the delegation letters stated that the COR would observe, monitor, and assess the contractor's performance, as well as perform routine inspections of the contractor's work products and deliverables. The CORs were to evaluate the overhaul work throughout the process and ensure that all work was completed in accordance with contract requirements. In addition, the FAR states that supplies or services should not be accepted before Government contract quality assurance actions are completed. FAR Part 46.5, "Acceptance," states that acceptance constitutes acknowledgment that the supplies or services conform to applicable contract quality and quantity requirements. The CORs could not perform their delegated oversight duties and properly assess conformance with the contract quality assurance requirements because [redacted] denied the U.S. Government, Northrop Grumman, and [redacted] access to its Russian overhaul facility.

> *The CORs could not perform their delegated oversight duties and properly assess conformance with the contract quality assurance requirements because* [redacted] *denied . . . access to its Russian overhaul facility.*

~~(FOUO)~~ After overhauling the [redacted] Pakistani Mi-17s, [redacted] shipped the aircraft to its Lithuanian facility for inspection by CNTPO and NSRWA PMO officials as part of final acceptance. This action occurred between March and June 2011 and added additional costs for DoD. The CNTPO COR disagreed with accepting the aircraft without quality assurance oversight having been performed during the overhauls and on January 26 and 27, 2011, the CNTPO COR sent an e-mail to the CNTPO program director asking to be relieved of his COR responsibilities. The CNTPO program director declined to release the CNTPO COR from his duties until a memorandum of understanding between CNTPO and NSRWA for COR transitions was agreed upon; however, the memorandum of understanding was never approved. Although the CNTPO COR disagreed with the acceptance process, he accepted [redacted] of the Mi-17 aircraft based on the assessments conducted by NSRWA PMO staff during the final inspection of the aircraft at [redacted] facility. The COR from NSRWA that accepted [redacted] other aircraft also relied on the final acceptance check before accepting the aircraft. He stated that the final acceptance check provided adequate assurance that work was performed to the contracted quality standards although the CORs had not inspected the aircraft during the overhaul process.

According to NSRWA PMO personnel, the final acceptance check by DoD included an inspection by the Northrop Grumman and NSRWA program management personnel after overhaul completion. The NSRWA PMO COR stated that the inspection included an air worthiness checklist, a review of the parts documentation and authentication, and a flight worthiness test. A DoD Office of Inspector General (OIG) technical expert,[10] reviewed the Mi-17 NSRWA Acceptance Inspection Guide and the Mi-17 Helicopter Maintenance Test Flight Procedures and agreed that if qualified maintenance and aircrew personnel followed the inspection guide and test flight procedures, the aircraft would be airworthy. However, not having the required quality assurance conducted during the overhaul work had a direct, negative impact on the flight worthiness[11] of (b)(4) Mi-17 aircraft as Northrop Grumman subsequently found unsanctioned parts that affected the flight worthiness of the aircraft on the (b)(4) Mi-17s accepted.

Unsanctioned Parts Found

~~(FOUO)~~ Between April and June 2011, Northrop Grumman representatives found unsanctioned parts that affected the flight worthiness of the aircraft in (b)(4) Pakistani Mi-17s accepted. The contracts between (b)(4) and (b)(4) (b)(4) included a requirement that conduct a pre-overhaul authenticity check of aircraft components as part of the list of work (b)(4) would complete during overhaul of the (b)(4) aircraft. (b)(4) identified counterfeit parts, including (b)(4) counterfeit engines with a replacement cost of (b)(4) Because (b)(4) was not able to conduct the required quality assurance oversight of the overhauls of the (b)(4) Mi-17s, (b)(4) subcontracted with the (b)(4) (b)(4) [12] to check the authenticity of 85 flight-critical aircraft components on each aircraft as they were accepted. However, (b)(4) refused (b)(4) access to its facility in Lithuania and as a result, (b)(4) provided the (b)(4) specialists with photographic records of each aircraft's components and documentation that (b)(4) obtained during the U.S. Government's acceptance of the overhauled aircraft. (b)(4) identified (b)(4) unsanctioned[14] parts in the (b)(4) Mi-17s accepted as shown in Table 1. According to Russian Federation airworthiness standards for Mi-17s, these (b)(4) aircraft were not considered airworthy. According to (b)(4), the

Northrop Grumman representatives found unsanctioned parts that affected the flight worthiness of the aircraft in (b)(4) Mi-17s accepted so far.

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[10] The OIG technical expert is a U.S. Air Force helicopter instructor pilot with more than 26 years of experience, 3,300 hours of flying experience in a variety of helicopters, and more than 100 maintenance flight checks.

[11] For the purposes of the report the terms "flight worthiness" and "airworthiness" are interchangeable.

[12] (b)(4) authorized to conduct authentication of aircraft components and monitor aircraft components lifecycles.

[13] A part is unauthentic if it does not have paperwork that is properly approved by the required Russian organizations. Only the original equipment manufacturer can confirm whether a part is authentic.

[14] Unsanctioned parts are those parts (b)(4) found that were not produced by the aircraft manufacturer or the passport (verification paper work) of the item was missing. The English version of the (b)(4) reports identified nonconforming parts as either unsanctioned or unapproved. However, for consistency purposes we are only using the term unsanctioned.

~~(FOUO)~~ authenticity of approximately 400 parts, including the 85 flight critical parts, should have been checked by [redacted] as part of the overhaul process. However, because [redacted] personnel were denied access to the [redacted] facility, they could not verify that these checks were conducted.

Table 1. Unsanctioned Parts Identified by [redacted]

Aircraft Tail Numbers*	Date Accepted	Identified Unsanctioned Parts
[redacted]	March 2011	[redacted]
[redacted]	May 2011	
[redacted]	June 2011	
[redacted]	December 2011	
Total Unsanctioned Parts		

[redacted] did not contract with [redacted] to review the authenticity of [redacted]. According to [redacted] personnel, when they attempted to contract with [redacted] for the review of [redacted], they discovered that [redacted] had already contracted with them to review the [redacted] aircraft. [redacted] did not identify any unsanctioned parts in aircraft [redacted] as shown in Table 1.

~~(FOUO)~~ After the U.S. Government's acceptance of the [redacted] Pakistani Mi-17s overhauled at [redacted] Russian facility, the aircraft were immediately put into service. Although [redacted] agreed to replace each unsanctioned part identified by [redacted] at no charge, [redacted] representatives stated that [redacted] has only replaced the unsanctioned parts in aircraft [redacted]. The use of [redacted] during the acceptance of the aircraft cost at least an additional [redacted] that could have been avoided if [redacted] had allowed [redacted] quality assurance personnel access to the facility.

In addition, the aircraft will be out of service again for the time spent to replace the unsanctioned parts. Furthermore, the remaining unsanctioned parts on aircraft [redacted], that have yet to be replaced could lead to aircraft malfunctions and endanger the life and safety of the crew. *The NSRWA project manager should either ensure that the unsanctioned parts on aircraft [redacted] are replaced or notify the Pakistani Air Force that the aircraft contain unsanctioned flight-critical parts.*

[redacted] Purchased and Installed Parts for the [redacted] Mi-17 Aircraft Without Authorization

The CAMO contracting officer obligated the U.S. Government for parts purchased by [redacted] for the overhaul of [redacted] Mi-17 aircraft when there was no provision in [redacted] subcontracts with [redacted] to do so unless [redacted] approved [redacted] to purchase the parts. [redacted] did not approve the purchase of parts. The contracts between [redacted] included the following clauses regarding how [redacted] personnel would manage the need for additional parts:

- (b)(4) [redacted]

~~(FOUO)~~ On December 4, 2009, (b)(4) [redacted] stated in a letter to (b)(4) [redacted] and Northrop Grumman that (b)(4) [redacted] was not fulfilling its contractual obligations because it did not provide the parts requested by (b)(4) [redacted] within 30 days in accordance with terms and conditions of the contract. On December 6, 2009, (b)(4) [redacted] replied to (b)(4) [redacted] and refused to provide the parts to (b)(4) [redacted][5] until (b)(4) [redacted] was allowed to perform quality assurance oversight. Notwithstanding, according to (b)(4) [redacted] personnel, (b)(4) [redacted] purchased the replacement parts during the spring and summer 2010 valued at (b)(4) [redacted] for the (b)(4) [redacted] Mi-17 aircraft even though quality assurance oversight had not been established at the (b)(4) [redacted] overhaul facility. In September 2010, NSRWA PMO personnel reviewed the (b)(4) [redacted] -purchased parts and validated the parts' compliance and authenticity. However, (b)(4) [redacted] refused to use the (b)(4) [redacted] -purchased parts. Based on the same requirement, (b)(4) [redacted] purchased parts for (b)(4) [redacted] and installed them onto the (b)(4) [redacted] Mi-17 aircraft although both Northrop Grumman and (b)(4) [redacted] notified (b)(4) [redacted] officials multiple times that (b)(4) [redacted] was not authorized to purchase replacement parts. Details on the overpricing of these parts are included in Finding B.

~~(FOUO)~~ On November 23, 2010, the CAMO Director, Contract Operations Directorate A, authorized Northrop Grumman to reimburse (b)(4) [redacted] for the duplicate parts although (b)(4) [redacted] parts cost (b)(4) [redacted][6] more than the same parts purchased by (b)(4) [redacted]. The CAMO Director, Contract Operations Directorate A, should not have authorized reimbursement for the duplicate parts. The CNTPO program manager stated in an e-mail that the replacement parts purchased by (b)(4) [redacted] would be used for future Mi-17 overhauls or be transferred to another Mi-17 maintenance contract. As of May 2012, the parts were stored in (b)(4) [redacted] warehouse in the Netherlands.

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[5] (b)(4) [redacted]
(b)(4) [redacted].

[6] The total difference between (b)(4) [redacted] parts purchased was (b)(4) [redacted]. The (b)(4) [redacted] includes only the (b)(4) [redacted] parts we were able to match by name and item number.

[redacted] *Imported Aircraft Into Russia in Violation of Russian Law*

According to the Federal Service For Military-Technology Cooperation Russia (FSMTC),[17] [redacted] improperly imported [redacted] DoD Mi-17s into Russia in violation of Russian law. On October 8, 2009, the original equipment manufacturer (Kazan Helicopters) identified aircraft tail numbers [redacted] as military variants of the Mi-17 aircraft. According to [redacted], U.S. Government sanctions in effect at that time prevented the aircraft from being overhauled in Russia, but overhauls in Lithuania were allowed. [redacted] informed [redacted] that the [redacted] aircraft were Russian military variants and the overhauls would have to take place in Lithuania. According to [redacted] officials agreed that the overhauls would be accomplished in Lithuania and that equipment to complete the overhauls would be brought in from their Russian facility. However, by the end of October 2009, [redacted] had shipped the Mi-17s to the [redacted] facilities in Russia. In October 2010, Russian oversight authorities determined that the log books provided by [redacted] to demonstrate that the aircraft were civilian aircraft, were not authentic, and that the [redacted] DoD aircraft were military variants.

> *[redacted] improperly imported [redacted] DoD Mi-17s into Russia in violation of Russian law.*

~~(FOUO)~~ The FSMTC sent a letter to the Office of the Deputy Assistant Secretary of Defense for Counternarcotics and Global Threats in November 2010. According to the letter, [redacted] imported Mi-17 aircraft tail numbers [redacted], belonging to DoD, into the Russian Federation in violation of Russian law. The Ministry of Defense of the Russian Federation[18] did not allow the export of these Mi-17s until the aircraft were evaluated and properly demilitarized. On July 15, 2011, [redacted] signed a contract with Russian aviation authorities to assess and demilitarize [redacted] Mi-17s. Northrop Grumman delivered the [redacted] aircraft to DoD in December 2011, 20 months after the estimated completion date. These [redacted] Mi-17s were assigned to Fort Rucker, Alabama, to train U.S. and coalition pilots supporting worldwide missions. According to U.S. Army Training and Doctrine Command personnel, the U.S. Army Training and Doctrine Command was told to be prepared to stand up training in August 2010. The comprehensive timeline for aircraft, facilities, logistics, manning, and internal training is driven by the receipt of flyable aircraft, including the [redacted] Mi-17s. Consequently, the delays adversely affected pilot training.

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[17] The FSMTC is a Russian Federal body of Executive authority responsible for monitoring and supervising the Russian Federation's international military-technical cooperation. FSMTC is the Russian decision making authority on military purpose products import and export. FSMTC's authority includes authorizing military purpose product developers and manufacturers to conduct foreign trade operations to supply spare parts and support material to military-purpose products and their repair and certification.

[18] The Ministry of Defense of the Russian Federation develops and defines the military policy of the Russian Federation. In addition, the Ministry of Defense approves the technical requirements for military goods intended for export.

Figure 3. Mi-17 Aircraft in Preparation for Loading

(b)(4)

Overhauls Cost More Than Necessary

~~(FOUO)~~ The total overhaul cost for the (b)(4) Mi-17 aircraft would increase to (b)(4), (b)(4) increase from the original contracted value of $37.7 million, if the contracting officer approves (b)(4) for (b)(4) REA (see Appendix C for more details). As of November 2011, the total cost of the overhauls was $64.2 million. This was a (b)(4) increase from the originally estimated cost of $37.7 million. Although it is common for overhauls to require additional over and above work not covered by the basic overhaul, we identified that the CAMO contracting officers obligated DoD to $16.4 million in unnecessary costs (see Table 2).[19] The $16.4 million[20] included:

- ~~(FOUO)~~ (b)(4) for (b)(4) unauthorized parts purchase,
- ~~(FOUO)~~ (b)(4) for the joint inspection at (b)(4) Lithuanian facility to compensate for (b)(4) denial of access,
- ~~(FOUO)~~ (b)(4) for unplanned demilitarization costs caused by the improper importation of (b)(4) Mi-17s by (b)(4) that were later determined to be military variants, and
- ~~(FOUO)~~ (b)(4) for an extension of aircraft insurance policies and additional transportation costs because of schedule delays due to the parts dispute between (b)(4) and (b)(4)

[19] See report page 22 for a discussion on (b)(4) violation of its subcontracts with (b)(4) and report pages 12 and 13 for the parts dispute between (b)(4) and (b)(4).

[20] ~~(FOUO)~~ The bulleted information adds up to $16.5 million due to rounding. The exact unnecessary cost total is $16,423,285 (see Table 2).

~~(FOUO)~~ Table 2. Overhaul Costs per Aircraft[1]

Aircraft Tail Number	Basic Overhaul Costs	Unquestioned Additional Costs[2]	Unnecessary Additional Costs[3]	Total[4]
(b)(4) [redacted]				
Total	**$37,730,892**	**$10,092,367**	**$16,423,285**	**$64,246,543**

[1]See Appendix C for more details.
[2]Consists of over and above parts and Service Life Reduction Program parts. The over and above parts were not installed on the aircraft as of May 2012.
[3]Consists of parts purchased by (b)(4) in violation of their subcontracts and additional costs incurred because of (b)(4) actions.
[4]Totals may not sum because of rounding.

~~(FOUO)~~ As a result, (b)(4) and (b)(4) actions cost DoD $16.4 million more than necessary due to additional costs associated with duplicate parts, inspection costs, extended insurance, and demilitarization. Included in the $16.4 million of unnecessary cost was approximately (b)(4) in additional fees paid to Northrop Grumman. Furthermore, if the contracting officer approves (b)(4) REA of (b)(4) the total cost of the overhauls will increase to (b)(4) more than planned. Although Northrop Grumman stands to earn an additional fee on the (b)(4), Northrop Grumman personnel advised the contracting officer not to pay the REA.

(b)(4) and (b)(4) actions cost DoD $16.4 million more than necessary.

Delayed Delivery of Mi-17s

~~(FOUO)~~ The delayed delivery of the Mi-17s caused significant problems. Northrop Grumman projected in its proposal that it would take 6 months for the overhaul facility to complete the overhauls. However, (b)(4) took 12 to 20 months more than the 6 months initially projected to complete the overhauls of the (b)(4) Pakistani and (b)(4) DoD-owned Mi-17s (see Table 3 on page 17). Pakistan's rainy season generally occurs from June through November. The (b)(4) Pakistani Mi-17s were sent to the

~~(FOUO)~~ (b)(4) took 12 to 20 months more than the 6 months initially projected to complete the overhauls of the (b)(4) Pakistani and (b)(4) DoD-owned Mi-17s.

~~(FOUO)~~ [redacted] overhaul facility in September and November 2009 and should have been completed 6 months later, before the start of Pakistan's rainy season in June 2010. Between July and September 2010, heavy rains caused catastrophic flooding in Pakistan. In an action request message dated August 20, 2010, the U.S. Secretary of State stated to the diplomatic and consular post at the U.S. Embassy Moscow that assistance was needed for Pakistan in the wake of the worst natural disaster in its history. The Secretary of State specifically told the Government of Russia that [redacted] needed to immediately complete the overhaul of the [redacted] Pakistani Mi-17s located in Saint Petersburg, Russia. The Secretary of State stated that relief operations were placing increased strain on the current Pakistani Mi-17 fleet that was already overstretched due to years of combat operations. However, because [redacted] finished the [redacted] aircraft between March and June 2011, Pakistan was prevented from using those aircraft for the rescue and recovery efforts.

~~(FOUO)~~ In addition, the DoD aircraft were intended to become part of the U.S. Army Aviation Center of Excellence's fleet for training in seven programs of instruction for the Mi-17 at Fort Rucker, Alabama planned to begin in August 2010. Because the [redacted] aircraft were delivered on December 8, 2011, after a 20-month delay, the U.S. Army Aviation Center of Excellence had not attained initial operating capability and did not expect to achieve initial operating capability until late FY 2012. For the DoD aircraft to be complete and operational for training purposes, they must first have new cockpits installed. This work is still being completed under contract W58RGZ-09-D-0130, task order 102 managed by NSRWA. This work was subcontracted to [redacted] by the prime contractor Science and Engineering Services Inc., at the same time that [redacted] was having trouble meeting the terms and conditions of its subcontracts for task orders 0021 and 0035.

~~(FOUO)~~ Table 3. Delivery Delays per Aircraft

Aircraft Tail Number	Arrived at [redacted]	Accepted by the COR	Months Scheduled for Overhaul	Actual Months for Overhaul
[redacted]	09/08/2009	03/14/2011	6	18
	09/08/2009	03/14/2011	6	18
	09/08/2009	03/14/2011	6	18
	11/09/2009	05/25/2011	6	19
	09/08/2009	03/14/2011	6	18
	11/09/2009	05/25/2011	6	19
	11/09/2009	06/1/2011	6	19
	11/09/2009	06/1/2011	6	19
	10/16/2009	12/8/2011	6	26
	10/16/2009	12/8/2011	6	26

Requests for Equitable Adjustment Submitted by [redacted]

~~(FOUO)~~ In FY 2011, [redacted] officials submitted three REAs, totaling [redacted], to [redacted].

- ~~(FOUO)~~ REA [redacted]-CNTPO-003 (REA 003), February 9, 2011, requested [redacted] in additional costs for Pakistani aircraft [redacted].
- ~~(FOUO)~~ REA [redacted]-CNTPO-004 (REA 004), March 1, 2011, requested [redacted] in additional costs for Pakistani aircraft [redacted].
- ~~(FOUO)~~ REA [redacted]-CNTPO-005 (REA 005), November 30, 2010, requested [redacted] in additional costs for DoD-owned aircraft [redacted].

[redacted] officials also forwarded the REAs to the CAMO contracting officer. However, because responsibilities for Mi-17 aircraft changed from CAMO to U.S. Army Material Command, Army Contracting Command (ACC)-Redstone, the U.S. Army Material Command, ACC-Redstone, contracting officer now has the authority to approve the REA costs.

~~(FOUO)~~ The [redacted] REAs covered expenses incurred while handling what [redacted] officials considered to be [redacted]-caused delays. [redacted] cited in its REAs [redacted] failure to provide needed replacement parts or authorize [redacted] to purchase parts as the primary reason for requesting an additional [redacted]. [redacted] responded to REA 005 on January 24, 2011, and stated that the REAs costs submitted by [redacted] were a result of [redacted] unethical and illegal activities. Specifically, [redacted] cited [redacted] importation of [redacted] DoD aircraft into Russia in violation of Russian law and [redacted] denial of [redacted] quality assurance specialist access to facilities as being preventable and unnecessary. On April 5, 2011, [redacted] stated that the additional costs claimed in REAs 003 and 004, should be denied because there was no change in contract terms, and the actual cause of the asserted losses was [redacted] contract breaches. Further, a Northrop Grumman contracting official informed the ACC-Redstone contracting officer that Northrop Grumman did not see a basis for [redacted] entitlement to costs over the fixed-price subcontract between [redacted] and [redacted]. The Northrop Grumman official stated that she was forwarding the [redacted] REA to the ACC-Redstone contracting officer only because the ACC-Redstone contracting officer had directed that she do so. On May 9, 2012, Northrop Grumman determined that [redacted] was reasonable cost for REAs 003, 004, and 005. However, Northrop Grumman's analysis does not address that the REAs include interest charges and costs incurred for resolving issues with Lithuanian and Russian governments that may not be allowable. Also, the ACC-Redstone contracting officer did not provide her analysis or determination.

Advance Payment on Requests for Equitable Adjustments 003 and 004

In a December 6, 2011, letter to the ACC-Redstone contracting officer, Northrop Grumman confirmed that (b)(4) issued a provisional payment of (b)(4) to (b)(4). The letter states:

> This provisional payment was an advance partial payment for the adjusted costs, requested by (b)(4) for their subcontracts 003 and 004 pursuant to USG [U.S. Government] directed Addendums that they have submitted for USG consideration. Northrop Grumman acted at the direction and approval of the US Government since Northrop Grumman is neither endorsing (b)(4) claim for adjusted costs nor making determination as to the entitlement of any such additional amounts above their original fixed price.

Request for Equitable Adjustment 005 Treated as Cost Growth

The ACC-Redstone contracting officer directed Northrop Grumman to repackage the (b)(4) REA 005 additional costs as price adjustments to the cost-plus contract between Northrop Grumman and DoD rather than REAs[21] and resubmit the costs. According to the ACC-Redstone contracting officer, the costs associated with the (b)(4) REAs were not REAs, but rather cost growths within the scopes of the Northrop Grumman and DoD task orders. When we asked the ACC-Redstone contracting officer how she made that determination, she stated that the NSRWA PMO personnel determined that the costs were within scope of the contract.

~~(FOUO)~~ On November 14, 2011, the NSRWA project manager sent a letter to the (b)(4) president stating that the U.S. Government was satisfied with the agreed-to payment terms for contracts 003, 004, and 005. The letter stated that partial payments would be made by November 2011, with final payments made no later than December 2011. On December 5, 2011, the ACC-Redstone contracting officer directed Northrop Grumman to send an invoice to DoD for (b)(4) that had been requested in REA 005. On December 21, 2011, we asked the contracting officer how she determined that the (b)(4) was a reasonable cost. The contracting officer stated that NSRWA PMO personnel made the determination and that a memorandum for the record was being developed to document how the (b)(4) was approved. She further stated that the memorandum would be signed by the NSRWA Project Manager rather than the contracting officer. When we requested the documentation showing the analysis that the NSRWA PMO personnel performed to support their price reasonableness determination, she stated that she did not think that they had documented the analysis and she was unable to provide the documentation. The contracting officer did not review the price reasonableness analysis that was performed by the NSRWA PMO or perform a separate analysis to determine price reasonableness. However, on March 5, 2012, the ACC-Redstone contracting officer provided two memoranda discussing NSRWA's analysis of the (b)(4) regarding REA 005.

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[21] Although the contracting officer relabeled the REAs as cost growths, we will refer to them in our report as costs associated with the (b)(4) REAs.

~~(FOUO)~~ The memoranda, signed by the NSRWA Chief, Business Division, and the ACC-Redstone contracting officer stated that NSRWA PMO personnel reviewed the cost elements within REA 005 to determine whether the costs had merit. The NSRWA memorandum stated that Northrop Grumman and (b)(4) held meetings the week of October 19, 2011, to resolve issues with the claim and determine what Northrop Grumman and (b)(4) found to be reasonable. The memoranda further stated that Northrop Grumman submitted the summary of their negotiations on, November 29, 2011. The memoranda stated that NSRWA analyzed the summary of negotiations from Northrop Grumman as well as the cost elements that could not be agreed to by Northrop Grumman and (b)(4) during their negotiations. NSRWA determined that some of those cost elements had merit as they related to the proposed cost growth. However, the memoranda did not include any supporting documentation to show how NSRWA determined that the costs had merit. Further, FAR 31.201, "General," requires that prices be reasonable, allowable, and allocable, not whether costs have merit.

~~(FOUO)~~ Further, the contracting officer sent a letter to Northrop Grumman on December 21, 2011, when we first questioned the cost, directing them to make an immediate payment of (b)(4) to (b)(4) and to notify her when the payment was made. Northrop Grumman did not submit invoices that contained additional costs of (b)(4) at that time. The Office of the Deputy Assistant Secretary of Defense for Counternarcotics and Global Threats subsequently requested that the direction to Northrop Grumman be rescinded because that office had previously instructed the NSRWA PMO that it would not approve any further counternarcotics funds sent to (b)(4) On December 22, 2011, the ACC-Redstone contracting officer rescinded her letter. *Therefore, the Deputy Assistant Secretary of the Army for Procurement, Office of Assistant Secretary of the Army for Acquisition, Logistics, and Technology should conduct a review of the performance of the contracting officers at the U.S. Army Contracting Command, who oversaw the management of task orders W9113M-07-D-0007-0021 and W9113M-07-D-0007-0035 and initiate administrative action, as appropriate.*

No Basis for Payment of Costs Associated With (b)(4) Requests for Equitable Adjustment

~~(FOUO)~~ Based on the documentation provided by (b)(4) and the contracting officer, we see no basis for the U.S. Government to pay the additional requested costs to (b)(4). The REAs included costs that are normally considered the cost of doing business and incorporated into the company's general and administrative rate. For example, REA 005 included labor costs associated with preparing for and attending of periodic meetings and the costs of preparing letters and communications with Northrop Grumman, (b)(4), and DoD. A review of these costs showed that they included labor costs for the (b)(4) . The yearly salaries for these positions vary between (b)(4). Even if some of these labor categories were allowed as direct costs, these labor rates were not reasonable. For example, compared to General Services Administration contracts for accounting services, (b)(4)

~~(FOUO)~~ (b)(4) in Russia or Lithuania is higher than the rates charged in the United States by accounting firm Partners at (b)(4) *Before payment is made on these claims, the ACC-Redstone Head of Contracting Activity should ensure that the contracting officer has performed proper analyses to determine that all claimed costs are reasonable, allowable, and allocable.*

Indications of Criminal Activity

According to Generally Accepted Government Auditing Standard 6.31, "Additional Government Auditing Standards," auditors must assess the risk of fraud and evaluate all information obtained during the audit to determine whether there are indications of criminal activity present. During this audit, we concluded that indications of criminal activity were present. Therefore, the DoD Deputy Inspector General for Audit prepared and sent referrals for investigation to the Deputy Inspector General for Investigations. The Deputy Inspector General for Investigations opened an investigation based on the information received.

Reduction or Suspension of Contract Payments

The FAR contains many provisions to reduce or suspend payments to a contractor when criminal activity is involved in the performance of a contract. FAR Section 32.006, "Reduction or Suspension of Contract Payments upon Finding of Fraud," states that an Agency Head may reduce or suspend payments to a contractor when substantial evidence exists that fraud has occurred. FAR Subpart 3.7, "Voiding and Rescinding Contracts," states that the Government can void or rescind contracts when an Agency Head determines that there is a preponderance of evidence that a contractor has been involved in bribery, conflict of interest, disclosure or receipt of contractor bid or proposal information or source selection information in exchange for a thing of value, or similar misconduct. *Until ongoing investigations are complete and a determination has been made as to whether criminal activity has occurred in connection with these contracts, no payment should be made on the costs associated with the* (b)(4) *REAs.*

Another NSRWA PMO Prime Contractor Continued to Subcontract With (b)(4)

~~(FOUO)~~ NSRWA PMO's prime contractor, Science and Engineering Services, Inc., continued to subcontract with (b)(4) for Mi-17 overhaul work to support DoD. On September 28, 2010, contract W58RGZ-09-D-0130, task order 102, managed by NSRWA PMO was awarded to Science and Engineering Services, Inc. under a single-award, IDIQ contract. Later, in April 2011, a contract modification added overhauls for five Pakistani Mi-17s. We confirmed with NSRWA PMO and contracting personnel that (b)(4) is the subcontractor for this task order and will perform the overhaul effort. *The Assistant Secretary of the Army (Acquisition, Logistics, and Technology) should conduct a review of the NSRWA PMO to determine whether NSRWA PMO personnel have acted in accordance with the FAR 3.101-1, "Standards of Conduct," requiring them to conduct Government business with* (b)(4) *"in a manner above reproach and, except as authorized by statue or regulation, with complete impartiality and with preferential treatment for none."*

Review Contractor Actions for Potential Suspension and Debarment

The U.S. Army has the authority to debar or suspend subcontractors. Specifically, FAR Subpart 9.4, "Debarment, Suspension, and Ineligibility," allows for debarment for willfully failing to perform in accordance with the terms of a contract and if there is any cause so serious or compelling in nature that it affects the present responsibility of the contractor or subcontractor. Furthermore, FAR 9.406-2, "Causes for Debarment," states that

> The debarring official may debar-
> (b)(1) A contractor,[22] based upon a preponderance of the evidence, for any of the following—
> (i) Violation of the terms of a Government contract or subcontract so serious as to justify debarment, such as—
> Willful failure to perform in accordance with the terms of one or more contracts; or
> A history of failure to perform, or of unsatisfactory performance of, one or more contracts.

(b)(4) officials did not perform in accordance with the terms of its U.S. Government subcontract when they denied DoD, Northrop Grumman, and (b)(4) quality assurance personnel access into its repair facility to perform contract oversight and when they insisted on purchasing and installing replacement parts when not contractually authorized. Further, according to FSMTC, (b)(4) violated Russian law by shipping (b)(4) military variants of the Mi-17 aircraft into Russia. *Therefore, the Director, Soldier and Family Legal Services, Office of the Judge Advocate General, U.S. Army, as the Army Suspension and Debarment Official, in consultation with and/or assistance of the Chief, Procurement Fraud Branch, U.S. Army Legal Services Agency, based on the results of this report and any ongoing investigations, should consider whether suspension or debarment is warranted for* (b)(4) *and its affiliates in accordance with FAR subpart 9.4.*

Conclusion

The CAMO contracting officer, in coordination with the CNTPO and NSRWA CORs, must improve contract management and oversight to better safeguard the interests of the United States in its contractual relationships. Specifically, the contracting officer and CORs should monitor the compliance of the contractors and subcontractors with their contractual obligations and take appropriate corrective actions when needed. Furthermore, the contracting officer and program management personnel should exercise care to avoid interfering with the privity of contract between prime and subcontractors.

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[22] FAR 9.403, "Definitions," defines contractor as any individual or other legal entity that directly or indirectly (e.g., through an affiliate), submits offers for or is awarded, or reasonably may be expected to submit offers for or be awarded, a Government contract, including a contract for carriage under Government or commercial bills of lading or a subcontract under a Government contract.

Management Comments on the Finding and Our Response

The Army Acquisition Executive, Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) provided comments on the draft report. The Program Executive Officer, Aviation, and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, provided nearly identical comments on Finding A. A summary of management comments on the finding, together with our response, is in Appendix F.

Recommendations, Management Comments, and Our Response

Redirected, Renumbered, Revised, and Added Recommendations

As a result of comments from the Commander, U.S. Army Legal Services Agency, as well as subsequent conversations with the Chief, Procurement Fraud Branch, U.S. Army Legal Services Agency, we redirected draft report Recommendation A.1 to both the Army Suspension and Debarment Official (the Director, Soldier and Family Legal Services), and the Chief, Procurement Fraud Branch, U.S. Army Legal Services Agency, to determine whether suspension or debarment is warranted for (b)(4) and all affiliates.

Recommendations A.3 and A.4 were directed to U.S. ACC-Redstone. However, the Program Executive Officer, Aviation, and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, provided comments that were nearly identical. Therefore, we considered the Executive Deputy's comments as the official comments for Recommendations A.3 and A.4 as the U.S. ACC-Redstone falls within the U.S. Army Materiel Command direct chain of command.

After reviewing comments from the Program Executive Officer, Aviation, we renumbered, revised, and redirected draft Recommendation A.5.a to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology to better reflect the intent of the draft report recommendations. As a result, we renumbered Recommendation A.5.a as A.5 and A.5.b as A.6. We also revised draft Recommendation A.5.b (now A.6) and added Recommendation A.7 because the Program Executive Officer, Aviation's response indicated a widespread misunderstanding of regulations.

~~(FOUO)~~ Based on updated information regarding the unsanctioned parts found in the (b)(4) Pakistani aircraft, we added Recommendation A.8 for the NSRWA PMO Project Manager.

The comments from the Program Executive Officer, Aviation, and Executive Deputy were extensive. Therefore, we did not reprint the attachments to the comments, but they are available upon request.

A.1. We recommend that the Director, Soldier and Family Legal Services, Office of the Judge Advocate General, U.S. Army, as the Army Suspension and Debarment Official, in consultation with and/or assistance of the Chief, Procurement Fraud Branch, U.S. Army Legal Services Agency, based on the results of this report and any ongoing investigations, consider whether suspension or debarment is warranted for (b)(4) [redacted]. and (b)(4) [redacted] and all affiliates.

Commander, U.S. Army Legal Services Agency Comments

The Commander, U.S. Army Legal Services Agency, partially agreed. She stated that the Army's designated Suspension and Debarment Official is the Director, Soldier and Family Legal Services and recommended that we substitute "Army" in place of "Commander, U.S. Army Legal Services Agency" in Recommendation A.1, and in the Review Contractor Actions for Potential Suspension and Debarment and the Results in Brief sections of the report. The Commander added that the U.S. Army Legal Services Agency, Procurement Fraud Branch, would review all evidence of fraud or other evidence indicating a lack of contractor responsibility as investigations became available for review.

Our Response

Comments from the Commander, U.S. Army Legal Services Agency, were partially responsive. As a result of her comments, as well as subsequent conversations with the Chief, Procurement Fraud Branch, U.S. Army Legal Services Agency, (the point of contact listed in the Commander's response), we redirected Recommendation A.1 to both the Army Suspension and Debarment Official (the Director, Soldier and Family Legal Services), and the Chief, Procurement Fraud Branch, and amended the report accordingly. However, we believe that regardless of the results of the ongoing investigations, our report contains enough information to initiate consideration for suspension or debarment. Therefore, we request that the Chief, Procurement Fraud Branch, U.S. Army Legal Services Agency, provide comments on the final report.

A.2. We recommend that the Deputy Assistant Secretary of the Army (Procurement), Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology):

a. Review the performance of the contracting officers at the U.S. Army Space and Missile Defense Command, Contracting and Acquisition Management Office, who oversaw the management of task orders W9113M-07-D-0007-0021 and W9113M-07-D-0007-0035. The contracting officers continued to obligate DoD for additional costs for the (b)(4) Mi-17 aircraft overhaul efforts, allowing excessive parts markup, and did not determine fair and reasonable prices for (b)(4) [redacted] in task order modifications [Finding B]. Based on that review, initiate administrative action as appropriate.

Deputy Assistant Secretary of the Army (Procurement) Comments

The Deputy Assistant Secretary of the Army (Procurement) agreed, stating that his office would task the Commanding General, U.S. ACC, to conduct a review of the performance of the contracting officers at the U.S. Army CAMO, who oversaw the management of task orders W9113M-07-D-0007-0021 and W9113M-07-D-0007-0035, to include identification of administrative action as appropriate. U.S. ACC was to notify the Deputy Assistant Secretary of the Army (Procurement) of its intended review methodology and provide a copy of all report findings and corrective actions. The review was projected to take approximately 120 days after notification to complete.

b. Review the performance of the contracting officers at the U.S. Army Contracting Command-Redstone, Non-Standard Rotary Wing Aircraft Directorate, who oversaw the management of task orders W9113M-07-D-0007-0021 and W9113M-07-D-0007-0035. The contracting officers directed the prime contractor to make immediate payment to the subcontractor without determining whether claimed prices were reasonable. On the basis of that review, initiate administrative action as appropriate.

Deputy Assistant Secretary of the Army (Procurement) Comments

The Deputy Assistant Secretary of the Army (Procurement) agreed, stating that his office would task the Commanding General, U.S. ACC, to conduct a review of the performance of the contracting officers at the U.S. ACC-Redstone, NSRWA Directorate, who oversaw the management of task orders W9113M-07-D-0007-0021 and W9113M-07-D-0007-0035, to include identification of administrative action as appropriate. U.S. ACC was to notify the Deputy Assistant Secretary of the Army (Procurement) of its intended review methodology and provide a copy of all report findings and corrective actions. The review was projected to take approximately 120 days after notification to complete.

Our Response

The comments from the Deputy Assistant Secretary of the Army (Procurement) were responsive, and no further comments were required.

A.3. We recommend that the Head of the Contracting Activity, U.S. Army Contracting Command-Redstone, review analyses of all costs associated with the (b)(4) and (b)(4) requests for equitable adjustment to ensure that all costs are reasonable, allowable, and allocable before payment.

Executive Deputy to the Commanding General, U.S. Army Materiel Command Comments

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, responding on behalf of the Principal Assistant Responsible for Contracting, ACC-Redstone, agreed. The Executive Deputy stated that the Head of the Contracting

Activity, U.S. ACC-Redstone would review analyses of all costs associated with the (b)(4) [redacted], REA. The Head of the Contracting Activity, U.S. ACC-Redstone expected to receive analyses from Northrop Grumman and the contracting officer by October 31, 2012.

Our Response

The Executive Deputy's comments were responsive, and no further comments were required.

A.4. We recommend that the U.S. Army Contracting Command-Redstone Contracting Officer responsible for task orders W9113M-07-D-0007-0021 and W9113M-07-D-0007-0035 make no payments on additional costs associated with the (b)(4) [redacted] and (b)(4) [redacted] requests for equitable adjustment until:

a. all costs have been determined to be reasonable, allowable, and allocable, and the requisite analyses have been reviewed by the Head of the Contracting Activity in accordance with Recommendation A.3.

Executive Deputy to the Commanding General, U.S. Army Materiel Command Comments

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, responding on behalf the Principal Assistant Responsible for Contracting, ACC-Redstone, agreed. The Executive Deputy stated that there would be no additional payments on the cost growth associated with (b)(4) [redacted] until the contracting officer performs analyses on the cost growth to determine whether it was reasonable, allowable, and allocable. Further, the Executive Deputy stated that the contracting officer would provide the analysis to the Head of the Contracting Activity, U.S. ACC-Redstone, for review by October 31, 2012.

Our Response

The Executive Deputy's comments were responsive, and no further comments were required.

b. all investigations on actions related to these contract actions are complete and it has been determined whether criminal activity has occurred during the performance of the contract. No payment should be made for any contractor performance, directly or indirectly related to these contracts, that is deemed to be illegal.

Executive Deputy to the Commanding General, U.S. Army Materiel Command Comments

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, responding on behalf of the U.S. ACC-Redstone Contracting Officer, agreed. The Executive Deputy stated that there would be no additional payments on the cost growth

associated with (b)(4) [redacted] until the contracting officer was notified that all investigations were complete.

Our Response

The Executive Deputy's comments were responsive, and no further comments were required.

A.5. We recommend that the Assistant Secretary of the Army (Acquisition, Logistics and Technology) conduct a review of the Non-Standard Rotary Wing Aircraft Program Management Office to determine whether Non-Standard Rotary Wing Aircraft Program Management Office personnel have acted in accordance with the FAR 3.101-1, "Standards of Conduct," requiring them to conduct Government business with (b)(4) [redacted]. and (b)(4) [redacted] (b)(4) [redacted] "in a manner above reproach and, except as authorized by statute or regulation, with complete impartiality and with preferential treatment for none." As redirected, we request that the Assistant Secretary of the Army (Acquisition, Logistics and Technology) provide comments on the final report by October 29, 2012.

A.6. We recommend that the Program Executive Officer, Aviation, conduct training for contracting officer's representatives and program managers regarding the need to comply with contract and subcontract terms and conditions, the need to implement corrective measures when contractor performance is not compliant with the terms and conditions of contracts and subcontracts, and the need to both maintain privity of contract with prime contractors and to enforce inspection clauses, such as FAR 52.246, as well as other contract clauses that are either flowed down to subcontracts or substantively reiterated in subcontracts. As revised, we request that the Program Executive Officer, Aviation, provide comments on the final report by October 29, 2012.

Program Executive Officer, Aviation, Comments

The Program Executive Officer, Aviation, disagreed, stating that before assuming their duties in March 2011, the NSRWA PMO CORs received and maintained the required training to perform the responsibilities of their positions. Further, he stated that the U.S. Government has no privity of contract with subcontractors; therefore, CORs could not enforce actions at the subcontractor level. In addition, he stated that it was the prime contractor's responsibility to ensure subcontractor compliance. He also stated that Recommendation A.5.b (now recommendation A.6) contradicts the report's premise that the U.S. Government was more involved at the subcontractor level than it should have been.

Our Response

The comments of the Program Executive Officer, Aviation, were not responsive. We disagree with his statement that Recommendation A.5.b (now A.6), contradicts the report's premise that the U.S. Government was more involved at the subcontractor level than it should have been. It is clear from the actions taken by the CORs and the program

management personnel that they lack training in appropriately deciding which corrective measures to take according to contract and subcontract terms and conditions.

For task orders 0021 and 0035, the contracting officer delegated the acceptance duties to the CORs. The CORs' delegation letters stated that CORs would perform final inspection and acceptance of all work required under the task order. In addition, the delegation letters stated that the CORs would observe, monitor, and assess the contractor's performance as well as perform routine inspections of the contractor's work products and deliverables. The CORs were also to evaluate the overhaul work throughout the process and ensure that all work was completed in accordance with contract requirements. Therefore, the CORs did not fulfill their delegation letter responsibilities.

In addition, we realize that due to privity issues, the prime contractor must enforce the subcontractor's performance. However, the Government must support the prime contractor's efforts or a legal relationship will cease to exist among the Government, prime contractor, and subcontractors. In this instance, the NSRWA PMO attempted to work with the subcontractor rather than support the prime contractor's position that the subcontractor was not meeting the terms and conditions of the subcontracts. Accordingly, the NSRWA PMO's efforts contributed to the cost overruns and schedule delays reported. As a result, we request that the Program Executive Officer, Aviation, reconsider his position on the recommendation and provide comments on the final report.

A.7. We recommend that the Principal Assistant Responsible for Contracting, Army Contracting Command-Redstone, conduct training for contracting officers regarding the need to comply with contract and subcontract terms and conditions, the need to implement corrective measures when contractor performance is not compliant with the terms and conditions of contracts and subcontracts, and the need to both maintain privity of contract with prime contractors and to enforce inspection clauses, such as FAR 52.246, as well as other contract clauses that are either flowed down to subcontracts or substantively reiterated in subcontracts. We request that the Principal Assistant Responsible for Contracting, ACC-Redstone, provide comments on the final report by October 29, 2012.

A.8. We recommend that the Non-Standard Rotary Wing Aircraft Project Manager either ensure that the unsanctioned parts on aircraft (b)(4) [redacted] **are replaced or notify the Pakistani Air Force that the aircraft contain unsanctioned flight-critical parts and provide them with a list of unsanctioned parts per aircraft. We request that the Non-Standard Rotary Wing Aircraft Project Manager provide comments on the final report by October 29, 2012.**

Finding B. Task Order Modifications Awarded Without Determining Fair and Reasonable Prices

~~(FOUO)~~ The CAMO contracting officers did not adequately perform pricing and negotiation for contract modifications to task orders 0021 and 0035. Specifically, the CAMO contracting officers did not obtain cost and pricing data or perform cost analyses for the six of nine contract modifications that exceeded $650,000,[23] or adequately document required price reasonableness determinations. This occurred because the CAMO contracting officers did not follow the FAR requirements for obtaining cost and pricing data, performing cost analyses, and adequately documenting price reasonableness determinations. Additionally, the CAMO contracting officers accepted, without negotiation, the price of contractor proposals for seven of nine contract modifications that added work. As a result, the contracting officers did not adequately justify that the prices for [(b)(4)][4] in task order modifications for the overhaul of Mi-17 helicopters were fair and reasonable. In addition, the contracting officer approved [(b)(4)][25] to procure aircraft parts from [(b)(4)], a price that was [(b)(4)] than for the same set of parts bought from [(b)(4)], the authorized purchasing contractor. Further, contracting officers failed to negotiate any cost reductions for seven out of nine modifications.

Evaluating the Reasonableness of Contract Modification Prices

The FAR requires the use of price analyses and cost analyses depending on the cost of modifications and whether waivers have been authorized. FAR 15.404-1, "Proposal Analysis Techniques," states that the objective of proposal analyses is to ensure that the final agreed-to price is fair and reasonable. The contracting officer is responsible for evaluating the reasonableness of offered prices. Price analyses will be used when cost or pricing data are not required and should be used to verify that the overall price offered is fair and reasonable. Cost analyses will be used to evaluate the reasonableness of individual cost elements when cost or pricing data are required. FAR 15.403-4, "Requiring Cost or Pricing Data," states that cost and pricing data are required, unless an exception applies or a waiver is granted, for any modification expected to exceed $650,000 whether pricing data were initially required.

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[23] On October 1, 2010, the statutory threshold for obtaining cost and pricing data was increased to $700,000.
[24] The [(b)(4)] included costs for over and above work and repricing of options for the addition of new requirements on the contract.
[25] The amounts shown for the procurement of parts are different here than on page 13 of Finding A because this amount is based on a comparison of identical parts. The amount in Finding A is based on the total cost of parts procured for the overhauls. This is discussed further on page 34.

Contracting Officers Did Not Obtain Cost and Pricing Data or Perform Cost Analyses

The CAMO contracting officers did not obtain cost and pricing data or perform cost analyses, as required by the FAR, for six modifications that exceeded the $650,000[26] threshold and totaled approximately (b)(4). The approximate (b)(4) added without a price reasonableness determination included costs for over and above work and new requirements that resulted in repricing contract options. Table 4 provides details about the modifications that lacked price reasonableness determinations.

~~(FOUO)~~ Table 4. Modifications Lacked Price Reasonableness Determinations

Task Order/ Modification	Total Value Added	Value Added With Price Reasonableness Determination	Value Added Without Price Reasonableness Determination
0021/03	(b)(4)	$ (b)(4)	
0021/05			(b)(4)
0021/09			
0021/12			
0021/14			
0021/15		(b)(4)	
0021/17			
Subtotal			(b)(4)
0035/01			
0035/02			
Subtotal			
Total		(b)(4)	

FAR 15.404-1 states that the contracting officer is responsible for evaluating the reasonableness of offered prices. Cost analyses are used to evaluate the reasonableness of individual cost elements when cost or pricing data are required. FAR 15.403-4, "Requiring Cost or Pricing Data," states that cost and pricing data are required, unless an exception applies or a waiver is granted, for any modification expected to exceed $650,000 whether pricing data were initially required. No exceptions were cited or waivers included in the contract files for the six modifications that were greater than $650,000. Accordingly, the contracting officers should have requested cost and pricing

The contracting officers did not obtain cost and pricing data or perform a cost analysis.

[26] On October 1, 2010, the statutory threshold for obtaining cost and pricing data was increased to $700,000. Task order 0021, modifications 0005 and 0009 and task order 0035, modifications 0001 and 0002 were awarded before October 1, 2010. Task order 0021, modifications 0012 and 0014 were awarded after October 1, 2010.

data and performed cost analyses but they did not. When we asked CAMO personnel on multiple occasions if there were any waivers granted and why cost and pricing data were not obtained for modifications that exceeded $650,000, CAMO personnel were unable to provide the information requested.

~~(FOUO)~~ For example, the contracting officer issued task order 0021, modification 0005, to add approximately $24.3 million for over and above work[27] in the base year and option year 1. Of the $24.3 million, (b)(4) was for materials. The contracting officer incorrectly used price analysis to evaluate the (b)(4) for materials on the modification. Because the amount for materials was above $650,000, the contracting officer was required by the FAR to obtain cost and pricing data and use cost analysis to determine price reasonableness. In addition, the contracting officer did not adequately document the price reasonableness analysis of the remaining (b)(4) for task order 0021, modification 0005. Details on the lack of price reasonableness determinations for the other five modifications greater than $650,000 are discussed in Appendix E. *Therefore, the Executive Director, Aviation and Missile Life Cycle Management Command/SMDC, ACC, should provide training to contract officials working on the CNTPO contract on obtaining cost and pricing data and using cost or price analysis as appropriate and establish controls to verify that the contracting officers obtain cost and pricing data for modifications expected to exceed $700,000 and perform cost or price analyses in accordance with FAR 15.4.*

> *~~(FOUO)~~ The contracting officer did not document the price reasonableness analysis on the remaining (b)(4) for task order 0021, modification 0005.*

Cost and pricing data have been historically difficult to obtain for contracts with foreign subcontractors, as discussed in the Government Accountability Office (GAO) report, GAO-11-641, "Evolved Expendable Launch Vehicle," September 15, 2011. In response to one of GAO's recommendations, DoD officials stated that in some cases, it is impractical to obtain certified cost and pricing data. For example, it is not likely that the prime contractor or DoD could obtain certified cost or pricing data for Atlas V RD-180 engines, which were purchased from a Russian company.

However, the contracting officer can pursue other avenues to determine fair and reasonable prices even with foreign subcontracts. The FAR and the Defense Federal Acquisition Regulation Supplement establish procedures for contracting officers to follow when the reasonableness of prices cannot be determined. In this regard, we did not find evidence in the contracting files that the contracting officers followed these procedures. Additionally, DoD Procedures, Guidance, and Information 215.404-2, "Information to Support Proposal Analysis," states that contracting officers should consider requesting field pricing assistance for cost-type proposals (b)(4). To fulfill this requirement, the Defense Contract Management Agency is hiring 300 new cost and price analysts to meet the expected demand for cost and pricing assistance. In addition, in response to DoDIG

[27] ~~(FOUO)~~ The over and above work for the base year was (b)(4). The over and above work for option year 1 was (b)(4).

Report No. D-2011-104, "Pricing and Escalation Issues Weaken the Effectiveness of the Army Contract With Sikorsky to Support the Corpus Christi Army Depot," September 8, 2011, the Deputy to the Commanding General, Army Aviation and Missile Life Cycle Management Command, stated that the ACC-Redstone Arsenal established a new directorate of cost and price analysts. Accordingly, *the Executive Director, Aviation and Missile Life Cycle Management Command/SMDC, ACC, should implement a process to use the ACC-Redstone Arsenal directorate of cost/price analysts and Defense Contract Management Agency pricing analysts to assist in fair and reasonable price determinations for all contracts related to Mi-17 aircraft.*

Price Reasonableness Determinations

The FAR requires price reasonableness determinations to be documented. Specifically,

- FAR Section 4.802, "Contract Files," states that a contract file should consist of the basis for the acquisition, the award, and any subsequent actions taken by the contracting office.
- FAR Section 4.803, "Contents of Contract Files," states that records normally contained in the contract file include cost or pricing data and certificates of current cost or pricing data or a required justification for waiver and cost or price analysis.
- FAR Subsection 15.406-3, "Documenting the Negotiation," states that the contracting officer must document the principal elements of the negotiated agreement in the contract file to include the fair and reasonable pricing determination.

~~(FOUO)~~ The CAMO contracting officers did not adequately document price reasonableness determinations. For example, the contracting officer added $6.2 million for over and above work on task order 0021, modification 0012, for (b)(4) Pakistan Mi-17 aircraft without determining price reasonableness. The contracting officer prepared a memorandum stating that the purpose of the modification was to provide funding for the over and above costs as contained in the contractor proposal. Additionally, for task order 0035, modification 0002, the contracting officer added $8.3 million for over and above work for (b)(4) U.S. Mi-17 aircraft without determining price reasonableness. The contracting officer's determination memorandum stated that the repair cost was attributed to a dispute between Northrop Grumman's (b)(4) subcontractors. The contracting officer's determination memorandum also stated that the contracting officer decided that the actual costs incurred were fair and reasonable; however, the contract file did not include supporting documentation for making the price reasonableness determination. Furthermore, there was no support for actual costs incurred because the contracting officer did not obtain cost or pricing data. *The Executive Director, Aviation and Missile Life Cycle Management Command/SMDC, ACC should provide training on documenting fair and reasonable price determinations to contract officials working on the CNTPO contract*

~~(FOUO)~~ The contracting officer added $6.2 million for over and above work on task order 0021, modification 0012, for (b)(4) Pakistan Mi-17 aircraft without determining price reasonableness.

and establish controls to verify that the contracting officers document their fair and reasonable price determinations in accordance with FAR Subpart 15.4.

Contractor Proposals Accepted Without Negotiations

~~(FOUO)~~ The CAMO contracting officers accepted the cost in contractor proposals for seven of nine modifications that added work without negotiation, as shown in Table 5. FAR 15.405, "Price Negotiation," states that the purpose of performing cost or price analyses is to develop a negotiation position that permits the contracting officer and the offeror an opportunity to reach agreement on a fair and reasonable price. FAR 15.406-3 states the contracting officer must document the principal elements of the negotiated agreement in the contract file, including an explanation of any significant differences between the two positions. In seven of nine modifications that added additional cost to task orders 0021 and 0035, the contracting officers accepted the contractor's price as proposed. As a result, the contracting officers did not obtain any cost-savings through negotiation. Specifically, the contracting officer added $91 million on task orders 0021 and 0035 without negotiation as shown in Table 5.

~~(FOUO)~~ Table 5. Task Order 0021 and 0035 Modifications Without Negotiation

Task Order/ Modification*	Work Added With Negotiation	Work Added Without Negotiation
0021/05		$24,280,326
0021/09		4,487,437
0021/12		6,150,701
0021/14		9,249,261
0021/15		619,785
0021/17	$617,121	
0035/01		37,897,718
0035/02		8,319,596
Total	**$617,121**	**$91,004,824**

*Task order 0021, modification 0003, did not require negotiation. Therefore, it is not listed in this table.

For example, for task order 0021, modification 0014, the technical evaluation stated that the proposed labor amount was considered too high for the effort required. Specifically, the contracting officer's representatives stated that they thought that the amount of management proposed by the contractor added no value to the work. In addition, the technical evaluation stated that the contractor may have inadvertently double charged for overhaul insurance and computer usage. The contracting officer prepared a memorandum for record that stated that additional information provided by the contractor resolved the questions, and the proposal was accepted as submitted. However, the contracting officer did not document in the contract file the rationale and support for the price reasonableness determination with the clarifications and additional information provided by the contractor for the cost increase.

In another example, on task order 0035, modification 01, the COR determined that the number of personnel proposed to travel by the contractor was too many and recommended to the contracting officer that she negotiate the requirement for travel to include [redacted]. However, the contract file contained no indication that a negotiation occurred or that the contracting officer resolved the issue because the exact dollar amount proposed by the contractor was awarded on the contract.

Without adequate cost or price analyses or negotiations to verify that contractor-proposed prices were reasonable, contracting officers cannot ensure that the final prices for contract modifications were fair and reasonable in accordance with the FAR.

Figure 4. Mi-17 in Flight

[redacted]

Contracting Officers Paid More Than Fair and Reasonable Prices For Parts

~~(FOUO)~~ The CAMO contracting officers approved [redacted] to procure aircraft parts from [redacted], at a price that was [redacted] than the same set of parts bought from [redacted], the authorized purchasing contractor. [redacted] purchased new parts for overhauls under task orders 0021 and 0035 for [redacted]. [redacted] rejected the [redacted] parts and purchased the same parts for [redacted]. Table 6 provides a comparison of the two sets of parts. The contracting officer had both contractors' prices available for the parts buy; however, the contracting officer agreed to [redacted] prices that were significantly higher than [redacted] Therefore, the contracting officer approved payment of [redacted] more than could be considered fair and reasonable. The contracting officer did not document why the price difference was acceptable or whether she considered the costs reasonable. We asked the CAMO contracting officers on multiple occasions for the

~~(FOUO)~~ contracting officers' price reasonableness determination documentation for the [redacted] parts. CAMO contracting officers were unable to provide the documentation requested.

~~(FOUO)~~ Table 6. Price Difference on Second Set of Parts Authorized

Aircraft Tail Number	[redacted] New Parts Cost	[redacted] Set of Replacement Parts Cost	Total Cost Difference	Percent Difference
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Total				

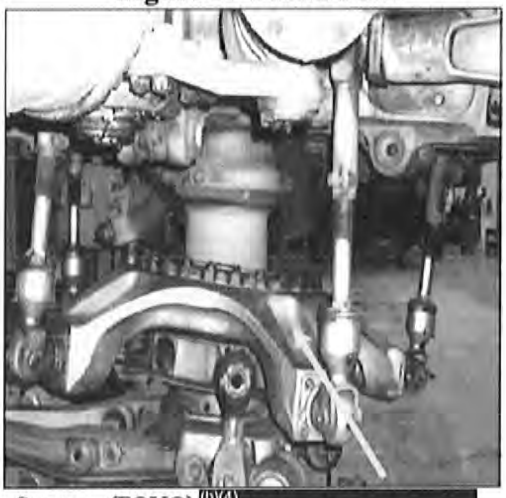
*The dollar amounts listed include only the [redacted] and [redacted] parts we were able to match by name and item number; they do not include the total parts purchased.

~~(FOUO)~~ We further compared the prices of a selection of individual parts purchased under task order 0035 to analyze the differences in price between the [redacted] and [redacted] parts. The cost of individual parts purchased by [redacted] varied by as much as 76 percent less to 495 percent more than the identical new parts initially purchased by [redacted] on the task order. Approximately 70 percent of the parts purchased from [redacted] for aircraft [redacted] were more expensive than the same new part purchased by [redacted] for the same aircraft. Table 7 provides details on a sample of those parts. Figures 5 and 6 depict two of the parts.

~~(FOUO)~~ Table 7. Sample of Parts for Tail Number (b)(4) [redacted]

Part	(b)(4) [redacted] New Parts Price	(b)(4) [redacted] Parts Price	Pricing Difference	Percent Difference
Storage Battery	(b)(4) [redacted]	(b)(4) [redacted]	(b)(4) [redacted]	(b)(4) [redacted]
Air Speed Indicator				
Electronic Unit				
Swash Plate				
Gyro Horizon				
Wheel				
Engine				
Temperature Bulb				
Landing Light				

Figure 5. Swash Plate



Source: ~~(FOUO)~~ (b)(4) [redacted]

Figure 6. Gyro Horizon

Source: ~~(FOUO)~~ (b)(4) [redacted]

Conclusion

The CAMO contracting officers have opportunities to improve their compliance with the FAR. Specifically, CAMO contracting officers need to obtain cost and pricing data and perform cost analyses for modifications that exceed $700,000. In addition, the CAMO contracting officers need to document in the contracting file decisions on price reasonableness determinations. In the future, CAMO contracting officers need to negotiate as required the prices for contract modifications instead of relying on the contractor and accepting the amount proposed and putting it on contract. The contracting officers did not obtain cost and pricing data or perform cost analyses and generally accepted contractor proposals without negotiation; therefore, the prices for (b)(4) [redacted] in task order modifications for the overhaul of Mi-17 helicopters that were added without a price

reasonableness determination cannot be supported as being fair and reasonable. *Recommendation A.2 requests the Deputy Assistant Secretary of the Army for Procurement, Office of Assistant Secretary of the Army (Acquisition, Logistics, and Technology), to perform a review of the performance of the contracting officers for not determining fair and reasonable prices for these task orders.*

Management Comments on the Finding and Our Response

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, and the Program Executive Officer, Aviation, provided comments on Finding B. Summaries of management comments on the Finding and our response are in Appendix G.

Recommendations, Management Comments, and Our Response

B. We recommend that the Executive Director, Aviation and Missile Life Cycle Management Command/Army Space and Missile Defense Command, Army Contracting Command:

1. Implement a process to use the Army Contracting Command-Redstone Arsenal directorate of cost/price analysts and the Defense Contract Management Agency pricing analysts to assist in fair and reasonable price determinations for all contracts related to Mi-17 aircraft.

Executive Deputy to the Commanding General, U.S. Army Materiel Command, Comments

The Executive Deputy to the Commanding General, U.S. Army Materiel Command responding on behalf of the Principal Assistant Responsible for Contracting, ACC-Redstone, agreed. He stated that during the past year, ACC-Redstone placed emphasis on restoring their cost and price analysis capability. He also stated that U.S. Army Materiel Command would provide a standard operating procedure regarding using the newly established pricing organization by June 15, 2012, and further stated that contracting specialists and contracting officers would use DCMA and the ACC-Redstone Pricing Directorate as directed or needed. In addition, he stated that contracting specialists would use field pricing support and audit assistance as needed and commensurate with the task at hand.

Our Response

The Executive Deputy's comments were responsive, and no further comments were required.

2. Provide training to contract officials working on the Counter Narcoterrorism Technology Program Office contract for the requirements listed in Recommendation B.3.

Executive Deputy to the Commanding General, U.S. Army Materiel Command, Comments

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, responding on behalf of the Principal Assistant Responsible for Contracting, ACC-Redstone, partially agreed. He stated that the actions cited in the report did not include actions for which contracting officers should have obtained certified cost or pricing data and conducted cost analysis; however, he agreed that additional cost and price analysis training is required. Further, he stated that classes have been and would continue to be conducted for both interns and journeyman-level contract specialists.

Our Response

The Executive Deputy's comments were partially responsive. Although we commend ACC-Redstone's efforts in training interns and journeyman-level contract specialists, the contract specialists and contracting officers at all levels of experience who work on the Counter Narcoterrorism Technology Program Office contract should be provided with the refresher training.

We disagree with the Executive Deputy's comments that our report did not include actions for which contracting officers should have obtained certified cost or pricing data and conducted cost analysis. Most notably, the contracting officers approved approximately (b)(4) in task order modifications without obtaining cost or pricing data or conducting costs analysis as required by FAR 15.403-4(a)(1)(iii) which states that certified cost or pricing data must be obtained for contract modifications over the $700,000 threshold ($650,00 at the time), regardless of whether cost or pricing data were initially required. Although the Executive Deputy cited the FAR 15.403-1(c)(1)(iii) adequate price competition exception in his comments on Finding B, we determined this exception did not apply to the modifications since the price competition occurred only when the task orders were initially awarded.

We reviewed each modification under task orders 0021 and 0035 to determine whether added costs were for over and above work. We determined that costs added to the task orders for over and above work required the submission of cost or pricing data because the specific requirements to complete over and above work were not known when the task order was awarded and the costs could not have been determined to be reasonable by the competition of the initial task order. Therefore, the FAR Subpart 15.403 1, "Prohibition on Obtaining Cost or Pricing Data," exception for adequate price competition did not apply.

We also determined that price adjustments to the task order's options required the submission of cost or pricing data because although the price adjustments were in the scope of the task order, the adjustments included costs for new requirements not covered by the competition of the initial task order. Therefore, the FAR subpart 15.403 1 exception for adequate price competition did not apply. The contracting officer was required to obtain cost or pricing data for modifications that added over and above work and price adjustments to the task order options that exceeded the FAR required cost or pricing data threshold.

The contracting officer should have obtained cost and pricing data and conducted cost analysis for the modifications exceeding the cost or pricing data threshold. Therefore, we request that the Principal Assistant Responsible for Contracting, ACC-Redstone, provide additional comments on this recommendation by October 29, 2012.

3. Establish controls to verify that the contracting officers:

a. Use cost or price analyses appropriately in accordance with Federal Acquisition Regulation 15.404-1, "Proposal Analysis Techniques."

b. Obtain cost and pricing data for modifications expected to exceed $700,000, as required by Federal Acquisition Regulation 15.4, "Contract Pricing."

c. Document fair and reasonable price determinations in accordance with Federal Acquisition Regulation 15.406-3, "Documenting the Negotiation."

Executive Deputy to the Commanding General, U.S. Army Materiel Command, Comments

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, responding on behalf of the Principal Assistant Responsible for Contracting, ACC-Redstone, agreed. He stated that a policy and compliance guide would be distributed by July 31, 2012, across ACC-Redstone, reminding all personnel of the importance of conducting the appropriate level of analysis and ensuring that evaluation documentation was sufficiently comprehensive to support the determination that a fair and reasonable price was obtained.

Our Response

The Executive Deputy's comments were partially responsive. Although distributing guidance reminding all personnel of the importance of conducting the appropriate level of analysis and ensuring the price reasonableness determination was adequately documented is a proactive first step, the distribution of such guidance does not constitute the establishment of controls to verify that the contracting officers use cost or price analyses, obtain cost and pricing data, and document fair and reasonable price determinations in accordance with the FAR. We request that the Principal Assistant Responsible for Contracting, ACC-Redstone, establish controls, such as periodic evaluations of ongoing procurements, to determine whether contracting officers award contract modifications in accordance with FAR guidelines. Further, we request that the Principal Assistant Responsible for Contracting, ACC-Redstone, provide additional comments by October 29, 2012.

Appendix A. Scope and Methodology

We conducted this performance audit from March 2011 through July 2012 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.

We conducted interviews and gathered documentation for task orders W9113M-07-D-0007-0021, task order 0021, and W9113M-07-D-0007-0035, task order 0035. We downloaded the task orders and modifications from the Electronic Document Access Web site. We retrieved the contract file documents from CAMO and the COR files at CNTPO. We reviewed the task orders and contract file documentation to determine whether the contracting officer adequately determined price reasonableness for the work and whether the CNTPO and NSRWA officials conducted adequate oversight and management of the task orders.

We based the aircraft overhaul costs in Finding A on the costs proposed by Northrop Grumman that were then put on contract in task orders 0021 and 0035 and modifications to those task orders. We did not review the invoices to determine the actual basic overhaul costs paid per aircraft.

We did review invoices provided by Northrop Grumman to determine that both sets of parts purchased by (b)(4) and (b)(4) were paid for. In addition, we reviewed invoices provided by Northrop Grumman to determine the additional costs incurred by (b)(4) for additional transportation costs.

We based the dollar values added without price reasonableness determinations in Finding B on the costs proposed by Northrop Grumman and put on contract for task orders 0021 and 0035 and modifications to those task orders. We reviewed each modification to determine whether costs were added for over and above work or price adjustments were made to the options for task orders 0021 and 0035. We determined that costs added through modifications for over and above work required the submission of cost or pricing data because over and above work was not covered by the initial task order competition as that work was not yet determined. We also determined that the price adjustments to the task orders' options through modifications required the submission of cost or pricing data because although the price adjustments were in the scope of the task order, they included costs for new requirements that were not covered by the initial task order competition. We did not question whether the dollar values for the options that were exercised as originally proposed required the submission of cost or pricing data. We only evaluated the costs for over and above work and price adjustments to the options for task orders 0021 and 0035.

We visited CNTPO PMO in Dahlgren, Virginia; Naval Air Systems Command in Patuxent River, Maryland; NSRWA PMO in Huntsville, Alabama; and CAMO in Huntsville,

Alabama, to gather background information and contract files. We reviewed the documents for compliance with the FAR and Defense Federal Acquisition Regulation Supplement. We obtained permission from the Department of State, Special Representative for Afghanistan and Pakistan, to reference the U.S. Secretary of State action request memo.

We also met with contracting officers, contracting officer's representatives, contracting officer's technical representatives, and management officials at the sites visited. We met with the prime contractor and subcontractor, who requested entrance conferences. We also reviewed information presented in a meeting with the legal representative of the (b)(4) subcontractor.

During the audit, we identified questionable transactions that we referred to the Defense Criminal Investigative Service.

Use of Computer-Processed Data

We relied on computer-processed data from Electronic Document Access Web site and Mechanization of Contract Administration Services disbursement history.

Electronic Document Access is a web-based system that provides secure on-line access, storage, and retrieval of contracts and contract modifications to authorized users throughout DoD. We retrieved documents from Electronic Document Access Web site to determine the approximate value of the task orders under the CNTPO contract. We compared the modifications obtained from Electronic Document Access Web site with those in the hardcopy contract file at the contract office. As a result of our analysis, we are confident that data collected from the Electronic Document Access Web site were sufficiently reliable for the purpose of determining the approximate value of the task orders under the CNTPO contract. Specifically,

We reviewed the Mechanization of Contract Administration Services disbursement history reports that we received from Defense Contract Management Agency Administrative Contracting Officers, which show the detailed obligation and disbursement transactions on the contract. We compared the contract line item number values on the task orders and modifications to the Mechanization of Contract Administration Services disbursement history. As a result of our analysis, we are confident that data collected from the Mechanization of Contract Administration Services disbursement history report were sufficiently reliable for determining the amounts paid on the contract.

Use of Technical Assistance

We received technical assistance from a technical analyst from the DoD IG branch of the Technical Analysis and Coordination Cell to analyze the NSRWA Program Management Office's helicopter acceptance checklist and the Mi-17 Helicopter Maintenance Test Flight Procedures Manual. The technical analyst reviewed the NSRWA Aircraft Inspection Guide to determine whether the guide provides a standardized process, guidance, and assistance to the technical inspectors to determine the overall readiness of the Mi-17 aircraft.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the Department of Defense Office of the Inspector General (DoD IG) have issued four reports regarding CNTPO. GAO reports can be accessed at http://www.gao.gov/ . Unrestricted DoD IG reports can be accessed at http://www.dodig.mil/audit/reports.

GAO

GAO Report GAO-11-641, "Evolved Expendable Launch Vehicle," September 15, 2011

DoD IG

DoD IG Report No. DODIG-2012-036, "DoD Needs to Improve Accountability and Identify Costs and Requirements for Non-Standard Rotary Wing Aircraft," January 5, 2012

DoD IG Report No. D-2012-006, "Counter Narcoterrorism Technology Program Office Task Orders Had Excess Fees, and the Army Was Incorrectly Billed," November 1, 2011

DoD IG Report No. D-2009-109, "Contracts Supporting the DoD Counter Narcoterrorism Technology Program Office," September 25, 2009

~~(FOUO)~~ Appendix B. 1,500-Hour Overhaul Process

The events and work accomplished during a 1,500-hour overhaul of the airframe and components of an Mi-17 helicopter include the following:

- Dismantle the helicopter-airframe, engine, and spare parts;
- Remove the aircraft paint;
- Check the technical documentation and control of the technical life and condition of the airframe, engine, and all the parts of the helicopter;
- Overhaul the airframe, including transmission and rotor, oil, and fuel systems;
- Overhaul the dismantled spare parts;
- Perform tinworks on the spare parts including substitution of rubber sealing on electrical and radio equipment and on the shock absorbers;
- Repair and replace pipes;
- Replace rotten filters, holders, and outlets;
- Replace brake ropes and system of control by foot;
- Replace ropes fixing the engine covers and reducer ropes;
- Replace hoist ropes and engine shut cock;
- Repair the emplane doors, covers, and their control systems, including:
    - New upholstered wall linings,
    - New thermal insulation of pipes and hoses,
    - Repair of the curtains for the blind flight, and
    - New linen covers and aggregates covers for all airframe parts and electrical and radio equipment;
- Repair the following land equipment according to its technical condition:
    - Flare gun covers EKSR -46,
    - Protecting cover RIO-3,
    - Engine outlet pipe covers,
    - Fan input covers,
    - Input pipe cover AI-9V,
    - Ladder and passenger steps,
    - Suspension bar for caring rotor blade,
    - Anchoring belts, and
    - Chassis wheels trigs;
- Repair the following aggregates:
    - AK-50T-1 compressor,
    - TC3-117 MT engine,
    - VR -14 main reducer,
    - Blades of 8AT-27 100-00 caring rotor, and
    - AI-9 V engine; and
- Replace the following covers and sheets:
    - Anchoring belts for caring rotor blades,
    - Caring rotor blades covers,

- Lining cover for the pilot cockpit,
- Cover for caring rotor head,
- Cover of the reducer head,
- Covers for reducer blades,
- Covers for dust protector,
- Covers for Pitot pipe, and
- Hoist cover.

~~(FOUO)~~ Appendix C. Mi-17 Overhaul Costs

Aircraft Tail Number[1]	Basic Overhaul Costs[2]	Unquestioned Additional Costs[3]	Parts (b)(4)	Questionable Additional Costs[5]	Total	Request for Equitable Adjustment[6]	Total
(b)(4)	(b)(4)	(b)(4)	(b)(4)	(b)(4)	(b)(4)	(b)(4)	(b)(4)
Total[7]	$37,730,892	$10,092,367			$64,246,543		

[1] Tail numbers (b)(4) correspond to the (b)(4) aircraft overhauled under task order 0021. Tail numbers (b)(4) correspond to the (b)(4) aircraft overhauled under task order 0035.

[2] (b)(4)

[3] Consists of the over and above costs of parts purchased by (b)(4) and Service Life Reduction Program parts provided by (b)(4)

[4] Consists of the over and above costs of parts purchased by (b)(4) and by (b)(4) for the same effort.

[5] Consist of inspection of aircraft by a joint U.S. Government, Northrop Grumman, (b)(4) inspection team, extended insurance coverage of aircraft, demilitarization cost for tail number (b)(4), and additional transportation cost.

[6] Requested by (b)(4) but not yet approved by contracting officer. Equitable adjustments consist of additional costs that (b)(4) claims it incurred due to contract delays. The additional costs generally consist of costs for additional meetings and other correspondence, labor and transportation, interest on delayed payments, production suspension, and additional maintenance, preservation, and storage. We divided the costs equally among the aircraft for the equitable adjustments for subcontracts between (b)(4) and (b)(4) -CNTPO-003, (b)(4) -CNTPO-004, and (b)(4) -CNTPO-005.

[7] Total amounts are not exact due to rounding.

Appendix D. Actual Timeline of the 10 Mi-17 Overhauls

(~~FOUO~~) According to Northrop Grumman's proposal, the overhaul for each Mi-17 should have taken 6 months to complete. However, the [redacted] Pakistani aircraft took at least 12 months longer to complete than initially projected and the [redacted] DoD owned aircraft took 20 months longer to complete than initially projected.

September 8, 2009 – Aircraft [redacted] (Pakistan) arrived at the [redacted] facility in Saint Petersburg, Russia.

October 8, 2009 – The original equipment manufacturer (Kazan Helicopters) identified aircraft tail numbers [redacted] as military variants for the Mi-17 aircraft.

October 16, 2009 – Aircraft [redacted] arrived at the [redacted] facility in Saint Petersburg, Russia.

October 27, 2009 – [redacted] stated that they sent a letter to [redacted] with the list of parts that needed replacement for aircraft [redacted]. [redacted] offered to supply the replacement parts.

November 9, 2009 – Aircraft [redacted] (Pakistan) arrived at the [redacted] facility in Saint Petersburg, Russia.

November 23, 2009 – [redacted] sent a letter to [redacted] requesting that a quality control specialist be given access to the [redacted] Saint Petersburg, Russia, facility.

December 2, 2009 – [redacted] responds to [redacted] letter by stating that by virtue of Russian law, they cannot allow [redacted] inspectors to visit the Saint Petersburg facility.

December 4, 2009 – [redacted] sent a letter to [redacted] stating that the overhaul of the helicopters [redacted] (Pakistan) was suspended because [redacted] did not provide replacement parts.

December 6, 2009 – [redacted] notified [redacted] that they would not provide the replacement parts until [redacted] complied with their contract by allowing [redacted] quality control specialists access to the [redacted] facility to review the defective parts. [redacted] personnel also asked [redacted] to stipulate the Russian law that prohibited them access to their facility and to explain why such restrictions were not communicated to them during contract negotiations.

January 11, 2010 – (~~FOUO~~) Northrop Grumman Monthly Progress Report for December 2009 addressed to CAMO contracting officer stated that [redacted] personnel had denied [redacted] inspectors access to their overhaul facility.

January 19, 2010 – (~~FOUO~~) the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[AT&L]) issued an Acquisition Decision Memorandum directing the Army to establish a Non-Standard Rotary Wing Aircraft (NSRWA) PMO.

February 8, 2010 – [redacted] sent a letter to [redacted] requesting U.S. Government, Northrop Grumman, and [redacted] representatives' access to their Saint Petersburg facility on February 17-18, 2010.

February 10, 2010 – (~~FOUO~~) Northrop Grumman Monthly Progress Report for January 2010 addressed to CAMO contracting officer stated that [redacted] has continued to deny [redacted] inspectors access to the overhaul facility.

February 17, 2010 – CNTPO, Northrop Grumman, and [redacted] personnel were denied access to the [redacted] Saint Petersburg, Russia facility.

March 1, 2010 – Northrop Grumman sent a letter to [redacted] stating that until [redacted] quality control specialists and the U.S. Government are allowed access to the overhauled aircraft, Northrop Grumman cannot allow [redacted] to provide the requested parts to [redacted]. Additionally, Northrop Grumman requested that [redacted], Northrop Grumman, and U.S. Government have unrestricted access to the [redacted] aircraft and that work on the aircraft resume.

March 9, 2010 – CNTPO personnel and Northrop Grumman were allowed to enter the [redacted] facility to meet with the owner to discuss the denial of access issue. However, following the meeting, [redacted] management still refused to allow any Northrop Grumman or [redacted] quality assurance personnel free and unfettered access.

March 10, 2010 – (~~FOUO~~) Northrop Grumman Monthly Progress Report for February 2010 addressed to CAMO contracting officer stated that [redacted] denied Northrop Grumman and U.S. representative access to their facility even though three separate notices had been sent to [redacted] up to 6 weeks before the visit.

March 11, 2010 – CNTPO personnel, Northrop Grumman, and [redacted] representatives met at the [redacted] facility in Saint Petersburg, Russia, and were escorted by [redacted] management personnel to the Moscow airport where the aircraft were located. [redacted] personnel allowed them to unwrap [redacted] of the aircraft (tail numbers: [redacted]), but refused to allow them to look at [redacted] aircraft. CNTPO personnel verified serial numbers, condition, and preservation of the [redacted] aircraft they were allowed to view. CNTPO personnel, Northrop Grumman, and [redacted] representatives departed the [redacted] facility immediately after viewing the aircraft.

April 8, 2010 – CNTPO personnel and Northrop Grumman representatives were allowed to enter the [redacted] facility in Saint Petersburg, Russia, to meet with the owner who stated he "no longer wanted to deal with [redacted] in any capacity" and wanted to deal directly with Northrop Grumman.

April 10, 2010 – Northrop Grumman sent a letter to [redacted] stating that the U.S. Government has not authorized the purchase of over and above parts for the [redacted] aircraft. In addition, they stated that [redacted] should conduct business with [redacted] and not copy U.S. Government personnel on any correspondence.

April 12, 2010 – [redacted] sent a letter to [redacted] stating that [redacted] is not allowed to provide parts "at risk"; only [redacted] will provide the parts for the over and above work.

April 23, 2010 – [redacted] sent a letter to Northrop Grumman stating that [redacted] parts are the cause of the delays. As such, [redacted] offers to provide their own parts "at risk" to get the overhauls completed as quickly and cost effectively as possible.

April 30, 2010 – [redacted] sent a letter to [redacted] stating that they will provide the spare parts to [redacted] and reminded [redacted] of their contract breach by prohibiting [redacted] quality assurance personnel access to the overhaul facility.

May 12, 2010 – Northrop Grumman sent a letter to [redacted] stating any continued work with the overhaul of any of the [redacted] Mi-17 aircraft located at [redacted] under [redacted] contract without the specific approval of [redacted] is considered a breach of contract. The letter also stated that such actions would be at [redacted] risk and not reimbursable under U.S. Government regulations.

June 18, 2010 – CNTPO COR sent an e-mail to NSRWA PM, CNTPO PM, and CAMO contracting officer stating that [redacted] officials now believe they will be the sole source the U.S. Government will use for overhauls of Mi-17s and are now refusing to deal with Northrop Grumman and will deal only with NSRWA office.

Spring 2010 – [redacted] purchased replacement parts identified by [redacted].

July 1, 2010 - NSRWA PMO charter was established.

July 23, 2010 – Northrop Grumman sent a letter to the contracting officer, which stated that [redacted] was under the impression that they could circumvent Northrop Grumman's authority and deal directly with the U.S. Government. According to the letter, this could have been a result from a visit by the U.S. Government to [redacted] facility without the prime contractor. In order to correct [redacted] misperception in leadership, Northrop Grumman requested both CNTPO and PM NSRWA send a letter to [redacted] clarifying that only Northrop Grumman has the authority to direct and pay for completion of the subject overhauls. The letter further stated that failure to comply with that direction will result in the U.S. Government's loss of faith in [redacted] for future overhauls.

July 28, 2010 – The contracting officer writes a letter to whom it may concern stating that the U.S. Government entered into a contract with Northrop Grumman to overhaul Mi-17s and that Northrop Grumman subcontracted with [redacted] and [redacted]. The contracting officer stated that the U.S. Government is holding Northrop Grumman accountable for the aircraft overhauls and that direction to the subcontractors must be provided by Northrop Grumman and [redacted], not from the U.S. Government.

July 29, 2010 – The contracting officer sent a Letter of Concern to Northrop Grumman emphasizing Northrop Grumman's responsibility in this contract and the importance of timely completion of the aircraft.

July-September 2010 – Heavy rains caused catastrophic flooding in Pakistan.

August 2, 2010 – [redacted] sent a letter to [redacted] stating [redacted] is still in full breach of their contract by purposely failing to admit [redacted] quality control specialists into the facility. The letter stated that [redacted] has refused to clarify or address why it cannot comply with its contract clause. It further stated that [redacted] assertion that it is against Russian law for [redacted] quality control specialists to be in the [redacted] overhaul facility has been completely refuted by the Russian governmental aviation agencies and that [redacted] has been granted access into other Russian overhaul facilities.

August 6, 2010 – ~~(FOUO)~~ [redacted] sent a letter to the contracting officer stating that the delays were caused by [redacted] not providing the required parts. [redacted] informed the contracting officer that they have the parts required to finish the overhauls, but [redacted] told [redacted] to use only parts provided by [redacted]. [redacted] stated that they will include the contracting officer in future updates on the issue.

August 12, 2010 – The contracting officer sent a letter to (b)(4) stating that the U.S. Government is holding Northrop Grumman accountable for the quality and completion of the work under the contract. The contracting officer requests (b)(4) provide access to Northrop Grumman, (b)(4), and U.S. Government representatives to inspect the parts needed to be replaced and that (b)(4) continue to copy the U.S. Government on the correspondence.

August 20, 2010 – U.S. Secretary of State sent an action request message to the diplomatic and consular post at the U.S. Embassy Moscow stating that assistance was needed in Pakistan in the wake of the worst natural disaster in its history. Specifically, the Secretary of State told the Government of Russia that there was an immediate need for (b)(4) to complete the overhaul of the (b)(4) Pakistani Mi-17s located in Saint Petersburg, Russia.

August 24, 2010 – ~~(FOUO)~~ (b)(4) sent a letter to (b)(4) stating that (b)(4) (b)(4) will ask for U.S. Government involvement in all negotiations between and (b)(4).

August 24, 2010 – ~~(FOUO)~~ (b)(4) told the CAMO contracting officer that due to the schedule delays, it was better to use (b)(4) parts to finish the overhauls.

August 25, 2010 – CAMO contracting officer spoke with (b)(4) Chief Executive Officer about the revised parts quote that the (b)(4) Head of Export Department provided.

August 31, 2010 – CAMO contracting officer requested status report from (b)(4) Chief Executive Officer.

August 29-September 3, 2010 – NSRWA personnel made a trip to Moscow, Russia, to meet with industry officials regarding procurement, support, and services for Mi-17 helicopters.

September 2010 – ~~(FOUO)~~ (b)(4) refused the transfer of (b)(4) parts into their facility.

September 3, 2010 – CAMO contracting officer sends an e-mail to (b)(4) Chief Executive Officer asking where the aircraft are and when they will be in Lithuania for inspection and acceptance.

September 7, 2010 – CAMO contracting officer sent a teleconference follow-up e-mail to (b)(4) Chief Executive Officer stating that she appreciated talking to him regarding the status of the aircraft.

September 9, 2010 – CAMO contracting officer and CNTPO PM spoke with (b)(4) Chief Executive Officer about the status of the aircraft.

September 10, 2010 – CAMO contracting officer sent an e-mail to (b)(4) Chief Executive Officer stating that the U.S. Government's contract is with Northrop Grumman and all direction and guidance to (b)(4) (b)(4) will be made through Northrop Grumman and their subcontractor

September 20, 2010 – CNTPO and NSRWA PMO personnel meet in Lithuania with Northrop Grumman, [redacted], and [redacted] to discuss the current issues and get them resolved. During this meeting, the U.S. Government decides to purchase [redacted] set of parts.

September 22-25 2010 – NSRWA personnel reviewed and validated [redacted] parts.

October 19, 2010 - Russian oversight authorities determined that the log books provided by [redacted] to demonstrate that the aircraft [redacted] were civilian aircraft were not authentic and that the [redacted] U.S. aircraft were actually military variants.

October 20, 2010 – CNTPO PM e-mailed [redacted] Chief Executive Officer requesting a status update on the Russian Government's concerns with the authenticity of the log books for the [redacted] Mi-17 U.S. Government owned aircraft.

November 22, 2010 – [redacted] Chief Executive Officer sends e-mail to CNTPO PM providing update on contract addendums. CNTPO PM replies and states that funding had been applied and it is the U.S. Government's expectation that [redacted] will promptly execute the terms of the signed addendum.

December 20, 2010 – CNTPO PM e-mailed [redacted] Chief Executive Officer requesting a status update.

January 21, 2011 – CNTPO PM spoke to [redacted] Chief Executive Officer on the phone.

January 21, 2011 – CNTPO PM e-mailed [redacted] Chief Executive Officer requesting a status update.

January 23, 2011 – CAMO contracting officer e-mailed [redacted] Chief Executive Officer requesting a status update.

January 24, 2011 – NSRWA PM states that he is okay with proceeding with [redacted] parts.

January 24, 2011 – [redacted] responded to REA 005 on January 24, 2011, by stating that the REAs submitted by [redacted] were caused by [redacted] unethical and illegal activities. Specifically, [redacted] cited [redacted] importation of [redacted] DoD aircraft into Russia in violation of Russian law and [redacted] denial of access for [redacted] quality assurance specialist as being preventable and unnecessary.

January 26, 2011 – CNTPO COR asked to be removed from his duties as the COR.

January 27, 2011 – CNTPO COR again requested to be removed from his duties as the COR.

March 14, 2011 – CNTPO COR accepted Pakistani aircraft [redacted].

March 16, 2011 – COR responsibility for task orders 0021 and 0035 was transferred to NSRWA PMO.

April 5, 2011 - [redacted] addressed the additional costs claimed in REAs 003 and 004, stating that [redacted] REA should be denied because there was no change in contract terms in fact, and the actual cause of the asserted losses was [redacted] contract breaches.

April 29, 2011 – [redacted] reported [redacted] unsanctioned parts for aircraft [redacted].

May 25, 2011 – NSRWA COR accepted Pakistani aircraft [redacted].

June 1, 2011 – NSRWA COR accepted Pakistani aircraft [redacted].

June 21, 2011 – [redacted] reported [redacted] unsanctioned parts for aircraft [redacted].

July 15, 2011 – [redacted] signed a contract with Russian aviation authorities to properly demilitarize aircraft [redacted].

August 2, 2011 – [redacted] reports [redacted] unsanctioned parts for aircraft [redacted].

November 14, 2011 – NSRWA, Project Manager sent a letter to the [redacted] President stating that the U.S. Government was satisfied with the agreed-to payment terms for contracts 03, 04, and 05 and that partial payments would be made in November 2011 and final payments no later than December 2011.

December 5, 2011 – ~~(FOUO)~~ Northrop Grumman sent an email to ACC-Redstone, Contracting Office and NSRWA PMO stating that they have lowered [redacted] REA for subcontract 005 from [redacted]. Northrop Grumman stated that they have previously expressed their belief that no entitlement exists for these claims; however, it is the U.S. Government's determination to make.

December 5, 2011 - ACC-Redstone, contracting officer sent a letter to Northrop Grumman stating that the U.S. Government has evaluated the data submitted by Northrop Grumman to support the cost submitted by their subcontractor. Cost in the amount of [redacted] should be charged to contract W9113M-07-D-0007, task order 0035, TORP 0164. The letter requested this information be provided immediately to their subcontractor to ensure timely deliveries of aircraft [redacted].

December 6, 2011 - Northrop Grumman sent a letter to the Director of Contracts, U.S. ACC stating that a provisional payment of [redacted] for subcontracts 003 and 004 was wire transferred and accepted by [redacted] on November 25, 2011. The letter states that Northrop Grumman acted at the direction and approval of the U.S. Government since Northrop Grumman is neither endorsing [redacted] claim for adjusted costs nor making any determination as to the entitlement of any such additional amounts above their original fixed price contract.

December 8, 2011 – Aircraft [redacted] arrived at Huntsville, AL.

December 20, 2011 - Northrop Grumman sent a letter to [redacted] stating that they do not see a basis to pay [redacted] for the additional costs included in REA 005. However, the U.S. Government directed Northrop Grumman to submit [redacted] requests for adjusted pricing. Northrop Grumman stated it would comply as soon as Northrop Grumman has specific direction from the U.S. Government contracting officer to pay any additional funds to [redacted].

December 21, 2011 – ACC-Redstone contracting officer sent a letter to Northrop Grumman stating that [redacted] is entitled to [redacted] in response to their request for adjusted pricing submitted and the U.S. Government has found this amount to be reasonable. Hereby, the U.S. Government directed/authorized Northrop Grumman to pay [redacted] immediately and to notify the U.S. Government when payment was made.

December 22, 2011 - The Deputy Assistant Secretary of Defense-Counternarcotics and Global Threats sent an email to NSRWA PMO and ACC-Redstone Contracting Office stating that despite their repeated requests that no counternarcotics funds be transferred to [redacted] without their approval, a letter was sent on December 21, 2011,

directing Northrop Grumman to spend nearly (b)(4) [redacted] immediately. The Deputy Assistant Secretary of Defense-Counternarcotics and Global Threats asked that this letter be retracted immediately.

December 22, 2011 – ACC-Redstone contracting officer sent a letter to Northrop Grumman rescinding the December 21, 2011, letter to pay (b)(4) [redacted] immediately.

Appendix E. Analysis of Price Reasonableness for Modifications to Task Orders 0021 and 0035

FAR 15.404-1 states that the contracting officer is responsible for evaluating the reasonableness of offered prices. Cost analyses will be used to evaluate the reasonableness of individual cost elements when cost or pricing data are required. FAR 15.403-4, "Requiring Cost or Pricing Data," states that cost and pricing data are required, unless an exception applies or a waiver is granted, for any modification expected to exceed $650,000 whether pricing data were initially required.

Task Order 0021 – Modification 0005

~~(FOUO)~~ The contracting officer issued task order 0021, modification 0005, on September 12, 2009, to add approximately $24.3 million for over and above work in the base year (b)(4) and option year 1 (b)(4) Of the $24.3 million added to task order 0021, modification 0005, (b)(4) was for materials and (b)(4) was for labor, travel, other direct costs, and Defense Base Act insurance. The contracting officer documented in the price evaluation memorandums that the overall $24.3 million added was reasonable. The contracting officer incorrectly used price analysis to evaluate the (b)(4) for materials on the modification. The contracting officer was required to obtain cost and pricing data and use cost analysis to determine price reasonableness in accordance with the FAR. Therefore, the contracting officer inappropriately justified the price reasonableness determination based on using price analysis for the (b)(4) added to task order 0021for materials. The contracting officer also did not adequately document the price reasonableness analysis performed for the remaining (b)(4) for task order 0021, modification 0005 in the contract file. The contracting officer did not state what type of cost or price analysis was conducted to determine that (b)(4) for labor, travel, other direct costs and defense base act insurance was reasonable and did not document the analysis in the contract file as required by the FAR. Therefore, the contracting officer's price reasonableness determination for the $24.3 million added on task order 0021, modification 0005 was not supported and inadequate.

Task Order 0021 – Modification 0009

~~(FOUO)~~ The contracting officer issued task order 0021, modification 0009, on July 27, 2010, to incorporate over and above costs for option year 1 of $4.5 million. These over and above costs included (b)(4) for parts purchased by (b)(4) for the overhaul of (b)(4) Pakistani Mi-17 aircraft overhauled at (b)(4) Because the modification was more than $650,000, the contracting officer should have obtained cost and pricing data and used cost analysis to determine price reasonableness in accordance with the FAR. The memorandum for over and above work prepared by the contracting officer stated that Northrop Grumman's pricing was commensurate with the prices proposed on a separate requirement and were found to be reasonable. The contracting officer conducted a sampling of five parts between the two contracts. However, only two of those parts were

~~(FOUO)~~ on both of the proposals that the contracting officer compared, resulting in the contracting officer sampling only 2.2 percent of the $4.5 million proposed. Although comparison of previously proposed prices with current proposed prices for the same or similar items is a valid form of price analysis in accordance with FAR 15.404-1(b), the contracting officer sampled such a small portion of the proposed $4.5 million that the price reasonableness determination was not adequate. In addition, the contracting officer was required to obtain cost and pricing data and perform cost analysis in accordance with the FAR. Therefore, the price reasonableness determination for the $4.5 million added on task order 0021, modification 0009 was inadequate.

Task Order 0021 – Modification 0012

~~(FOUO)~~ The contracting officer issued task order 0021, modification 0012, on November 19, 2010, for over and above costs of $6.2 million for [redacted] Pakistan Mi-17 aircraft. These over and above costs included [redacted] for the duplicate set of parts purchased by [redacted] that had already been purchased by [redacted] as put on task order 0021, modification 0009. Because the modification was more than $650,000, the contracting officer should have obtained cost and pricing data and used cost analysis to determine price reasonableness in accordance with the FAR. A memorandum for record prepared by the contracting officer, on November 19, 2010, stated that Northrop Grumman requested authorization to proceed in completing the overhauls of the [redacted] Mi-17s, using [redacted] replacement parts. The memorandum stated that due to the urgency in expediting the return of the aircrafts, the U.S. Government was providing funding to accommodate the inspection of the aircrafts at the [redacted] overhaul facility. No documentation was in the contract file regarding the contracting officer's price reasonableness determination of the $6.2 million added on task order 0021, modification 0012.

Task Order 0021 – Modification 0014

~~(FOUO)~~ The contracting officer issued task order 0021, modification 0014, on February 1, 2011, for over and above work for [redacted] battle-damaged aircraft for [redacted]. Because the modification was more than $650,000, the contracting officer should have obtained cost and pricing data and used cost analyses to determine price reasonableness in accordance with the FAR. The contracting officer memorandum for record on over and above cost stated that Northrop Grumman's proposal was for costs incurred over the estimate provided in the original proposal due to over and above costs identified in the overhaul process of [redacted] Pakistan battle-damaged aircraft. The contracting officer's memorandum also stated that the battle-damaged aircraft had structural damage for which there was no historical comparison because the damages were not typically found in the 1,500-hour overhaul or the over and above work performed. Therefore, the actual cost incurred as provided by Northrop Grumman was accepted as fair and reasonable. However, the contracting officer did not request support to show that costs were actually incurred. Therefore, the price reasonableness determination for the [redacted] added on task order 0021, modification 0014 was inadequate.

Task Order 0035 – Modification 0001

(~~FOUO~~) The contracting officer issued task order 0035, modification 0001, on September 19, 2010, for over and above costs of the base year and contract options, and the mandated service life reduction requirement for a total of $37.9 million. These over and above costs included [redacted] for parts purchased by [redacted] for the overhaul of [redacted] DoD-owned Mi-17 aircraft overhauled at [redacted]. Because the modification was more than $650,000, the contracting officer should have obtained cost and pricing data and used cost analysis to determine price reasonableness in accordance with the FAR. The $37.9 million is composed of the following:

- Base Year: [redacted] and
- Options A, B, D, E, F, G, H, I, and J: [redacted].

Base Year

(~~FOUO~~) The assessment of Northrop Grumman's proposal prepared by the COR and contracting officer's technical representative stated that due to the U.S. Army's incorporation of the mandated Service Life Reduction program after the initial contract award, the evaluators found it impossible to compare Northrop Grumman's material cost to an Independent Government Cost Estimate. No documentation was in the contract file regarding the contracting officer's price reasonableness determination of the [redacted] added to the base year on task order 0035, modification 0001.

Options A, B, D, E, F, G, H, I, J

(~~FOUO~~) The COR and contracting officer's technical representative assessed the proposed price of Options A, B, D, E, F, G, H, I and J as part of the whole proposal. The proposal assessment stated that the labor costs were higher than the Independent Government Cost Estimate but were considered to be reasonable and realistic. However, the assessment did not state how evaluators determined the labor was reasonable. For travel, the assessment stated that travel could not be compared to an Independent Government Cost Estimate; however, the assessment did not state whether the price was reasonable. For Other Direct Costs (ODCs), the assessment stated that the ODCs were justified and necessary for the requirements; however, the assessment did not state whether the price was reasonable. For Defense Base Act insurance, the assessment did not state whether the price was reasonable, only that the Defense Base Act insurance was required. The contracting officer's justification letter stated that the option price was the lowest price obtainable and potential costs to the U.S. Government for disrupting the performance could result in higher prices than stated in the task order. The contract file contained no documentation regarding the contracting officer's price reasonableness determination of the [redacted] added to Options A, B, D, E, F, G, H, I and J on task order 0035, modification 0001, with the exception of materials added for [redacted].

(~~FOUO~~) The contracting officer's price analysis memorandum for modification 0001 included price analyses for over and above material costs. The contracting officer sampled 57 percent of the material cost proposed by comparing previously proposed prices with current proposed prices for the same or similar items in accordance with the FAR. However, the contracting officer was required to obtain cost and pricing data and perform

~~(FOUO)~~ cost analysis in accordance with the FAR. Therefore, the price reasonableness determination for the $37.9 million added on task order 0035, modification 0001, was inadequate.

Task Order 0035 – Modification 0002

~~(FOUO)~~ The contracting officer issued task order 0035, modification 0002, on September 30, 2010, for over and above costs of $8.3 million for (b)(4) U.S.-owned Mi-17 aircraft. These over and above costs included (b)(4) for the duplicate set of parts purchased by (b)(4) that had already been purchased by (b)(4) as put on task order 0035, modification 0001. Because the modification was more than $650,000, the contracting officer should have obtained cost and pricing data and used cost analyses to determine price reasonableness in accordance with the FAR. The contracting officer prepared a memorandum for over and above costs that stated that the proposed cost of $8.3 million was reasonable based on historical efforts. Specifically, the contracting officer compared the $8.3 million proposed to the prices that were proposed for task order 0021, modification 0009. FAR 15.404-1(b) states that the Government may use various price analysis techniques and procedures to ensure a fair and reasonable price including a comparison of previously proposed prices with current proposed prices for the same or similar items, if both the validity of the comparison and the reasonableness of the previous price(s) can be established. The contracting officer did not determine price reasonableness for task order 0021, modification 0009. See Appendix E, Task Order 0021 – Modification 0009 section. Additionally, the contracting officer's determination memorandum stated that the repair cost was attributable to a dispute between Northrop Grumman's (b)(4) subcontractors. The contracting officer's determination memorandum also stated that the contracting officer determined that the actual costs incurred were fair and reasonable; however, there was no basis for actual costs incurred because the contracting officer did not obtain cost or pricing data. Therefore, the price reasonableness determination for the $8.3 million added on task order 0035, modification 0002, was inadequate.

Appendix F. Management Comments on Finding A and Our Response

The Army Acquisition Executive, Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) provided comments on Finding A of the draft report. The Comments on Finding A from the Program Executive Officer, Aviation, and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, were extensive. Therefore, we did not reprint the attachments to the comments, but they are available upon request.

Army Acquisition Executive Comments on Finding A

The Army Acquisition Executive stated that she had concerns regarding the accuracy and conclusions set forth in our report. The concerns she stated were:

- a lack of validation of the dollar amounts presented in the report;
- the report's dismissal of line-by-line analysis by the Program Executive Officer, Aviation, analysis as not relevant;
- the report's narrow focus of a complex contract with (b)(4) aircraft overhauls with various subcontractors;
- the report's failure to address the prime contractor and first-tier subcontractor roles; and
- the report's omission of a significant incident in which another overhaul facility overhauled and certified a known counterfeit aircraft.

Additionally, the Army Acquisition Executive stated that recent developments might necessitate updating the report, including the following.

- The Army engaged directly with Northrop Grumman senior leadership to resolve contract issues. (b)(6)
- A recent (b)(4) Aviation Certification Center report, dated May 8, 2012, concluded that aircraft overhauled by (b)(4) contained no counterfeit parts; however, aircraft overhauled at the (b)(4) facility had over 133 counterfeit parts.
- (b)(4) provided an improper end-user certificate to Slovakian authorities for the import of (b)(4) Mi-17 aircraft without knowledge of the U.S. Government.
- Russian and Lithuanian customs verified that the aircraft imported by (b)(4) were imported properly as commercial aircraft.

Our Response

We addressed the Army Acquisition Executive's concerns regarding the report's accuracy and conclusions starting on page 60 in our responses to comments from the Program Executive Officer, Aviation.

Regarding the new developments with Northrop Grumman, we commend the Army's actions to resolve the issues in our report. However, as stated in the report, we determined that the contracting officer and CNTPO and NSRWA program management personnel circumvented Northrop Grumman, the prime contractor, and communicated directly with [redacted]. For example, on various dates from August 2010 through January 2011, CNTPO and CAMO officials telephoned [redacted] personnel directly and excluded Northrop Grumman personnel on various e-mail communications regarding updates and directions on the completion of the overhauls. Also, the NSRWA Program Manager stated that he communicated directly with [redacted] to facilitate the completion of the overhauls, including requesting information regarding status updates and other programmatic issues. As a result, Northrop Grumman and [redacted] had no control or leverage over [redacted] personnel, who continued to disregard their subcontractual commitments with Northrop Grumman and [redacted].

Before receiving the Army Acquisition Executive comments, we updated our report to reflect the [redacted] Aviation Certification Center report for aircraft [redacted] The aircraft overhauled at [redacted] were not in the scope of our audit. We also did not have [redacted] Aviation Certification Center reports that contain conclusions based on cumulative data. However, we did have four [redacted] reports that identify 70 unsanctioned parts in aircraft overhauled at the [redacted] facility.

Our preliminary review of the four reports showed more than 133 total discrepancies identified by [redacted] Those discrepancies included documentation issues and unsanctioned parts. We reported [redacted] unsanctioned parts identified in [redacted] Mi-17s overhauled at [redacted]; however, [redacted] identified at least 140 documentation issues for [redacted] of those aircraft; we were not provided the complete report for [redacted] of the aircraft. Also, [redacted] reviewed 85 flight-critical aircraft components for [redacted] Mi-17s in our report, but inspected more than 400 components on the aircraft overhauled by [redacted] In addition, the subcontracts between [redacted] and [redacted] included a pre-overhaul authenticity check of aircraft components as part of the overhauls for the [redacted] aircraft in our report.

Finally, not all [redacted] of the unsanctioned parts were replaced on the [redacted] Pakistani Mi-17s. We have added Recommendation A.7 to our final report recommending that Pakistan be notified about the unsanctioned parts that remain on their aircraft.

The fact that [redacted] provided an improper end-user certificate to Slovakian authorities for the import of [redacted] Mi-17 aircraft without knowledge of the U.S. Government was outside the scope of this audit.

We disagree with the Army Acquisition Executive's comments that Russian and Lithuanian customs verified that the aircraft imported by [redacted] were imported properly as commercial aircraft. [redacted] initially agreed with [redacted] to perform the overhauls of Mi-17s with tail numbers [redacted] in Lithuania, but by the end of October 2009, [redacted] decided to ship the Mi-17s to the [redacted] facilities in Russia.

The FSMTC sent a letter dated November 25, 2010, to the Deputy Assistant Secretary of Defense (Counternarcotics and Global Threats) stating that (b)(4) imported Mi-17s with tail numbers (b)(4) into Russia in violation of Russian law. Russian authorities required a demilitarization contract with (b)(4) to allow the release of (b)(4) aircraft from the Russian Federation. The Program Executive Officer, Aviation, provided attachments with documents that stated (b)(4) aircraft had weapons. However, three of the four documents provided by the Program Executive Officer, Aviation, and the Executive Deputy were dated before the Russian authorities canceled the import and export licenses because the aircraft were not properly demilitarized. The fourth document refers to the evaluation of aircraft (b)(4) after the demilitarization contract was signed. This fourth document concluded that (b)(4) and (b)(4) demilitarized (b)(4) in 2002. However, for aircraft (b)(4), we received an incomplete report that did not specify whether the aircraft had been previously demilitarized. The unplanned demilitarization of (b)(4) aircraft cost the U.S. Government (b)(4).

Program Executive Officer, Aviation and Executive Deputy to the Commanding General, U.S. Army Materiel Command Comments

Management Comments on Aircraft Acceptance

The Program Executive Officer, Aviation, and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, stated that the U.S. Government accepted the (b)(4) Mi-17s included in this report. They indicated that before accepting the (b)(4) aircraft, the subject-matter experts from NSRWA PMO and experts from Northrop Grumman performed a rigorous inspection and acceptance procedure in Lithuania to ensure airworthiness.[28] According to the Program Executive Officer, Aviation, and the Executive Deputy, based on recommendations from the CORs from CNTPO and NSRWA PMO, the contracting officer accepted the aircraft, and the Aviation Engineering Directorate provided a U.S. Army Airworthiness flight release in accordance with Army Regulation 70-62. The Program Executive Officer, Aviation, and the Executive Deputy also stated that the CORs performed their delegated quality assurance requirements. The Program Executive Officer, Aviation, added that throughout the report, the terms PMO and COR are used without context as to which PMO or COR we are referring, and requested clarity where a PMO and/or contract oversight was mentioned.

According to the Program Executive Officer, Aviation, and the Executive Deputy, FAR 46.405 "Subcontracts," states that the prime contractor is responsible for accomplishing its quality control responsibilities over its subcontractors. They added that CORs do not control access to subcontractor facilities and do not determine visit eligibility for subcontractor personnel. In addition, they stated that subcontracts do not commit the U.S. Government to subcontracted agreements.

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[28] For report purposes, the terms flight worthiness and airworthiness are interchangeable.

Our Response

As stated in our report on pages 10 and 17, the Government accepted the [redacted] Mi-17s after the overhauls. Furthermore, Table 3 on page 17 shows the months it took for the completion of the overhauls, 18 to 26 months. In addition, we reported that NSRWA PMO performed a final acceptance check. However, the lack of the CORs' quality assurance during the overhauls had a direct, negative impact on the flight worthiness of [redacted] Mi-17 aircraft as [redacted] subsequently found unsanctioned parts that affected the flight worthiness of the aircraft on [redacted] Mi-17s. The NSRWA PMO acceptance procedure was not effective to identify the unsanctioned parts found by [redacted]

The Program Executive Officer, Aviation, and the Executive Deputy did not take into account that Northrop Grumman's planned surveillance approach included having [redacted] quality assurance personnel onsite, full-time at the overhaul facility to monitor the overhaul process. In addition, Northrop Grumman implemented FAR- and DoD-required contract provisions for quality assurance and oversight of its subcontracts with [redacted] and [redacted] in the written terms and conditions of the subcontracts. Specifically, the subcontracts required [redacted] to provide [redacted] quality control specialists access to its overhaul facility to oversee the overhaul process. [redacted] denial of access prevented the in-process quality control measures from taking place.

Our report clearly stated on page 10 that the CORs accepted the aircraft without verifying whether they were overhauled in accordance with the contract quality requirements. The delegation letters stated that the COR would observe, monitor, and assess the contractor's performance as well as perform routine inspections of the contractor's work products and deliverables. Instead, the CORs relied on the final acceptance inspection because [redacted] denied access to Government personnel responsible for surveillance during the overhaul process. The report included the actions of both CNTPO and NSRWA PMO CORs; therefore, when we referred to CORs, we referred to officials from both program offices.

Regarding FAR 46.405, the regulation does not relieve the prime contractor from performing quality assurance over its subcontractors. FAR 46.405 also states that the Government is to perform quality assurance at the subcontract level under certain conditions. Additionally, FAR 46.405 requires the Government to be careful not to affect the contractual relationship between the prime and the subcontractor. As stated in the report, CAMO, CNTPO, and NSRWA PMO communicated directly with [redacted], which negatively affected the contractual relationship between the prime and the subcontractor.

Management Comments on Denial of Access

The Program Executive Officer, Aviation, stated that the report seems to be based on limited and incomplete criteria and/or documentation. He stated that there is no indication that the audit team used the information NSRWA PMO personnel provided during the audit team site visits and subsequent information requests. He and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, added that, for example, the reason why [redacted] denied access to the U.S. Government, Northrop Grumman, and

(b)(4) personnel was that they did not comply with contractually agreed-to requirements for "Foreign Visitors." They stated that the procedures included that authorized representatives of Northrop Grumman and (b)(4) provide signed nondisclosure statements and timely submit approved visit requests in accordance with (b)(4) visitation protocols. In addition, the Program Executive Officer, Aviation, and the Executive Deputy provided a letter from (b)(4) stating its reason for not providing unfettered access was in order to protect its intellectual property from (b)(4). The Program Executive Officer, Aviation, and the Executive Deputy indicated that U.S. Government representatives and Northrop Grumman representatives were given full access to the (b)(4) facility and all aircraft during various stages of the overhaul completion.

Our Response

Our audit examined documentation provided by CAMO, CNTPO, NSRWA PMO, Northrop Grumman, (b)(4), and (b)(4). Conversely, the comments provided by the Program Executive Officer, Aviation, and the Executive Deputy, are based on limited documentation. We evaluated the documentation provided during the audit and analyzed the chronological order of events. In compliance with Generally Accepted Government Auditing Standards, we also assessed the overall validity of the evidence. Regarding the denial of access, (b)(4) given reasons for denying access are contradictory. First, (b)(4) stated that proper visit requirements were not followed by Northrop Grumman, (b)(4), and DoD; later, (b)(4) claimed to be protecting its intellectual property from (b)(4). (b)(4) and Northrop Grumman asked (b)(4) for access to their facilities on three occasions. We determined that (b)(4) and Northrop Grumman complied with visitation requirements established in the subcontracts between (b)(4) and (b)(4) on two occasions, but (b)(4) did not grant them access to the overhaul facility. On a third occasion (b)(4) complied with the visitation requirements, except they submitted their request 10 days in advance rather than the required 15. Also, (b)(4) claimed that (b)(4) could steal the intellectual property but signed four contracts granting (b)(4) representatives access to the facilities to oversee the overhaul process. According to Northrop Grumman and (b)(4) officials, (b)(4) allowed (b)(4) representatives to oversee the overhaul of (b)(4) Mi-17s performed in 2009, before subcontracting for the (b)(4) aircraft included in this report. Therefore, (b)(4) officials had already overseen (b)(4) overhaul process for the (b)(4) Mi-17s sent to (b)(4), and they expected to provide the same oversight for the (b)(4) aircraft discussed in this report, but (b)(4) denied (b)(4) access to the facilities. Lastly, the Program Executive Officer, Aviation, and the Executive Deputy's statement that U.S. Government representatives and Northrop Grumman representatives were given full access to the (b)(4) facility, is not supported by the documentation provided by them and contradicts various interviews and documents obtained during the audit.

Management Comments on Privity of Contract

The Program Executive Officer, Aviation, and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, stated the contracting officer provided Northrop Grumman with a letter dated July 28, 2010, documenting the contractual relationship between the Government and Northrop Grumman. They stated the letter further indicated that direction to subcontractors and suppliers regarding the overhauls must be provided by

Northrop Grumman and not the Government. The Program Executive Officer, Aviation, and the Executive Deputy indicated that the U.S. Government's involvement was solely to facilitate resolution of disputes between parties in order to obtain release of the aircraft. The Program Executive Officer, Aviation, stated that NSRWA PMO had no direct contact with (b)(4) related to the subcontract with Northrop Grumman. He added that NSRWA PMO endeavored with all due diligence to support these requirements in the most proactive and comprehensive fashion that it could possibly achieve. He indicated that the vehement pursuit of this due diligence may have led to perceived privity issues. The Program Executive Officer, Aviation, stated that he acknowledged that this perception and endeavor may have led to the misperception of a breach of privity.

Our Response

Our report stated that the contracting officer generated the letter mentioned by the Program Executive Officer, Aviation, and the Executive Deputy. However, after issuing the letter the contracting officer, CNTPO, and NSRWA program management personnel circumvented Northrop Grumman, the prime contractor, and communicated directly with (b)(4), who continued to disregard its subcontractual commitments. See pages 6 and 7 of our report.

Management Comments on Duplicate Parts

The Program Executive Officer, Aviation, and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, stated that on September 20, 2010, Northrop Grumman, (b)(4), CNTPO, NSRWA PMO, and the Office of the Secretary of Defense met in Lithuania to discuss issues precluding the completion of the overhauls. The Program Executive Officer, Aviation, and the Executive Deputy stated that the U.S. Government stressed during the meeting that it was acting only as a facilitator, would not negotiate contract disputes between Northrop Grumman, (b)(4) and (b)(4), and would continue to hold Northrop Grumman accountable for completing its contractual obligations. During the meeting they discovered that (b)(4) had proactively installed parts on (b)(4) of the aircraft in an attempt to facilitate delivery. The Program Executive Officer, Aviation, and the Executive Deputy stated that (b)(4) had previously procured some of the same parts but recognized that it would be cost-prohibitive to uninstall the parts provided by (b)(4) and reinstall the (b)(4) parts. They added that the Government reviewed whether there was a need for the additional parts and determined that there were requirements for the parts.

Our Response

The Program Executive Officer, Aviation, and the Executive Deputy should have realized that proactively installing parts on (b)(4) aircraft was in direct violation of the subcontracts between (b)(4) and (b)(4). Also, they failed to address that the Government paid for duplicate parts for (b)(4) aircraft, not just the (b)(4) that (b)(4) had installed parts on as of the date of the meeting in Lithuania. Furthermore, the Program Executive Officer, Aviation, and the Executive Deputy did not address that (b)(4) parts were (b)(4) more expensive than (b)(4) parts, which were all new and which NSRWA personnel had inspected and approved for use (see report Table 6). The condition of

(b)(4) parts was unknown. Additionally, as the result of the meeting in Lithuania, (b)(4) completed the overhauls without in-process oversight, installed their parts in the (b)(4) Mi-17s, and submitted REAs for alleged costs of delay. Therefore, even though (b)(4) actions directly contributed to contract delays and cost increases, the Government agreed to (b)(4) demands so that DoD could regain the aircraft. Regarding the need for additional duplicate parts, in May 2012, 20 months after the meeting in Lithuania, the parts were still stored in (b)(4) warehouse in Holland without clear disposition instructions. Between late June and August 2012, Northrop Grumman and (b)(4) shipped the duplicate parts to Coleman Barracks in Mannheim, Germany and turned control over to the U.S. Government.

Management Comments on Unsanctioned Parts

The Program Executive Officer, Aviation, and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, stated that another key aspect of the meeting in Lithuania was a two-phase quality assurance approach for aircraft acceptance. They stated that the first phase was to conduct inspection of the overhauled aircraft and the second phase was to review the documentation of the installed parts to ensure the authenticity of the parts. The Program Executive Officer, Aviation, and the Executive Deputy also stated that Northrop Grumman acquired the services of (b)(4) to validate the parts' authenticity. The Program Executive Officer, Aviation, added that Northrop Grumman and (b)(4) quality assurance representatives would not have identified suspect parts if they had been allowed on site as they did not have direct access to the (b)(4) database. According to the Program Executive Officer, Aviation, and the Executive Deputy, (b)(4) (b)(4) did not find certain parts listed in its own database and concluded that these parts were suspect. They stated that (b)(4) unilaterally replaced all suspect parts with authenticated parts. The Program Executive Officer, Aviation, and the Executive Deputy added that the majority of the (b)(4) suspect parts were subsequently found to have been installed by the original equipment manufacturer during the production of the aircraft and that (b)(4) obtained documentation from the manufacturer to validate the parts' authenticity. Additionally, the Program Executive Officer, Aviation, stated that the use of the word "unauthentic" to describe the parts identified by (b)(4) is incorrect. He stated that the correct term should be "suspect."

Our Response

~~(FOUO)~~ Due to the lack of access to the (b)(4) overhaul facilities, (b)(4) subcontracted with (b)(4) to check the authenticity of 85 flight-critical components on each aircraft. The Program Executive Officer, Aviation, stated that Northrop Grumman and (b)(4) quality assurance representatives would not have identified suspect parts. However, according to the NSRWA PMO Project Manager, during the overhaul, (b)(4) was required to verify with the original equipment manufacturer the authenticity of flight-critical aircraft components. In addition, the contracts between (b)(4) and (b)(4) included a preoverhaul authenticity check of aircraft components as part of the overhauls. According to the (b)(4) reports, the (b)(4) parts identified as unsanctioned affected the aircraft Safety of Flight. The documentation provided by the Program Executive Officer, Aviation, and the Executive Deputy showed that (b)(4) replaced the unsanctioned parts for aircraft (b)(4) as a result of a

~~(FOUO)~~ warranty claim by [redacted] not unilaterally. However, according to [redacted] personnel, [redacted] did not replace the unsanctioned components found on aircraft [redacted] (see report page 12). The Program Executive Officer, Aviation, and the Executive Deputy did not provide documentation to support the statement that [redacted] obtained documentation from the manufacturer to validate the majority of the [redacted] parts authenticity. We agree to change the word "unauthentic" to "unsanctioned" as stated in the English version of the [redacted] reports.

Management Comments on Delayed Delivery

~~(FOUO)~~ The Program Executive Officer, Aviation, stated that the report failed to address the mismanagement by Northrop Grumman and [redacted] as the cause for the delays. According to the Program Executive Officer, Aviation, and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, Northrop Grumman's impasse with its subcontractors resulted in the delay of aircraft deliveries and adversely affected the Secretary of Defense's initiative to support rescue and recovery operations during the 2010 floods in Pakistan. Further, the Program Executive Officer, Aviation, stated that the report was incorrect in stating that the delays of aircraft [redacted] affected pilot training. The Program Executive Officer, Aviation, added that as of April 30, 2012, Ft. Rucker was not ready to accept any aircraft to support pilot training and was still developing the curriculum.

Our Response

Based on documentation provided by CAMO, CNTPO, NSRWA PMO, Northrop Grumman, [redacted], and [redacted] during the course of our audit, we concluded that [redacted] noncompliance with its subcontracts and the CAMO contracting officers' and program management personnel including CORs' inadequate oversight and management caused the delays and cost increases. According to U.S. Army Training and Doctrine Command personnel, the U.S. Army Training and Doctrine Command was told to be prepared to stand up training in August 2010. However, according to Fort Rucker officials, the 20-month delay of the aircraft caused the U.S. Army Aviation Center of Excellence to be unable to achieve initial operating capability until late FY 2012.

Management Comments on [redacted] Aircraft Importation

~~(FOUO)~~ The Program Executive Officer, Aviation, and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, stated that the report statement that [redacted] "imported military variants of the Mi-17 aircraft owned by DoD in violation of Russian law" implies specific documentation existed to substantiate that [redacted] purposely violated the law. They stated that the U.S. Government procured aircraft [redacted] as civilian Mi-17 aircraft and operated them for 6 years before providing them to Northrop Grumman for overhaul. According to the Program Executive Officer, Aviation, and the Executive Deputy, the aircraft logbooks and supplemental documentation stated that these aircraft were demilitarized, and based on that documentation, [redacted]. They added that after the importation, representatives from Northrop Grumman met with the Russian Government and questioned the military nature of aircraft [redacted]. The Program Executive Officer, Aviation, and the Executive Deputy stated that Northrop

~~(FOUO)~~ Grumman informed the U.S. Government that the Ministry of Defense of the Russian Federation would not allow the export of these aircraft until they were properly demilitarized. They stated that Northrop Grumman contracted with [redacted] to certify the demilitarization of the aircraft. The Program Executive Officer, Aviation, and the Executive Deputy added that the U.S. Government did sustain additional costs of [redacted] due to the demilitarization certification, but no physical aircraft demilitarization effort occurred, and that circumstances suggest the Government provided incremental funding attributable to actions initiated by Northrop Grumman that may have been unnecessary. He added that the contracting officer needs to determine whether these additional costs for [redacted] are allowable and allocable.

Our Response

~~(FOUO)~~ Our reports are written to state facts, not to imply. [redacted] initially agreed with [redacted] to perform the overhauls of Mi-17s with tail numbers [redacted] in Lithuania, but by the end of October 2009, [redacted] decided to ship the Mi-17s to the [redacted] facilities in Russia. The FSMTC sent a letter dated November 25, 2010, to the Deputy Assistant Secretary of Defense for Counternarcotics and Global Threats, stating that [redacted] imported Mi-17s with tail numbers [redacted], belonging to DoD, into Russia in violation of Russian law. The demilitarization contract with [redacted] was required by Russian authorities to allow the release of [redacted] aircraft from the Russian Federation. The Program Executive Officer, Aviation, and the Executive Deputy have not provided sufficient documentation to support the statement that no physical aircraft demilitarization effort occurred. However, the contract between [redacted] and [redacted] stated that the scope of work included the development of technical documentation for the helicopter demilitarization and the execution of the work in compliance with that documentation. As stated in the report, the unplanned demilitarization of [redacted] aircraft cost the U.S. Government [redacted]. The Program Executive Officer, Aviation, provided attachments with documents that stated [redacted] aircraft did not have weapons. However, three of the four documents provided by the Program Executive Officer, Aviation, and the Executive Deputy were dated before the Russian authorities canceled the import and export licenses because the aircraft were not properly demilitarized. The fourth document refers to the evaluation of aircraft [redacted] after the demilitarization contract was signed. This fourth document concluded that [redacted] and [redacted] demilitarized [redacted] in 2002. However, for aircraft [redacted], we received an incomplete report that did not specify whether the aircraft had been previously demilitarized. The U.S. Government paid [redacted] in order to demilitarize [redacted] aircraft.

We agree that the demilitarization costs and all other costs under task orders 0021 and 0035 should be reviewed to determine whether they were allowable and allocable. The demilitarization costs were a direct result of [redacted] noncompliance with its initial agreement with [redacted] to perform the overhauls in Lithuania.

Management Comments on Unnecessary Costs

~~(FOUO)~~ The Program Executive Officer, Aviation, and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, stated that the reported unnecessary costs of $16.8 million did not take into account costs associated with changes in requirements, that final negotiations were not complete, and that incurred costs audits would be executed as a normal course of business for a cost-type contract. Specifically, they stated that the report did not acknowledge that a portion of the additional costs were attributable to the Army's mandated Service Life Reduction Program imposed to mitigate aircraft safety risk. They added that the Service Life Reduction Program reduced the service life of 18 flight-critical components, requiring early replacements. According to them, the original requirement did not include the Service Life Reduction Program costs in the amount of (b)(4) [redacted]. They stated that those costs were added after task order award, when the Army levied the requirement.

Our Response

We reviewed our calculations and found that the Service Life Reduction Program applies to DoD-owned aircraft. Of the (b)(4) [redacted] aircraft reviewed in the report, (b)(4) [redacted] belonged to DoD, tail numbers (b)(4) [redacted]. We reviewed the list of parts required to meet the Service Life Reduction Program for (b)(4) [redacted]. We found that only (b)(4) [redacted] of those parts, totaling approximately (b)(4) [redacted], were purchased by (b)(4) [redacted] and not by (b)(4) [redacted]. Therefore, we agree that the purchase of those (b)(4) [redacted] parts should not be counted as an unnecessary cost resulting from (b)(4) [redacted] actions. As a result, we adjusted the unnecessary costs in the report from $16.8 million to $16.4 million.

Management Comments on Over and Above Work

According to the Program Executive Officer, Aviation, and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, the report failed to recognize that the cost growth was the result of over and above efforts that were identified once the aircraft was disassembled and assessed. They added that unknown costs associated with over and above efforts could only be added once they were clearly identified and determined to be in the Government's best interest. Also, they stated that the overhaul costs per aircraft listed in Table 2 and Appendix C of the report were inaccurate. They provided a spreadsheet that they claimed accurately depicted the incurred costs to-date as reported by Northrop Grumman on March 28, 2012.

Our Response

We recognized and noted in our report that it was common for overhauls to require additional over and above work not covered by the basic overhaul. We specifically called this out in the Table 2, "Unquestioned Additional Cost" column and Appendix C. We based the cost per aircraft on the amounts obligated to the task order through the original award and contract modifications. Our calculations for overhaul costs included the set of parts purchased by (b)(4) [redacted]. Although these parts were not installed on the aircraft, as of May 2012, they were stored in (b)(4) [redacted] warehouse in the Netherlands without clear disposition instructions. Between late June and August 2012, Northrop Grumman and (b)(4) [redacted] shipped the duplicate parts to Coleman Barracks in Mannheim, Germany and turned

control over to the U.S. Government. The spreadsheet provided by the Program Executive Officer, Aviation, and the Executive Deputy was not supported by documentation from Northrop Grumman to allow us to validate the spreadsheet amounts.

Management Comments on Report Scope

The Program Executive Officer, Aviation, and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, stated that the report concentrated on (b)(4) of the (b)(4) aircraft inducted for overhaul under task orders 0021 and 0035. The Program Executive Officer, Aviation, stated that focusing only on (b)(4) aircraft could lead the reader to the incorrect conclusion that all the costs of these task orders were associated with only the subset of aircraft described in the report. Also, he stated that the report did not address the fact that under task order 0021, Northrop Grumman delivered to the Government an aircraft overhauled at (b)(4) [redacted] that was later determined to be a counterfeit aircraft.

Our Response

~~(FOUO)~~ According to Generally Accepted Government Auditing Standards, the concept of "significance" assists auditors when deciding the type and extent of the audit work in developing the report and conclusions. The standards also state that professional judgment assists auditors when evaluating the significance of matters within the context of the audit objectives. During the audit, we identified significant issues with the aircraft overhauled by (b)(4) [redacted] and, based on professional judgment, focused on those issues. Under the background section we included the total value of task orders 0021 and 0035. However, the report Finding A clearly states the total cost of only the (b)(4) aircraft under review.

Regarding the counterfeit aircraft delivered to the Government, we began evaluating the relevant documentation as part of Project D2012-000AS-0075. However, preliminary reviews indicate that after the aircraft's initial inspection at the (b)(4) [redacted] overhaul facility, also called the induction phase, Northrop Grumman informed the Government that the airframe was counterfeit. The Government decided to seek an airframe recertification and service life extension from Russian authorities instead of providing Northrop Grumman a replacement aircraft for overhaul or authorizing Northrop Grumman to buy another airframe. Russian authorities granted a 2-year service life extension for the aircraft after completion of the overhaul and airframe recertification. In November 2010, CNTPO and NSRWA PMO personnel accepted the aircraft.

Management Comments on Overhaul Prices

~~(FOUO)~~ The Program Executive Officer, Aviation, and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, stated that the report suggested that the overhaul price from (b)(4) [redacted] was unreasonably high, but that our conclusion might be "misplaced" when considering the average cost per aircraft at each of the overhaul facilities employed. According to the Program Executive Officer, Aviation, and the Executive Deputy, the average cost per aircraft at four overhaul facilities employed by DoD was:

~~(FOUO)~~ [redacted] $5,140,154.48
$4,217,870.53
$4,450,095.87
$6,251,424.91

They added that a comparison of the average overhaul costs was not possible because the condition of each aircraft drove the total overhaul cost. However, the Program Executive Officer, Aviation, and the Executive Deputy stated that the information provided by Northrop Grumman on March 2012 did not indicate highly unreasonable costs from [redacted].

Our Response

~~(FOUO)~~ Our audit focused on reviewing [redacted] Mi-17s overhauled at [redacted] however, our report did not make any assumptions about the cost of [redacted] overhauls in comparison to the Mi-17 aircraft overhauled at other overhaul facilities. The overhauls at [redacted] cost $16.4 million more than necessary due to [redacted] actions and the Government intervention, and they could cost an additional [redacted] if the REAs are approved.

The Table provided by the Program Executive Officer, Aviation, and the Executive Deputy was not supported by documentation that would allow us to validate the amounts provided. However, it is important to note that the reason [redacted] exceeded the average overhaul cost charged by [redacted] was due to the inclusion of [redacted] battle-damaged Pakistani Mi-17s.

According to Office of Defense Representative Pakistan officials, aircraft [redacted], [redacted] suffered severe battle damage that required new cockpits in addition to the standard overhauls. We calculated that the average overhaul cost at [redacted] excluding the [redacted] battle damaged aircraft was [redacted]. Therefore, the average overhaul cost at [redacted], as calculated by the Program Executive Officer, Aviation, and the Executive Deputy was skewed by the high repair cost of the [redacted] battle-damaged aircraft. If these [redacted] battle-damaged aircraft were removed from the calculation, [redacted] average cost per aircraft was the highest among the four overhaul facilities, based on the costs provided by the Program Executive Officer, Aviation, and the Executive Deputy.

Management Comments on REAs

According to the Program Executive Officer, Aviation, and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, [redacted] REAs cannot be concluded as valid costs at this time. They added that the proposals submitted by Northrop Grumman were presented as REAs, but the data suggested the reimbursement requested was attributable to cost growth. The Program Executive Officer, Aviation, and the Executive Deputy stated that Northrop Grumman was performing a detailed analysis of the documentation and intended to negotiate an agreement with its subcontractors pursuant to the cost growth. They stated that the Government would review the negotiated cost growth and all analyses to determine the reasonableness of the cost growth.

Our Response

We agree with the Program Executive Officer, Aviation, and the Executive Deputy that (b)(4) REAs could not be concluded as valid costs at this time. Therefore, we recommended that the ACC-Redstone Contracting Officer not make the intended payments associated with the REAs until all costs have been determined to be reasonable, allowable, and allocable, and all investigations on actions related to these contract actions are complete. The NSRWA PMO and the ACC-Redstone Contracting Officer have been unable to provide their analysis supporting a determination of cost growth or whether the cost growth was allowable, allocable, and reasonable. The NSRWA PMO did determine that some REAs cost elements were "merited." However, FAR 31.2, "Contracts With Commercial Organizations," requires that prices be reasonable, allowable, and allocable, not "merited."

Management Comments on New Overhauls by (b)(4)

Regarding the 5 overhauls added to contract W58RGZ-09-D-0130, task order-102 (see page 21), the Program Executive Officer, Aviation, stated the report did not state that there were 12 overhauls using 3 separate contracts. He stated that seven overhauls were awarded under CNTPO task orders and five under the contract awarded to Science and Engineering Services, Inc.

The Program Executive Officer, Aviation, and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, stated that NSRWA PMO's prime contractor, Science and Engineering Services, Inc., contract with (b)(4) satisfied two distinct requirements. They stated that the first requirement supported the cockpit modifications. According to them, Science and Engineering Services, Inc. initiated a sole-source contract with (b)(4) to satisfy a small portion of the cockpit modifications. They stated that the second requirement for overhaul of Mi-17s resulted in the award of a new subcontract to (b)(4) after the prime contractor competed the requirement among other potential sources. The Program Executive Officer, Aviation, and the Executive Deputy added that at the time (b)(4) was not listed as an ineligible party for award.

Our Response

~~(FOUO)~~ We disagree with the Program Executive Officer, Aviation, and the Executive Deputy statement that (b)(4) was to satisfy only a small portion of the cockpit modifications effort. Under Project D2012-000AS-0075, we are evaluating task orders awarded to Science and Engineering Services, Inc., for Mi-17 work. A preliminary review of contract W58RGZ-09-D-0130, task order 102, showed that Science and Engineering Services, Inc. proposed almost $8 million for the cockpit modifications. However, the Science and Engineering Services, Inc., subcontract with (b)(4) for the cockpit modifications exceeded (b)(4). Therefore, Science and Engineering Services, Inc. subcontracted with (b)(4). A more detailed analysis is ongoing. In addition, we will address the Program Executive Officer, Aviation's other concerns under our current project D2012-000AS-0075, "Audit of Task Orders For Mi-17 Overhauls and Cockpit Modifications."

Management Comments on NSRWA PMO Subcontracting

The Program Executive Officer, Aviation, stated that based on the NSRWA PMO's perspective, the report statement that "NSRWA PMO continues to subcontract with (b)(4) was not accurate. He stated that NSRWA PMO did not subcontract with anyone because the Government contract was with the prime contractor.

Our Response

The statement to which the Program Executive Officer, Aviation, made reference was not in our draft report. The draft report stated that NSRWA PMO's prime contractor continued to subcontract with (b)(4) for Mi-17 overhaul work to support DoD.

Appendix G. Management Comments on Finding B and Our Response

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, and the Program Executive Officer, Aviation, provided comments on Finding B.

Executive Deputy to the Commanding General, U.S. Army Materiel Command Management Comments

Management Comments on Contracting Officers Did Not Obtain Cost and Pricing Data or Perform Cost Analysis

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, commented on behalf of the Principal Assistant Responsible for Contracting, ACC-Redstone. He stated that Finding B was inaccurate and represented a misunderstanding of the terms and conditions of the cited contract and the DoD IG's improper application of the contract pricing principles set forth in FAR Subpart 15.4, "Contract Pricing."

The Executive Deputy stated that task orders awarded under the CNTPO multiple award IDIQ contracts were based upon competitive pricing established at the basic contract level and the terms and conditions set forth in the basic contracts for pricing and payment of task orders. He agreed that in some cases documentation to support the analysis conducted could have been more substantial; however, he stated that we provided no evidence in our report that indicated that the contracting officers did not follow the process and terms and conditions set forth in the basic contracts.

The Executive Deputy further stated that the terms of basic contract W9113M-07-D-0007 established the methods for submission of proposals and pricing and payment of services provided under task orders. He added that these price terms and conditions were based on adequate price competition at the time the contracts were awarded and that the price terms and conditions facilitated the streamlined proposal analysis process implemented at the task order level.

The Executive Deputy stated that certified cost or pricing data were not required per the exception at FAR Subpart 15.403-1(b)(1), "Prohibition on Obtaining Cost or Pricing Data," when the contracting officer determines that agreed-upon prices are based on adequate price competition. He added that FAR subpart 15.403-1(c)(1)(iii) states that adequate price competition exists if price analysis clearly demonstrates that the proposed price is reasonable compared to prices for similar items or conditions that resulted from adequate price competition. The Executive Deputy further stated that contractors could not submit and certify cost and pricing data at the task order level as these data would conflict with the prices and terms and conditions of the basic contract. The Executive Deputy stated that the terms of the contract and task order request for proposals required the

contractors to submit data other than cost or pricing data with their proposal for the Government's evaluation.

The Executive Deputy stated that the contracting officers used proposal analysis techniques commensurate with the pricing and terms and conditions of the basic contract for the evaluation of task orders W9113M-07-D-0007-0021 and W9113M-07-D-0007-0035. He stated that the contracting officers conducted the evaluation in accordance with the criteria set forth in the task order request for proposals in two parts: the technical and management evaluation and the price assessment.

The Executive Deputy stated that the prices and terms and conditions set forth in the basic contract were the basis for pricing task orders and task order modifications in accordance with FAR subpart 15.403-1(c)(1)(iii). The Executive Deputy further stated that obtaining certification of pricing other than that required by the contract would be impossible because the pricing of the changes were in accordance with the prices and terms and conditions of the basic contract.

In addition, the Executive Deputy stated that contracts for the performance of maintenance, overhaul, modification, and repair of various items generally contain over and above requirements. He stated that according to DoD FAR Supplement PGI 217.77, "Over and Above Work," over and above work requests are within the scope of the contract and, as such, are not defined as new work. The Executive Deputy stated that the contracting officers used the same proposal analysis techniques to evaluate the proposals for over and above work that were used for the basic task order. He further stated that as with other changes to the task orders, modifications to settle the price for over and above work were exempt from requesting and certifying cost or pricing data.

Finally, the Executive Deputy stated that the parts used in the overhauls included new, used, and reconditioned parts. He added that the prices for parts varied based upon their characterization and represented the highly volatile market for aircraft parts sold within the commercial market. He further stated that the prices for overhauls including over and above work would vary as the actual conduct of the overhaul was executed and the costs were subject to final audit to determine allowability and allocability.

Our Response

The contracting officers for task orders W9113M-07-D-0007-0021 and W9113M-07-D-0007-0035 were required to obtain cost or pricing data for modifications exceeding the cost or pricing data threshold as required by FAR Subpart 15.403-4, "Requiring Cost or Pricing Data." This included contract modifications that added costs for over and above work to the contract and price adjustments made to task order options. As stated on report page 29, FAR Subpart 15.403-4 states that cost and pricing data are required unless an exception applies or a waiver is granted for any modifications expected to exceed $650,000 (now $700,000) whether or not pricing data were initially required.

We reviewed each modification under task orders 0021 and 0035 to determine whether costs were added for over and above work under the task orders. We determined that costs

added through modification for over and above work required the submission of cost or pricing data because over and above work was not covered by the competition of the initial task order as it was not yet determined. Therefore, the FAR Subpart 15.403-1, "Prohibition on Obtaining Cost or Pricing Data," exception for adequate price competition would not have applied.

We also determined that price adjustments to the task order's options through modification required the submission of cost or pricing data because the price adjustments were in the scope of the task order, but included costs for new requirements that were not covered by the competition of the initial task order. Therefore, the FAR subpart 15.403-1 exception for adequate price competition would not have applied. The contracting officer was required to obtain cost or pricing data for modifications that added over and above work and price adjustments to the task order options that exceeded the FAR-required cost or pricing data threshold.

The contracting officer should have then performed cost analyses in accordance with FAR Subpart 15.404-1, "Proposal Analysis Techniques." On the basis of those analyses, the contracting officer should have determined whether negotiations were necessary for task order 0021, modifications 0005, 0009, 0012, 0014, and 0015 and task order 0035, modifications 0001 and 0002. As stated on report page 33, FAR Subpart 15.405, "Price Negotiation," states that the purpose of performing cost or price analysis is to develop a negotiation position that permits the contracting officer and the offeror an opportunity to reach agreement on a fair and reasonable price. Because they did not obtain cost or pricing data and perform cost analysis as required by FAR Subparts 15.403-4 and 15.404-1, the contracting officers did not adequately determine price reasonableness and, therefore, had no basis for determining whether negotiations were required.

In addition, we disagree with the Executive Deputy's assertion that the prices established in the basic IDIQ contract applied to task orders 0021 and 0035. Task order 0021 was approximately (b)(4) subcontractor costs, and task order 0035 was approximately (b)(4) subcontractor costs. The contracting officer could not have evaluated subcontractor costs for task orders 0021 and 0035 on the IDIQ contract because no work was established at the time of the base IDIQ award. Therefore, the Executive Deputy's comments that task orders awarded under the CNTPO multiple award IDIQ contracts were based upon competitive pricing established at the basic contract level and the terms and conditions set forth in the basic contracts for pricing and payment of task orders were inaccurate.

Furthermore, we disagree with the Executive Deputy's statement that obtaining certification of pricing other than those required by the contract would be impossible because the pricing of changes were in accordance with the prices and terms and conditions of the basic contract. As stated in the report, the contracting officer can pursue other avenues to determine fair and reasonable prices. The FAR and the Defense Federal Acquisition Regulation Supplement establish procedures for contracting officers to follow when the reasonableness of prices cannot be determined.

Management Comments on Contractor Proposals Accepted Without Negotiations

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, responded for the Executive Director, Aviation and Missile Life Cycle Management Command/Army Space and Missile Defense Command, Army Contracting Command. He commented on the evaluation of each task order modification questioned in the report.

Management Comments on Task Order 0021, Modification 0003

The Executive Deputy stated that the contracting officer issued task order 0021, modification 0003, to exercise options B and C. The Executive Deputy stated that the contracting officer did not conduct negotiations because options B and C were evaluated during the evaluation of offers that led to the task order award and there were no changes to this requirement or market conditions that would affect the prices for these options.

Our Response

We reviewed our analysis and determined that the contracting officer adequately determined price reasonableness for task order 0021, modification 0003, because options B and C were exercised for the original requirement as proposed and competed at the time of the task order award. We have updated the report to reflect adequate price reasonableness for task order 0021, modification 0003.

Management Comments on Task Order 0021, Modification 0005

The Executive Deputy stated that the contracting officer issued task order 0021, modification 0005, to settle the price for over and above work and other required changes, including the incorporation of insurance on the aircraft to be overhauled and the cancellation of a transport aircraft. The Executive Deputy stated that the CNTPO task order monitor and COR reviewed and approved the over and above items and costs in accordance with the performance work statement before continuing the overhaul process. In addition, he stated that the evaluator used the same techniques that were used for the basic task order and relied upon information provided by the task order monitor and COR, information other than cost or pricing data provided in the proposal, and analysis conducted by the contractor (through its approved purchasing system) of the prices submitted by its subcontractors and suppliers to evaluate the proposed prices.

Further, the Executive Deputy stated that the contracting officer compared the part prices to those acquired under similar procurements and reviewed the rates proposed to those in the basic contract. He added that the contracting officer did not identify any concerns; therefore, there was no basis for conducting negotiations.

Our Response

For task order 0021, modification 0005, the contracting officer should have obtained cost and pricing data, performed cost analysis, and determined whether negotiations were necessary based on that analysis. The price evaluation memorandum prepared by the contracting officer for task order 0021, modification 0005, stated that cost and pricing data were not obtained because the revised prices were consistent with the prices that were

based upon competition. However, the assumption that cost and pricing data were not required was inaccurate because the additional costs added through task order 0021, modification 0005, were over the FAR threshold for obtaining cost or pricing data and were for over and above work and new requirements that were not part of the original competition. Therefore, it was inappropriate for the contracting officer to base price reasonableness for task order 0021, modification 0005, on the original task order competition because the costs for over and above work and new requirements were unknown and were not evaluated using adequate price competition with the award of the original task order. The contracting officer did not adequately determine price reasonableness and, therefore, had no basis for determining whether negotiations were required.

Management Comments on Task Order 0021, Modification 0009

~~(FOUO)~~ The Executive Deputy stated that the contracting officer issued task order 0021, modification 0009, for over and above work for (b)(4) aircraft valued at $4,487,437.48. He stated that due to the urgency of the requirement, limited funding was applied, pending the settlement of price for the effort. The Executive Deputy further stated that the contracting officer included a clause in the modification that stated

> the Government reserves the right to renegotiate and/or off-set this task order modification based upon its final review of your submitted price(s) and supporting documentation. A final settlement negotiated price and/or off-set modification (if needed) or other contracting officer direction will be issued [no later than August 10, 2010].

The Executive Deputy stated that the contracting officer evaluated prices using the same approach as modification 0005, including a sampling of the materials proposed, and found that all prices were in line with other competitions for the same or similar items; therefore, negotiations were not conducted.

Our Response

For task order 0021, modification 0009, the contracting officer should have obtained cost and pricing data, performed cost analysis, and determined whether negotiations were necessary based on that analysis. The over and above work memorandum prepared by the contracting officer for task order 0021, modification 0009, stated that the contracting officer conducted a sampling of parts purchased on a different contract to compare to the prices proposed by Northrop Grumman and that Northrop Grumman's pricing was commensurate with the prices proposed on the separate requirement and were found to be reasonable.

Although the over and above work memorandum stated that the contracting officer sampled the materials proposed, the sample taken was not sufficient to determine price reasonableness. We compared the five parts listed to the two proposals used by the contracting officer and determined that only two of the parts listed in the contracting

officer's sample actually appeared on both proposals. Therefore, the contracting officer actually sampled only 2.2 percent of the total bill of material.

Regardless of the inadequate price analysis, the contracting officer was required to obtain cost and pricing data for the over and above work because the costs for over and above work were more than the FAR threshold for obtaining cost or pricing data and were unknown and were not evaluated using adequate price competition with the award of the original task order. The contracting officer did not adequately determine price reasonableness and, therefore, had no basis for determining whether negotiations were required.

Management Comments on Task Order 0021, Modification 0012

The Executive Deputy stated that the contracting officer issued task order 0021, modification 0012, for an additional set of overhaul parts needed to meet the operational requirements of the aircraft being overhauled. He also stated that as discussed in the report, a dispute arose between Northrop Grumman and its subcontractors, (b)(4) and (b)(4). He stated that Northrop Grumman and the Government attempted to resolve the dispute. The Executive Deputy stated that after coordination within the Department of the Army, Department of Defense, and Department of State it was determined that funding would be provided to authorize the purchase of additional parts to enable the aircraft to be restored to flight-worthy and mission-ready status.

The Executive Deputy added that the contract file indicated that excess parts would be provided to satisfy other overhaul requirements for the Pakistani aircraft and that full evaluation of the prices for these parts would be subject to future audit. The Executive Deputy stated that Northrop Grumman's proposal indicated that it did not include final costs because negotiations for the parts prices were ongoing with its subcontractor; therefore, the proposal was not evaluated and negotiations were not conducted, but deferred pending submission of a detailed proposal.

Our Response

For task order 0021, modification 0012, the contracting officer should have obtained cost and pricing data and performed cost analysis because the modification added costs above the FAR threshold for obtaining cost or pricing data. On the basis of that analysis, the contracting officer should have determined whether negotiations were necessary. The memorandum for record prepared by the contracting officer for task order 0021, modification 0012, did not include any statement on the reasonableness of price or that the proposal would be evaluated and negotiations would occur at a later date. We determined that (b)(4) had already purchased all new parts for the same requirement and that NSRWA personnel evaluated and approved the new parts.

The condition of the (b)(4) parts (refurbished vs. new) was unknown to us. The contracting officer provided us with the lists of (b)(4) and (b)(4) parts. We compared the list of the new (b)(4) parts purchased to the list of (b)(4) parts purchased. We compared the parts by either part name or part number and determined that, overall, the (b)(4) parts were priced significantly higher than the (b)(4) parts.

Because she had both parts lists available, the contracting officer should have known that the (b)(4) parts were priced higher than the (b)(4) parts already purchased. Therefore, she should not have approved the modification for (b)(4) parts that were priced higher than the (b)(4) parts already in inventory without determining the reasonableness of price or negotiating the cost for these duplicate parts. The contracting officer did not adequately determine price reasonableness and, therefore, had no basis for determining whether negotiations were required.

Management Comments on Task Order 0021, Modification 0014

The Executive Deputy stated that the contracting officer issued task order 0021, modification 0014, to provide funding for over and above costs related to the overhaul of (b)(4) aircraft and that our report categorization of work repriced without negotiation was inaccurate. He stated that the proposal included over and above estimates based on the contractor's initial assessment. He also stated that both the technical evaluation and price assessment considered the contractor's preliminary assessment instead of reviewing the assessment to determine whether the Government wanted to continue with the overhauls. The Executive Deputy stated that the price for the over and above costs should have been negotiated once the full costs had been proposed.

The Executive Deputy also stated that the technical evaluation took exception to the level of program management proposed; however, this was not addressed in the price analysis, and negotiations were not conducted to resolve the concern. He stated that, additionally, the proposal indicated that any excess parts from modification 0012 would be used to the greatest extent possible, but the proposal did not show the use of these parts. The Executive Deputy stated that the contracting officer would take these issues into consideration when evaluating Northrop Grumman's updated proposal and negotiating a settlement of price for these overhauls to include total over and above costs.

Our Response

For task order 0021, modification 0014, the contracting officer should have obtained cost and pricing data, performed cost analysis, and determined whether negotiations were necessary based on that analysis. The over and above cost memorandum prepared by the contracting officer for task order 0021, modification 0014, stated that Northrop Grumman submitted a change proposal for over and above costs for (b)(4) battle-damaged aircraft that had structural damage for which there was no historical comparison. The memorandum stated that the damages were not typically found in the 1500-hour overhaul or the over and above work performed; therefore, the actual cost incurred was accepted as fair and reasonable.

We determined that the contracting officer should have obtained cost and pricing data for these over and above costs because the costs for over and above work were more than the FAR threshold for obtaining cost or pricing data and were unknown and were not evaluated using adequate price competition with the award of the original task order. The fact that the contracting office had no historical comparison for the over and above work and accepted the actual cost incurred as fair and reasonable was further support for why cost and pricing data should have been obtained. Without cost and pricing data to support

the actual costs incurred, the contracting officer had no basis to determine whether the costs were reasonable. The contracting officer did not adequately determine price reasonableness and, therefore, had no basis for determining whether negotiations were required.

~~(FOUO)~~ Additionally, because of the Executive Deputy's comments, we reviewed our analysis and updated the report to correct the dollar-value added without adequate price reasonableness for task order 0021, modification 0014. Report page 30 previously showed that the contracting officer repriced [redacted] on task order 0021, modification 0014, without an adequate price reasonableness determination. We updated the report to show that the contracting officer added [redacted] for over and above work without an adequate price reasonableness determination. We excluded the remaining [redacted] because the [redacted] was the cost for the overhaul that was previously exercised.

Management Comments on Task Order 0021, Modification 0015

~~(FOUO)~~ The Executive Deputy stated that the contracting officer issued task order 0021, modification 0015, to incorporate a new requirement for return-to-service validation inspections for [redacted]. He stated that fair opportunity was provided to all five prime contractors, but only Northrop Grumman indicated interest. The Executive Deputy stated that the technical evaluation stated that there was an overabundance of continental U.S.-based directors and program management and that the proposed labor costs were lower than the independent Government cost estimate; therefore, the Government considered the proposed labor costs reasonable. The Executive Deputy stated that the task order file did not include a record of discussions between the contracting officer and technical evaluators or a record of the price assessment.

Our Response

We agree that the task order file did not include any record of the additional information or cost clarifications provided. The contracting officer should have documented any negotiations that occurred as required by the FAR Subpart 15.406-3, "Documenting the Negotiation."

Management Comments on Task Order 0035, Modification 0001

~~(FOUO)~~ The Executive Deputy stated that the contracting officer awarded task order 0035, modification 0001, for two new requirements: settle the price for over and above work and exercise options A, H, and I, which were previously priced. He stated that additions to the base year included [redacted] for the service life reduction requirement and [redacted] for over and above costs. He also stated that the contracting officer added [redacted] to option A, [redacted] to option H, and [redacted] for a new requirement, option J. The Executive Deputy stated that because the requirement was urgent, the modification was conditionally approved along with the proposal subject to further evaluation.

The Executive Deputy stated that the contracting officer incorporated a clause into the modification that stated,

> the Government reserves the right to renegotiate and/or off-set this task order modification based upon its final review of your submitted price(s) and supporting documentation. A final settlement negotiated price and/or off-set modification (if needed) or other contracting officer direction will be issued [no later than September 10, 2010].

Our Response

For task order 0035, modification 0001, the contracting officer should have obtained cost and pricing data, performed cost analysis, and determined whether negotiations were necessary based on that analysis. The proposal assessment prepared for the contracting officer by CNTPO for task order 0035, modification 0001, stated that Northrop Grumman submitted a revised proposal in response to the U.S. Government's request to include the service life reduction plan, over and above work, technical manuals, and the overhaul of (b)(4) additional aircraft. The proposal assessment stated that it was impossible to compare the material cost to an independent Government cost estimate due to the incorporation of the U.S. Army's mandated service life reduction program, which was not anticipated at the time of contract award.

We reviewed task order 0035, modification 0001 and determined that the contracting officer:

- ~~(FOUO)~~ added costs for over and above work of (b)(4) and the service life reduction of (b)(4) to the base year;
- ~~(FOUO)~~ exercised options A, H, and I for the amounts originally proposed on the basic task order as well as added price adjustments of (b)(4) to these options in excess of the originally proposed amounts;
- ~~(FOUO)~~ added price adjustments of (b)(4) to options B, D, E, F, and G in addition to the amounts originally proposed and exercised; and
- ~~(FOUO)~~ added option J for (b)(4) that was not included in the original task order proposal.

~~(FOUO)~~ We did not question whether the dollar amounts for the options that were exercised as originally proposed required the submission of cost or pricing data. We only included the costs for over and above work and price adjustments to the options as listed above. Therefore, the $37,897,718 identified in the report included only those costs for over and above work and price adjustments to the options that were not included in the original task order proposal.

As stated in the proposal assessment prepared for the contracting officer, the costs added to task order 0035, modification 0001, were for either over and above costs or new requirements that were not anticipated at the time of the task order award. The contracting officer was required to obtain cost and pricing data for the over and above work and new requirements because the costs for over and above work and new requirements were unknown and were not evaluated using adequate price competition with the award of the

original task order. The contracting officer did not adequately determine price reasonableness and, therefore, had no basis for determining whether negotiations were required.

Management Comments on Task Order 0035, Modification 0002

~~(FOUO)~~ The Executive Deputy stated that the contracting officer issued task order 0035, modification 0002, to provide funding for additional parts in order to meet operational requirements for (b)(4) aircraft being overhauled. The Executive Deputy stated that as discussed in the report, a dispute arose between Northrop Grumman and its subcontractors, (b)(4) and (b)(4). He stated that Northrop Grumman and the Government attempted to resolve the dispute. He also stated that after coordination within the Department of the Army, Department of Defense, and Department of State it was determined that funding would be provided to authorize the purchase of a second set of parts to enable the aircraft to be restored to flight-worthy and mission-ready status.

The Executive Deputy added that the contract file indicated that excess parts would be provided to satisfy other overhaul requirements for the Pakistani aircraft and that full evaluation of the prices for these parts would be subject to future audit. Finally, he stated that Northrop Grumman's proposal indicated that it did not include final costs as negotiations for the parts prices were ongoing with its subcontractor; therefore, the proposal was not evaluated and negotiations were not conducted, but deferred pending submission of a detailed proposal.

Our Response

For task order 0035, modification 0002, the contracting officer should have obtained cost and pricing data and performed cost analysis because the modification added costs above the FAR threshold for obtaining cost or pricing data. On the basis of that analysis, the contracting officer should have determined whether negotiations were necessary based on that analysis. The over and above cost memorandum prepared by the contracting officer for task order 0035, modification 0002, stated that Northrop Grumman submitted a revised change proposal for over and above costs incurred over the estimate provided in its original proposal. The memorandum stated that the repair cost was caused by a dispute between Northrop Grumman's (b)(4) and that, in the interest of getting the aircraft released, the Government authorized the acquisition of replacement parts by the (b)(4). The memorandum stated that the actual cost incurred was accepted as fair and reasonable.

We determined that (b)(4) had already purchased all new parts for the same requirement and that NSRWA personnel evaluated and approved these new parts. The condition of the (b)(4) parts (refurbished vs. new) was unknown to us. The contracting officer provided us with the lists of (b)(4) and (b)(4) parts. We compared the list of the new (b)(4) parts purchased to the list of (b)(4) parts purchased. We compared the parts by either part name or part number and determined that, overall, the (b)(4) parts were priced significantly higher than the (b)(4) parts.

Because she had both parts lists available, the contracting officer should have known that the (b)(4) parts were priced higher than the (b)(4) parts already purchased. Therefore, the contracting officer should not have approved the modification for (b)(4) parts that were priced higher than the (b)(4) parts already in inventory, without determining the reasonableness of price or negotiating the cost for these duplicate parts.

The contracting officer did not adequately determine price reasonableness and, therefore, had no basis for determining whether negotiations were required. Furthermore, the Government had no leverage to negotiate because (b)(4) installed the parts on the aircraft without authorization when there was no provision in its subcontracts with (b)(4) to do so.

Management Comments on Contracting Officers Paid More Than Fair and Reasonable Prices for Parts

The Executive Deputy to the Commanding General, U.S. Army Materiel Command, responded for the Executive Director, Aviation and Missile Life Cycle Management Command/Army Space and Missile Defense Command, Army Contracting Command. He commented on the report section "Contracting Officers Paid More Than Fair and Reasonable Prices for Parts." He stated that a final price for the additional parts authorized had not been agreed to or negotiated at the time task order 0021, modification 0012, and task order 0035, modification 0002, were executed. The Executive Deputy stated that the negotiations were still not complete; therefore, the report's presentation of information regarding prices that have not been negotiated was premature.

Our Response

~~(FOUO)~~ The invoices for the duplicate parts on task order 0021, modification 0012, and task order 0035, modification 0002, were paid on, March 14, 2011 and December 22, 2010, respectively. If negotiations had not occurred, no payments should have been made based on the proposed values that had not been evaluated. If negotiations occur, we request that ACC-Redstone provide the negotiation documentation to us along with any documentation for the recoupment of funds from the contractor.

~~(FOUO)~~ Furthermore, on the basis of our review of the contract documentation, we see no evidence that any attempts were made to determine price reasonableness or negotiate the parts prices. For example, the ACC-Redstone contracting officer directed Northrop Grumman to make a (b)(4) payment for (b)(4) REA 005 without determining whether the (b)(4) was reasonable. The ACC-Redstone contracting officer provided documentation showing that NSRWA personnel had determined that the costs had "merit." FAR 31.201, "General," requires that prices be reasonable, allowable, and allocable, not whether costs have "merit." The contracting officer did not provide any documentation supporting any type of price reasonableness determination.

Program Executive Officer, Aviation, Comments

Program Executive Officer, Aviation, Comments on Sample of Parts for Tail Number [redacted]

The Program Executive Officer, Aviation, commented on Finding B, Table 7. He stated that without additional information, comparing the parts accurately in Table 7 would be impossible. He stated that a number of reasons could explain the differences in part prices. He also asked whether the items listed were, in fact, the same part and in the same condition; that is new, reconditioned, or overhauled. He stated that the storage battery, for example, could have been a lead acid battery or a lithium ion sealed battery, which have significantly different costs. He also asked in what timeframe the parts were purchased.

Our Response

We used the parts lists provided by the contracting officer and the CNTPO Program Director that were included in Northrop Grumman's proposals for the [redacted] Mi-17 aircraft we reviewed to develop Table 7. We matched the list of parts purchased per aircraft from both [redacted] and [redacted] We made matches by part description or part number or both.

We determined that matching by part description was acceptable because the requirements for each aircraft should not have changed because of the supplier. We also assumed that the NSRWA PMO personnel reviewing and validating the two parts lists would reject any changes in the requirements; for example, supplying a more expensive lithium ion battery when a less expensive lead acid battery would meet the requirement.

As stated in the report, the parts supplied by [redacted] were new; however, we were unable to determine the condition of the [redacted]-supplied parts. We did not know when the [redacted] parts were purchased because [redacted] purchased and installed the parts without authorization, even though there was no provision in its subcontracts with [redacted] to do so.

Northrop Grumman submitted proposals with [redacted] parts for task orders 0021 and 0035 on March 31, 2010, and June 4, 2010, respectively. Northrop Grumman submitted proposals with [redacted] parts for task orders 0021 and 0035 on September 29, 2010.

Assistant Secretary of the Army (Acquisition, Logistics, and Technology), Army Acquisition Executive Comments

Final Report Reference

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

SAAL-SAI

JUN 7 2012

MEMORANDUM FOR Department of Defense, Inspector General, 4800 Mark Center Drive, Suite 13F25-04, Alexandria, VA 22350

SUBJECT: Response to Department of Defense Inspector General (DoD IG) Draft Report "Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays" (Project No. D2011-D000AS-0241.000), dated 15 March 2012

1. The Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) (ASA(ALT)) provides the following response to the subject draft report.

2. We have conducted a detailed review of the draft report. Enclosures 1 through 3, submitted by the Deputy Assistant Secretary of the Army (Procurement) (DASA(P)) (Recommendation A.2), Program Executive Officer, Aviation (PEO, Aviation) (Recommendation A.5), Executive Director, Aviation and Missile Life Cycle Management Command/U.S. Army Space And Missile Defense Command (AMC/SAMD) (Recommendations B.1, B.2, and B.3), and the U.S. Army Contracting Command Redstone (ACC-Redstone) (Recommendations A.3 and A.4), address the findings and recommendations.

3. However, I have concerns regarding the accuracy and conclusions set forth in this report. In particular, I have concerns regarding the following aspects of the report:

a. A lack of validation of the dollar amounts used in the report.

b. The report's dismissal of the PEO, Aviation line-by-line analysis as not relevant to the analysis of the report.

c. The report's narrow focus of a relatively complex contract with two separate task orders, and over (b) aircraft overhauls with various subcontractors.

d. The report's failure to address the roles of the prime contractor, Northrop Grumman or of the (b)(4) [redacted].

e. The report's omission of a significant incident in which the (b)(4) facility overhauled and certified a known counterfeit aircraft that was delivered to Fort Rucker, and has since been permanently grounded.

4. Recent developments may have significance to the overall report, and may necessitate that the report be updated, including the following:

Revised Pages ii, 6, 15, and 16

SAAL-SAI
SUBJECT: Response to Department of Defense Inspector General (DoD IG) Draft Report "Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays" (Project No. D2011-D000AS-0241.000), dated 15 March 2012

a. The Army has engaged directly with the senior leadership of the Northrop Grumman Corporation (NGC) to resolve these contract issues.

b. As a result, members of the Program Office at NGC, responsible for executing this contract, (b)(6) [redacted].

c. The recent (b)(4) [redacted] Aviation Certification Center report, as of 8 May 2012, concluded that aircraft that had been overhauled by (b)(4) [redacted] contained no counterfeit parts; however, aircraft overhauled at the (b)(4) [redacted] facility had over 133 counterfeit parts.

Revised Page 12

d. (b)(4) [redacted] provided an improper End User Certificate to Slovakian authorities for the import of (b)(4) [redacted] Mi-17 aircraft without authority to certify on behalf of the United States and without the knowledge of the U.S. Government.

e. Verification by both the Russian and Lithuanian Customs that the aircraft imported by (b)(4) [redacted] and (b)(4) [redacted] were imported properly as commercial aircraft (enclosure 4).

5. Based on all of the above, I formally request that the concerns I have raised above be addressed prior to release of the report.

6. The point of contact is [redacted]

Encls

Heidi Shyu
Army Acquisition Executive

2

Deputy Assistant Secretary of the Army (Procurement) Comments

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON, DC 20310-0103

SAAL-PP

MAY 7 2012

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

SUBJECT: Response to Department of Defense Office of Inspector General Draft Report, "MI-17 Overhauls Had Significant Cost Overruns and Schedule Delays", (Project Number D2011-D000AS-0241.000), dated 15 March 2012

1. This memorandum responds to the subject draft report issued 15 March 2012. The Army concurs with recommendations A.2.a and A.2.b contained in the draft report. My office will request a review of the subject findings by the appropriate authorities, and based on the results of that review will recommend that applicable administrative action(s) be taken.

2. The enclosure provides the response, as prescribed by Department of Defense Directive 7650.3.

3. Point of contact for this memorandum is [redacted]

Kim D. Denver
Deputy Assistant Secretary
of the Army for (Procurement)

Department of Defense Inspector General Draft Report dated 15 March 2012 Project No: D2011-D000AS-0241.000

Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays

Recommendation A.2.a

Review the performance of the contracting officers at the U.S. Army Space and Missile Command, Contracting Acquisition Management Office, who oversaw the management of task orders W9113M-07-D-0007-0021 and W9113M-07-D-0007-0035. The contracting officers continued to obligate DoD for additional costs for the (b) Mi-17 aircraft overhauls efforts, allowing excessive parts markup, and did not determine fair and reasonable prices for the $100 million in task order modifications. Based on that review, initiate administrative action as appropriate.

Response: Agree. The Office of the Deputy Assistant Secretary of the Army (Procurement) (ODASA(P)) will task the Commanding General, U.S. Army Contracting Command (ACC) to conduct a review of the performance of contracting officers at the U.S. Army Space and Missile Command, Contracting Acquisition Management Office who oversaw the management of task orders W9113M-07-D-0007-0021 and W9113M-07-D-0007-0035, to include identification of administration action as appropriate. The ACC will be required to notify the ODASA(P) of their intended review methodology and provide a copy of all reports with identified findings and corrective actions. The review is projected to take approximately 120 days after notification to complete given the seriousness of allegations and execution timeline that includes the fourth quarter of the fiscal year.

Recommendation A.2.b

Review the performance of the contracting officers at the U.S. Army Contracting Command Redstone Non-Standard Rotary Wing Aircraft Directorate who oversaw the management of task orders W9113M-07-D-0007-0021 and W9113M-07-D-0007-0035. The contracting officers directed the prime contractor to make immediate payment to the subcontractor without determining whether claimed prices were reasonable. Based on that review, initiate administrative action as appropriate.

Response: Agree. The Office of the Deputy Assistant Secretary of the Army (Procurement) (ODASA(P)) will task the Commanding General, U.S. Army Contracting Command (ACC) to conduct a review of the performance of contracting officers at the U.S. Army Contracting Command Redstone Non-Standard Rotary Wing Aircraft

1

Directorate who oversaw the management of task orders W9113M-07-D-0007-0021 and W9113M-07-D-0007-0035, to include identification of administration action as appropriate. The ACC will be required to notify the ODASA(P) of their intended review methodology and provide a copy of all reports with identified findings and corrective actions. The review is projected to take approximately 120 days to complete given the seriousness of allegations and execution timeline that includes the fourth quarter of the fiscal year.

U.S. Army Legal Services Agency Comments

Final Report Reference

DEPARTMENT OF THE ARMY
UNITED STATES ARMY LEGAL SERVICES AGENCY
9275 GUNSTON ROAD
FORT BELVOIR, VA 22060-5546

REPLY TO ATTENTION OF:

JALS-KFLD

16 April 2012

MEMORANDUM FOR Program Director, Acquisition and Contract Management, Inspector General, Department of Defense [redacted] 4800 Mark Center Drive, Alexandria, Virginia 22350-1500

SUBJECT: Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project Number D2011-D000AS-241.000)

1. This responds to your request for comments on the draft DoDIG report entitled "Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000). The draft report recommends on p. 20, that the Commander, U.S. Army Legal Services Agency (USALSA), as "the Army's debarring official," consider whether suspension or debarment is warranted for (b)(4) [redacted] (b)(4) [redacted] and its affiliates based upon the information in the draft report.

2. While the Commander, USALSA oversees the Army's Procurement Fraud Program, the Commander does not serve as the Army's Suspension and Debarment Official (SDO). Federal Acquisition Regulation, section 9.403, vests the head of the agency with the authority to perform, or to delegate, suspension and debarment duties. On 7 August 2003, the Secretary of the Army designated The Judge Advocate General (TJAG) as the Army's SDO with the authority to further delegate these duties. On 2 October 2008, TJAG designated the Director, Soldier and Family Legal Services as the Army's SDO.

3. Accordingly, I recommend that you amend Recommendation A.1 (p. 21), the discussion on p. 20 (the section titled "Review Contractor Actions for Potential Suspension and Debarment"), and the Results in Brief (p. i) of the draft report to substitute "Army" in place of "Commander, U.S. Army Legal Services Agency." The Procurement Fraud Branch (PFB), USALSA, will review all evidence of fraud or other evidence indicating a lack of contractor responsibility as currently open investigations become available for review.

Revised and redirected Pages i, 22, and 24

4. Point of contact for this action is [redacted]

FLORA D. DARPINO
Brigadier General, USA
Commanding

U.S. Army Materiel Command Comments

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

REPLY TO ATTENTION OF:

AMCIR

MAY 2 2012

MEMORANDUM FOR Department of Defense Inspector General (DoDIG), ATTN: [redacted], Program Director, Acquisition and Contract Management, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Command Reply to DoDIG Draft Report – Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

1. The U.S. Army Materiel Command (AMC) has reviewed the subject draft report and the coordinated response from the U.S. Army Contracting Command (ACC) and the U.S. Army Aviation and Missile Command (AMCOM). AMC endorses the enclosed ACC and AMCOM response.

2. The enclosed response contains comments from commands outside of AMC and subordinate channels which are only included to provide context for our response to the draft audit report.

3. The AMC point of contact is [redacted]

JOHN B. NERGER
Executive Deputy to the
Commanding General

2 Encls
1. AMCOM memorandum
2. ACC memorandum

DEPARTMENT OF THE ARMY
U.S. ARMY CONTRACTING COMMAND
3334A WELLS ROAD
REDSTONE ARSENAL, AL 35898-5000

REPLY TO ATTENTION OF

AMSCC-IR

17 APR 2012

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

SUBJECT: Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays, (Project No. D2011-D000AS-0241.000) (D1231) (10326)

1. Reference memorandum and audit report, Office of Inspector General – Department of Defense, 15 March 2012, subject: same as above.

2. The Army Contracting Command (ACC) concurs with the enclosed comments provided by ACC-Redstone.

3. The ACC point of contact is [redacted]

Encl

FOR CAROL E. LOWMAN
Executive Director

DEPARTMENT OF THE ARMY
UNITED STATES ARMY AVIATION AND MISSILE COMMAND
5300 MARTIN ROAD
REDSTONE ARSENAL AL 35898-5000

AMSAM-IR

APR 16 2012

MEMORANDUM THRU [redacted], Director, Internal Review and Audit Compliance Office, US Army Materiel Command, 4400 Martin Road, Redstone Arsenal, AL 35898

FOR [redacted], Program Director, Inspector General, Department of Defense, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Department of Defense, Office of Inspector General (DODIG), Draft Report – Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

1. Reference e-mail, DODIG dated 19 Mar 12, Draft Report: Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays.

2. The enclosed comments to the subject draft report were provided by the US Army Contracting Command - Redstone and have been reviewed by the AMCOM Legal Office.

3. The point of contact is [redacted]

Encl

CHANDLER C. SHERRELL
COL, AV
Chief of Staff

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DEPARTMENT OF THE ARMY
ARMY CONTRACTING COMMAND - REDSTONE
BUILDING 5303 MARTIN ROAD
REDSTONE ARSENAL AL 35898-5000

0 9 APR 2012

CCAM-PSP

MEMORANDUM THRU Internal Review and Audit Compliance Office, U.S. Army Aviation and Missile Command (AMSAM-IR), Building 5302, Room 2147, Redstone Arsenal, Alabama 35898-5000

FOR [redacted], Internal Review and Audit Compliance Office, U.S. Army Contracting Command, 3334A Wells Road, Redstone Arsenal, Alabama 35898-5000

SUBJECT: Response to OIG Draft Audit Report, "Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays," 15 March 2012 (Project No. D2011-D000AS-0241.000)

1. The Army Contracting Command-Redstone provides the subject enclosed response.

2. The point of contact for this action is [redacted]

Mary C. Dickens

Encl

MARY C. DICKENS
Principal Assistant Responsible for Contracting

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

OBJECTIVE

~~(FOUO)~~ The stated audit objective was to "determine whether DOD personnel performed the oversight and management of Counter Narcoterrorism Technology Program Office (CNTPO) contracts for the overhaul of Mi-17 helicopters in accordance with Federal Acquisition Regulation (FAR) requirements. Also a determination was made on whether the contracting officer ensured that DoD obtained fair and reasonable prices for the overhaul services."

BACKGROUND:

~~(FOUO)~~ "The mission of the CNTPO is to execute the DoD's strategy to provide global detection, monitoring and disruption of narcoterrorist activities through effective interagency mission support, technology, and acquisition solutions. CNTPO provides its services to DoD, other Federal agencies, partner nations, and State and local authorities engaged in counterdrug and counter narcoterrorism operations. The Naval Surface Warfare Center, Dahlgren Division, serves as the host command for CNTPO. Prior to January 2012, CNTPO reported to the Operations Integration Group under the Deputy Under Secretary of the Navy. On January 9, 2012, the Acting Assistant Secretary of Defense, Special Operations and Low Intensity Conflict and the Air Force Deputy Chief of Staff, Operations, Plans and Requirements signed a memorandum of understanding that began the transition of management and oversight responsibility of CNTPO from the Departmen of the Navy to the Air Force.

~~(FOUO)~~ The U.S. Army Space and Missile Defense Command (SMDC), Contracting and Acquisition Management Office (CAMO) provided contracting support for CNTPO. As of August 2011, the US Army Space and Missile Defense Command/Army Forces Strategic Command transitioned all CAMO activity to the US Army Materiel Command, Army Contracting Command-Redstone. The transition included all contract and procurement activities to maintain the Army's command and control of space forces and missile defense. Therefore, the Army Contracting Command-Redstone is now overseeing all Mi-17 work. Contracting officers at SMDC CAMO awarded five indefinite-delivery, indefinite-quantity (IDIQ) contracts on August 24, 2007. These CNTPO IDIQ contracts had a total program ceiling of $15 billion with a 5-year period of performance, composed of a base year and 4 option years. The SMDC CAMO contracting officials issued the IDIQ contracts to five prime contractors, one of which was Northrop Grumman Space & Mission Systems Corporation (Northrop Grumman) (formerly TASC, Inc.).

~~(FOUO)~~ On January 19, 2010, the Under Secretary of Defense for Acquisition, Technology and Logistics (USD [AT&L] issued an Acquisition Decision Memorandum.

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

The memorandum directed the Army to establish a Project Management Office (PMO) responsible for executing all procurement, sustainment, and technical support to meet requirements for Mi-17s and potentially other Non-Standard Rotary Wing Aircraft (NSRWA) for DoD and partner nations, such as Afghanistan, Iraq, and Pakistan.

~~(FOUO)~~ U.S. Army officials established the NSRWA PMO at Redstone Arsenal in Huntsville, Alabama, under the U.S. Army Program Executive Office for Aviation. The NSRWA PMO's mission is to procure, field, and sustain NSRWA for DoD, allied countries, or as directed by the Under Secretary of Defense for Policy in support of other contingency operations. Specifically, the NSRWA PMO efforts consist of the procurement of aircraft, parts, modification and overhauls, and logistical support for maintaining and sustaining the aircraft. As of March 2011, NSRWA PMO had program management and oversight responsibility for the Mi-17 task orders issued under the CNTPO contracts."

~~(FOUO)~~ **Finding A. Mi-17 Overhauls Performed Without Oversight:**

The SMDC CAMO contracting officer and PMO CORs did not perform adequate oversight and management of CNTPO contracts for the overhaul of Mi-17 aircraft in accordance with the FAR. Specifically, the contracting officers and CORs did not support Northrop Grumman (the prime contractor) oversight of its subcontractor, (b)(4) during the overhaul of (b) Mi-17 aircraft.[5] This occurred because the SMDC CAMO contracting officers continued to obligate DoD for additional costs for the (b) Mi-17aircraft overhaul efforts and the CORs accepted the completed aircraft even though (b)(4) did not meet the terms and conditions of its contracts with (b)(4) a Northrop Grumman subcontractor. (b)(4)

- denied DoD's, Northrop Grumman's, and (b)(4) quality assurance personnel access to its overhaul facility;
- did not identify unauthentic parts that affected flight airworthiness;
- purchased parts when there was no provision in its subcontracts to do so; and
- imported military variants of the Mi-17 aircraft owned by DoD in violation of Russian law.

~~(FOUO)~~ As a result, the planned overhaul of the (b) Mi-17 aircraft may cost up to (b)(4) (b)(4) more than the original contracted value of $37.7 million. This increase included:[6]

- $16.8 million of unnecessary costs for the purchase of duplicate parts, additional insurance and inspections costs, and unplanned demilitarization costs incurred as a result of (b)(4) ections [;] and

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

- (b)(4) for (b)(4) request for equitable adjustment that the contracting officer is evaluating for approval.

~~(FOUO)~~ In addition, the overhaul of the (b) Mi-17s took at least 12 to 20 months longer than the 6 months projected by Northrop Grumman. The delayed delivery of (b)(4) Mi-17s meant they were unavailable for rescue and recovery operations during the 2010 floods in Pakistan. Although overhaul efforts have been completed on the (b)(4) aircraft, they remain unavailable for their intended training mission at Fort Rucker, Alabama.

Command Comments on Finding A:

In accordance with (IAW) Office of the Under Secretary of Defense Acquisition Technology and Logistics Acquisition Decision Memorandum (ADM), the Army Program Executive Officer (PEO) Aviation officially chartered the Non-Standard Rotary Wing Aircraft (NSRWA) Project Management Office (PMO), on 1 July 2010, centralizing both Mi-17 procurement and Mi-17 support activities. A major challenge to the PMO, imposed by this ADM, was to eliminate confusion and inefficiency within the Department of Defense. The NSRWA PMO immediately supported contract management efforts and embraced the first "official" transition of oversight responsibility during March 2011 when contracting officer representative (COR) responsibility was transferred to the PMO. Contract administration transitioned to the Army Contracting Command-Redstone (ACC-Redstone) during August 2011.

The following paragraphs provide the background on Contract W9113M-07-D-0007, Task Orders 0021 and 0035 (the contractual instruments central to the audit report):

~~(FOUO)~~ Task Order 0021 was awarded on 30 September 2008 under contract to Northrop Grumman, previously known as TASC, Inc. The requirement was for the overhaul of Mi-17 rotary wing aircraft belonging to Pakistan Air Force. The awarded order was a hybrid task order arrangement, ordering labor on a fixed-price, level-of-effort (FP/LOE) basis, materials and other direct costs (ODCs) on a cost-plus-fixed-fee (CPFF) basis and travel and Defense Base Act insurance on a cost (no fee) basis. The overhauls were required to be conducted in an original equipment manufacturer (OEM) approved facility to OEM standards. Each overhaul was required to be performed to relevant standards and included the following actions.

- Inspect the Mi-17 helicopter to determine the extent of overhaul required;
- Update the aircraft assessment report with the current information;
- Overhaul the Mi-17 helicopters after receiving concurrence from the technical task monitor (TTM);

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

- Perform post-overhaul test flights for the overhauled Mi-17 helicopter at the facility;
- Deliver the overhauled Mi-17 to Tarbela Airfield in Pakistan;
- Perform post-overhaul test flights for the overhauled Mi-17 helicopter at the Tarbela Airfield in Pakistan in coordination with Pakistani authorities; and
- Provide final inspection and test flight report for the Mi-17 helicopter to the TTM. At a minimum, the reports must document proof of compliance with applicable airworthiness regulations.

~~(FOUO)~~ Task Order 0035 was awarded on 30 September 2009 to Northrop Grumman. The base requirement of the task order was to overhaul (b)(Afghanistan Mi-17 aircraft that were stationed at Fort Bliss, Texas. The contractor was required to disassemble the aircraft and transport the aircraft to the contractor's designated overhaul facility; and overhaul the aircraft to relevant standards, which included the following required actions:

- At a minimum, execute each overhaul in IAW OEM standards, including Russian Interstate Aviation Committee (IAC) certification requirements;
- Inspect the Mi-17 helicopters at the OEM facility to determine the extent overhaul required and provide an aircraft assessment report; and prepare (b)(4) aircraft for shipment by Mil-Air, C-17 aircraft;
- Overhaul the Mi-17 helicopters after receiving concurrence of the overhaul actions and notice to proceed (NTP) from the contracting officer's technical representative (COTR). The Government will inspect the aircraft during the overhaul process and before test flight at the contractor's overhaul facility;
- Perform post-overhaul test flights for the overhauled Mi-17 helicopter at the OEM IAC certified facility. The Government will require that a US Government (USG) test pilot, or qualified designee, fly in the right seat during test flights and the USG crew chief designated by the USG fly in cabin during pre-acceptance and acceptance test flights;
- Provide post-overhaul test flights report for (b)(4) Mi-17 helicopters to the COTR. At a minimum, the reports shall document proof of compliance with applicable airworthiness regulations and OEM standards; and
- Prepare (b)(4) aircraft for shipment from the overhaul facility to Fort Bliss, Texas.

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

The following responses are referenced to the report's specific citations:

~~(FOUO)~~ The Mi-17 aircraft have now been successfully accepted and delivered, (b)(4) to Pakistan and (b)(4) to Fort Rucker, Alabama. These aircraft were delivered subsequent to acceptance inspections and documented reports by both Northrop Grumman Corporation and USG representatives IAW established acceptance test plans and procedures as established by the NSRWA PMO and the Aviation Engineering Directorate (AED), the Army airworthiness authority. All (b)(4) aircraft accepted under Task Orders 0021 and 0035 have been subjected to the same Government Acceptance Test Procedures. The CORs performed their delegated quality assurance requirements and the USG flight acceptance subject matter experts (SME) from NSRWA PMO performed in depth acceptance tests on all aircraft to assure airworthiness. The NSRWA PMO personnel who performed the acceptance testing are all Federal Aviation Authority-certified Airframe & Powerplant Mechanics. Most of them have over 10 years of experience on the Mi-17; and the crew included a retired U.S. Army Mi-17 maintenance test pilot with over 30 years of experience, more than 4500 hours of flying experience and more than 200 maintenance test flights in Mi-17 aircraft. The aircraft were accepted by the U.S. Army and a U.S. Army Airworthiness flight release was provided IAW AR 70-62. The acceptance test plan is the standard plan used by the NSRWA PMO to accept Mi-17 aircraft deliverables. Based on recommendations from the CORs (CNTPO and NSRWA PMO), the Contracting Officer accepted the aircraft. The aircraft were verified coming out of overhaul through a rigorous inspection and acceptance procedure through test and evaluation conducted by SME in Lithuania and well as experts from Northrop Grumman prior to the Government's accepting the overhaul work.

~~(FOUO)~~ Specifically, IAW FAR 46.405, the prime contractor is responsible for accomplishing its quality control responsibilities over its subcontractors. USG CORs do not administer control of nor hold access to subcontractor facilities, and do not determine visit eligibility for subcontractor personnel. In addition, subcontracts do not commit the USG to subcontracted agreements. This report purports that on four occasions the USG, Northrop Grumman and (b)(4) (b)(4) personnel were denied access to (b)(4) The audit states that the (b)(4) quality assurance personnel were denied (b)(4) facility access, but does not cite the grounds for access being denied Based on (b)(4) letter dated 4 June 2010 (Attachment 1), (b)(4) provided an excerpt of its contract with (b)(4) that documented the agreed upon procedures for quality control inspection and access to the facility. The procedures include authorized representatives of their respective companies provide signed "non-disclosure statements," and that approved visit requests were submitted timely IAW visitation protocols. Further, by letter 24 August 2010 (Attachment 2), (b)(4) stated that their reasons for not providing unfettered access was in order to protect its intellectual property from industry competitors; (b)(4) was viewed by (b)(4) as a competitor for Mi-17 overhaul business. Ultimately, Northrop

Attachments omitted because of length. Copies will be provided upon request.

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

Grumman was allowed access in March/April of 2010, IAW contractual requirements between (b)(4) and (b)(4) (Attachment 3). USG representatives and Northrop Grumman representatives were given full access to the (b)(4) facility and all overhaul aircraft in various stages of completion. All aircraft delivered by Northrop Grumman were inspected by both the USG and Northrop Grumman and found to be airworthy.

Attachments omitted because of length. Copies will be provided upon request.

~~(FOUO)~~ By letter dated 23 July 2010 (Attachment 4), Northrop Grumman requested the Government communicate to (b)(4) that only Northrop has the authority to direct and pay for completion of the overhauls. The contracting officer provided Northrop with a letter dated 28 July 2010 (Attachment 4) addressed "To Whom It May Concern" documenting the contractual relationship the Government has with Northrop. The letter further indicated that direction to subcontractors and suppliers regarding the overhauls must be provided by Northrop and not the Government. In the e-mail transmitting the letter (Attachment 4) to Northrop, the Government indicated that the letter could be used in Northrop's discussions with (b)(4). The USG's involvement was solely to facilitate resolution of disputes between parties and was executed in conjunction with Northrop Grumman in order to obtain release of these aircraft to satisfy critical mission support requirements. The USG's offers to facilitate are provided as Attachment 5.

Attachments omitted because of length. Copies will be provided upon request.

~~(FOUO)~~ A collaborative meeting was held 20 September 2010 between Northrop Grumman, (b)(4), CNTPO, PM NSRWA and OSD in Lithuania to discuss issues precluding the completion of overhaul of the (b) aircraft. A summary of the meeting is provided as Attachment 6. It was continually stressed in the meeting that the USG is acting only as a facilitator to ensure this effort continues to move forward and that the Government will not negotiate contract disputes between the companies. The USG also stressed that it continues to hold Northrop Grumman accountable for completing their contractual obligations but that it was clear from the meeting that the relationship among the parties had deteriorated to a point that USG facilitation was required to get the overhauls moving forward and to sustain such movement until the aircraft were returned. One of the key courses of action from the meeting was the provision to procure a second set of parts. During the discussions, it was identified that (b)(4) had proactively installed parts on (b) of the aircraft in an attempt to facilitate delivery. The discussions acknowledged that some of these same parts had previously been procured by (b)(4) however, it was recognized that it would be cost prohibitive to un-install the parts provided by (b)(4) and re-install the parts when provided (b)(4). There was a question as to whether all needed parts were immediately available from (b)(4). The Government reviewed the recommendation, particularly considering whether or not there was a bonafide need for the additional parts, and determined that there were requirements for these parts. A summary of this meeting, including the discussions held and a recommended course of action was provided to OSD, which concurred and provided the additional funding for the USG aircraft. (b)(4)

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6

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

and to ODRP, which authorized the expenditure of funds for the additional (b)(4) aircraft for Pakistan (Attachments 7 and 8).

Attachments omitted because of length. Copies will be provided upon request.

~~(FOUO)~~ This Government decision advanced the delivery of these aircraft to Pakistan upon complete USG acceptance and testing at the (b)(4) facility in Kaunas, Lithuania; however, Northrop Grumman's lengthy impasse with subcontractors resulted in the delay of aircraft deliveries 12 to 20 months longer than the six months projected, and adversely impacted the OSD initiative to support vital rescue and recovery operations during the 2010 floods in Pakistan.

~~(FOUO)~~ Another key aspect of the discussions held in Lithuania was the two-pronged quality assurance approach to be employed in accepingt the aircraft. The first phase was to conduct inspection of the overhauled aircraft and the second phase was to review the documentation related to the parts installed to ensure the authenticity and integrity of the parts. In this regard, Northrop Grumman acquired the services of (b)(4) to validate the authenticity of aircraft parts for use in overhauls. (b)(4) did not find certain parts listed in its own data base; concluded that these parts were suspect and reported same to Northrop Grumman. (b)(4) unilaterally replaced all suspect parts with authenticated parts. It is critical to note that the majority of the (b) suspect parts were subsequently found to have been installed by the aircraft OEM during the production of the aircraft at the OEM's facility and that (b)(4) obtained documentation from the aircraft OEM documenting part authenticities (Attachment 9).

Attachments omitted because of length. Copies will be provided upon request.

~~(FOUO)~~ The statement that (b)(4) "imported military variants of the Mi-17 aircraft owned by DoD in violation of Russian law" implies that there is specific documentation to substantiate that (b)(4) purposely violated the law. The USG procured these aircraft as civilian Mi-17 aircraft and operated them for six years as civilian aircraft before providing them to Northrop Grumman for overhaul. The aircraft log books stated that the aircraft were demilitarized; and based on this documentation, (b)(4) (b)(4). Documentation regarding (b)(4) (Attachments 10 and 11) indicated that (b) aircraft were demilitarized and authorized to operate as civilian aircraft. Based upon this information, it appears that (b)(4) appropriately imported the aircraft as civil aircraft.

Attachments omitted because of length. Copies will be provided upon request.

~~(FOUO)~~ Subsequently, representatives from Northrop Grumman met with the Russian Government and questioned the military nature of the aircraft at (b)(4) in late 2010. Northrop Grumman informed the Government that the Ministry of Defense of the Russian Federation would not allow the export of these aircraft until they were "properly" demilitarized. At that time Northrop Grumman contracted with (b)(4) to certify the demilitarization of the aircraft. The USG did sustain additional costs (b)(4) due to the certification actions of Northrop Grumman, but no physical aircraft demilitarization effort actually occurred.

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

(Attachment 12). Upon further review, these circumstances suggest that the Government provided incremental funding that was attributable to actions initiated by Northrop Grumman that may have been unnecessary given the documented demilitarized status of the aircraft. Additional review of this matter is required by the Contracting Officer to determine whether these additional costs (b)(4) are allowable and allocable.

The report purports unnecessary costs of $16.8M; however, it does not take into account costs associated with changes in requirement, that final negotiations are not complete, or that incurred costs audits will be executed as a normal course of business for a cost-type contract. For example, the report does not acknowledge that a portion of the additional costs are attributable to the Department of Army mandated Service Life Reduction Program (SLR), including the application of existing Army airworthiness and safety standards on all aircraft operating under Army airworthiness. The SLR was a risk mitigation initiative imposed to mitigate aircraft safety risk due to a lack of OEM engineering cognizance. SLR reduced the OEM service life of 18 flight critical components, requiring part replacements. These costs in the amount of (b)(4) were not included in the original requirement but were added after task order award when the requirement was levied by the Department of Army.

The perceived cost growth purported in the report also fails to recognize that the initial award of these orders solely included the overhaul effort. Identification of over and above efforts once equipment is torn down and assessed is a standard practice throughout DoD. Unknown costs associated with over and above efforts can only be added once they are clearly identified and the additional effort determined to be in the Government's best interest.

The overhaul costs per aircraft listed in Table 2 (page 15) and Appendix C (page 36) of the report are inaccurate. The table below depicts the incurred costs to date as reported by Northrop Grumman on 28 March 2012. These incurred costs are subject to audit.

~~(FOUO)~~

Task Order	Aircraft Tail Number	Overhaul Facility	Total Cost
21	(b)(4)	(b)(4)	$ (b)(4)
21			$
21			$
21			$
21			$
21			$

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8

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Revised
Pages i, ii, 5, 8, 15, and 16

Pages 16 and 45

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

		(b)(4)		(b)(4)		(b)(4)
21					$	
21					$	
21					$	
21					$	
21					$	
21					$	
21					$	
21					$	
21					$	
21					$	
21					$	
21					$	
21					$	
21					$	
21					$	
21					$	
21					$	
21					$	
21					$	
35					$	
35					$	
35					$	
35					$	
35					$	
35					$	
35					$	

~~(FOUO)~~ The report concentrated on (b)(4) aircraft inducted for overhaul under task order 0021 and 0035. The report suggests that the overhaul price from (b)(4) is unreasonably high; however, the conclusion may be misplaced when considering the average cost per aircraft at each of the overhaul facilities employed:

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

(b)(4) $5,140,154.48
(b)(4) $4,217,870.53
(b)(4) $4,450,095.87
(b)(4) $6,251,424.91

~~(FOUO)~~ However, it is imperative to understand that the condition of each aircraft drives the total overhaul costs, inclusive of over and above costs. As such, a true comparison of an "average" overhaul is not possible; clearly the indication of highly unreasonable costs from (b)(4) is not evidenced by the information presented above.

~~(FOUO)~~ (b)(4) request for equitable adjustment (REA) cannot be concluded as valid cost at this time. The proposals that were submitted by Northrop Grumman were presented as REAs. However, the data suggests that the reimbursement requested was attributable to cost growth. Northrop Grumman is currently performing a detailed analysis of the documentation. Northrop Grumman intends to negotiate an agreement with its subcontractors pursuant to the cost growth. After the Government receives the negotiated cost growth and all analyses and documentation, the Government will review to determine the reasonableness of the cost growth.

~~(FOUO)~~ Regarding the report's concern with NSRWA PMO's prime contractor continuing to contract with (b)(4), the prime contractor's subcontracting efforts with (b)(4) satisfied two distinct requirements. The first supports the cockpit modification requirements. The prime contractor initiated a sole source contract with (b)(4) to satisfy a small portion of this effort that it felt could not be satisfied by any other source. The second requirement for overhaul of Mi-17 resulted in the award of a new subcontract to (b)(4) after the prime contractor competed the requirement among other potential sources. At this time, (b)(4) is not listed as an excluded party or otherwise ineligible for award.

~~(FOUO)~~ **Recommendation A.3.** We recommend that the Head of the Contracting Activity, U.S. Army Contracting Command-Redstone, review analyses of all costs associated with (b)(4), and (b)(4) Requests for Equitable Adjustment to ensure that all costs are reasonable, allowable, and allocable prior to payment.

~~(FOUO)~~ **Command Comments: Concur.** Upon completion of analyses and review by Northrop Grumman and the contracting officer, it will be provided to the Head of the Contracting Activity (HCA), ACC-Redstone for review. We do not control completion of the analysis by Northrop Grumman, but estimate that the analyses will be provided to the HCA, ACC-Redstone for review by 31 October 2012.

Final Report Reference

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

~~(FOUO)~~ **Recommendation A.4.** We recommend that the U.S. Army Contracting Command-Redstone Contracting Officer responsible for task orders W9113M-07-D-0007-0021 and W9113M-07-D-0007-0035 make no payments on additional costs associated with the (b)(4) and (b)(4) Requests for Equitable Adjustment until:

a. All costs have been determined to be reasonable, allowable, and allocable and the requisite analyses have been reviewed by the Head of the Contracting Activity in accordance with Recommendation A.3., (sic) and

b. All investigations on actions related to these contract actions are complete and it has been determined whether criminal activity has occurred during the performance of the contract. No payment should be made for any contract performance, directly or indirectly related to these contracts, that is deemed to be illegal.

~~(FOUO)~~ **Command Comments: Concur.** The Contracting Officer will make no additional payments on the cost growth associated with (b)(4), and (b)(4) (b)(4) until:

a. The Contracting Officer performs analyses on the cost growth to determine if it is reasonable, allowable, and allocable. Upon completion, the analyses will be provided to the Head of the Contracting Activity, U.S. Army Contracting Command-Redstone for review (by 31 October 2012, as in A.3, above); and

b. The Contracting Officer is notified that all investigations are complete. Completion of investigations is not within our control and we have no estimate of when investigations will be completed.

~~(FOUO)~~ **Recommendation A.5.a.** Conduct a review of the Non-Standard Rotary Wing Aircraft Program Management Office actions regarding (b)(4) and (b)(4) (b)(4) and determine whether Non-Standard Rotary Wing Aircraft Program Management Office should continue to do business with (b)(4) and (b)(4) (b)(4).

Revised, redirected, and renumbered draft Recommendation A.5.a as Recommendation A.5

~~(FOUO)~~ **Command Comments (PEO-AVN): Non-Concur.** At this time, (b)(4) has performed only as a subcontractor in support of PM NSRWA. The PM has not directed the prime to subcontract with (b)(4). PEO AVN does not, IAW all applicable FAR clauses, have privity to subcontractors nor engage in subcontracting with any existing entities. The USG

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11

Final Report Reference

contracts with a prime contractor; the prime contractor is responsible for contract oversight of its subcontractors. This report indicates that Northrop Grumman lacks management responsibility for its subcontractors, and requires more rigorous oversight from the USG.

~~(FOUO)~~ **Recommendation A.5.b.** Conduct training for contracting officer's representatives regarding the need to comply with contract and subcontract terms and conditions and the need to implement corrective measures when contractor performance is not compliant with the terms and conditions of contracts and subcontracts.

Revised and renumbered draft Recommendation A.5.b as Recommendation A.6

Command Comments (PEO-AVN): Non-Concur. The CORs received the required training to uphold their positions prior to the March 2011 assumption of duties supporting the NSRWA PMO. The USG has no privity with subcontractors; therefore, the COR cannot enforce actions at the subcontractor level. The USG is only responsible for ensuring compliance with the contract terms with the prime contractor.

Finding B. Task Orders Awarded Without Determining Fair and Reasonable Prices

Command Comments on Finding B:

The DODIG report purported that the Space and Missile Defense Command (SMDC) Contracting and Acquisition Management Office (CAMO) contracting officers did not adequately perform pricing and negotiation for contract modifications to task orders 0021 and 0035. Specifically, the SMDC CAMO contracting officers did not obtain cost and pricing data or perform cost analyses for seven of nine modifications that exceeded $650,000, or adequately document required price reasonableness determinations.

ACC-Redstone contends that this finding is inaccurate and represents a misunderstanding of the terms and conditions of the cited contract and the DODIG's improper application of the contract pricing principles set forth in FAR Subpart 15.4.

1 Contracting Officers Did Not Obtain Cost and Pricing Data or Perform Cost Analysis.

Task orders awarded under the CNTPO multiple award IDIQs were based upon pricing competitively established at the basic contract level and the terms and conditions set forth in the basic contracts for pricing and payment of task orders. While we agree that in some cases documentation to support the analysis conducted could have been more substantial, there was no evidence provided in the report that indicates that the process, terms and conditions set forth in the basic contracts were not followed.

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

The terms of the basic contract (W9113M-07-D-0007) establish the methods for submission of proposals, pricing and payment of services provided under task orders, including the incorporation of prices for the basis of proposal submission at the task order level. These prices, terms and conditions (see Sections B, H and J of the basic contract at Attachment 13) were based upon adequate competition at the time the contracts were awarded and facilitate the streamlined proposal analysis process implemented at the task order level.

Certified cost or pricing data is not required and is prohibited from being obtained, per the exception provided at FAR 15.403-1(b)(1), when the contracting officer determines that prices agreed upon are based upon adequate price competition. FAR 15.403-1(c)(1)(i) indicates that a price is based upon adequate price competition if two or more responsible offerors, competing independently, submit priced offers that satisfy the Government expressed requirement and if award will be made to the offeror whose proposal represents the best value where price is a substantial factor in source selections and there is no find that that the price of the otherwise successful offeror is unreasonable. With regard to the award of the basic contract, these conditions were satisfied and the documentation supporting the award of the basic contract included the basis for such a determination that adequate price competition existed.

Concerning proposals at the task order level, FAR 15.403-1(c)(1)(iii) indicates that adequate price competition exists if price analysis clearly demonstrates that the proposed price is reasonable in comparison with current or recent prices for the same or similar items, adjusted to reflect changes in market conditions, economic conditions, quantities, ***or terms and conditions under contracts that resulted from adequate price competition***. (emphasis added) Moreover, it is not possible for the contractors to submit and certify cost and pricing data at the task order level that would conflict with the prices, terms and conditions of the basic contract.

The terms of the contract and the task order request for proposals (TORPs) requires the contractors to submit with its proposal data other than cost and pricing data to support the Government's evaluation of its proposal. During the evaluation of proposals received in response to these TORPs, the Government considers this information, information from other sources and the prices, terms and conditions of the basic contract as its basis for determining price reasonableness.

The evaluation of the TORPs 0087 and 0164 utilized proposal analysis techniques commensurate with the pricing, terms and conditions of the basic contract. For the initial task order awards, an evaluation was conducted in accordance with the criteria set forth in the TORPs. The evaluation was conducted in two parts; technical/management evaluation and price assessment to support a price realism evaluation. The technical/management evaluation assessed the quality, viability

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13

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and feasibility of the technical/management proposal to meet the requirements of the task order The technical/management evaluation also provided input to the price assessment regarding the price realism of the technical/management proposal. This assessment evaluated the skills mix and level of effort proposed for labor, and materials, ODCs and travel proposed as compared to (1) the task order requirements and (2) the contractor's proposed technical/management approach. The price assessment considered the prices proposed by the competing offerors, compared these prices head-to-head and assessed whether the pricing proposed were consistent with the pricing, terms and conditions of the basic contract.

- TORP 0087: Three offers were received, as such, the price analysis techniques set forth in FAR 15.404-1(b) were employed to assess the competitive proposals received. The labor, materials, ODCs and travel were priced in accordance with the terms of the basic contract. The offeror providing the best overall value to the Government was selected for award, considering the evaluation criteria and basis of award set forth in the TORP.

- TORP 0164: Three offers were received, as such, price analysis techniques set forth in FAR 15.404-1(b) were employed to assess the competitive proposals received. The labor, materials, ODCs and travel were priced in accordance with the terms of the basic contract. The offeror providing the best overall value to the Government was selected for award, considering the evaluation criteria and basis of award set forth in the TORP.

During the evaluation of proposals submitted to accommodate changes to these two TORPs, price analysis techniques were used. As stated above, the basis for pricing task orders and modifications to task orders were the prices, terms and conditions set forth in the basic contract (FAR 15.403-1(c)(1)(iii). Moreover, since the pricing of these changes were in accordance with the prices, terms and conditions of basic contract, certification of pricing other than those required by the contract would be impossible.

- The documentation of the price analysis depicted the comparative analysis used considering current or recent prices for the same or similar items.

- The price analysis documented the evaluation of the proposals considering the offeror's compliance with the prices, terms and conditions under the basic contract.

The task orders included in the audit were for the overhaul of aircraft. Contracts for the performance of maintenance, overhaul, modification and repair of various items (e.g., aircraft, engines, ground support equipment, ships) generally contain over and above requirements. Over and above work, also known as growth work or emergent work, is work discovered during the

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

course of performing overhaul, maintenance and repair efforts and is necessary in order to satisfactorily complete the effort. Pursuant to DoD FAR Supplement PGI 217.77, over and above work requests are within the scope of the contract and as such are not defined as new work. The proposals are assessed, first considering the proposed over and above effort and whether this effort is necessary to restore aircraft to flight worthy status, and second considering the reasonableness of the price proposed. The same proposal analysis techniques employed for the basic task order award were employed when evaluating the proposals for the over and above work and reaching agreement for the price for the additional work (see above). As with other changes to the task orders, modifications to settle the price for over and above work were exempted from requesting and certifying cost or pricing data (FAR 15.403-1(c)(1)(iii).

It is important to note that the parts used in the overhauls efforts included new, used and reconditioned parts. As such, the prices for parts vary based upon their characterization. Further, the subcontracts executed by Northrop were commercial contracts, employing commercial terms and conditions. Prices for parts offered represented the highly volatile market for aircraft parts sold within the commercial market and were not constrained by any regulatory entity. Finally, the prices for the overhauls (including over and above costs) will vary as the actual conduct of the overhaul is executed. The incurred costs are subject to final audit to determine the allowability and allocability of the costs.

2. Contractor Proposals Accepted Without Negotiations.

The following addresses the evaluation conducted on each of the task order modifications questioned in the report:

a. TORP 0087/Task Order 0021:

~~(FOUO)~~ (1) Initial Task Order (TO) Award: The reasonableness of price of this TO was based upon competition. The items included in the basic award included the overhaul of up to [redacted] aircraft and an assessment of the feasibility of establishing an overhaul facility at or near Tarbela, Pakistan. The task order award included priced options, one of which was exercised at the time of award for the provision of spare fuel control units (Option A). The awarded value for the basic requirement and the exercised option was $32,064,821.69. The task order was incrementally funding, with the first increment of [redacted] provided with the basic TO award. Unexercised options were included in the task order award as priced options. These options were:

- Options B and C – provision of spare fuel control units;
- Option D – Establishment and operation of a Local Overhaul Facility (Base Year);

Final Report Reference

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

- Option E - Operation of a Local Overhaul Facility (Option Year 1); and,
- Option F - Operation of a Local Overhaul Facility (Option Year 2).

(2) Modification 03: Modification 03 exercised Options B and C, and provided funding for these options. Negotiations were not conducted regarding this action as the prices for these options were evaluated during the evaluation of offers that lead to the award of this task order. The task order file documentation indicated that there were no changes to this requirement or to market conditions that would affect the prices for these options. Pursuant to FAR 15.403-2(a), certified cost or pricing data is not required for the exercise of an option at the price established in the contract award.

~~(FOUO)~~ (3) Modification 05: Modification 05 documented the settlement of the price for over and above work and other changes required, to include the incorporation of insurance on the aircraft to be overhauled and the cancellation of a transport aircraft. The Mi-17 helicopters that
were provided for overhaul were not in operational condition and had more extensive damage than a typical Mi-17 helicopter presented for a 1500 hour overhaul. Each of the (b)(4) Pakistan Army Aviation Command (AAC) helicopters had unexpected damage and excessive wear/tear of serviceable parts due to operational conditions. The tail numbers of these aircraft were as follows, which **were not** associated with the aircraft addressed in the dispute between Northrop, (b)(4) and (b)(4):

- (b)(4)

In accordance with the Section 1.1 (1500 Hour Overhaul of Mi-17s Requirements) of the performance work statement (PWS), the "Over and Above" items and associated costs proposed (by aircraft) were presented to the CNTPO task order monitor (ToM) and COR for review and approval prior to continuing with the overhaul process. The evaluation of the proposed price used the same techniques as employed for the basic task order, including evaluation of a sampling of the material items proposed. In addition to information provided by the ToM and

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16

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Pages i, 24, 29, 30, 33, 36, and 53

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

COR regarding the acceptability of the labor skills mix, labor level of effort, materials, ODCs and travel, the evaluator relied upon the information other than cost or pricing data provided in the proposal and the analysis conducted by the contractor of the prices submitted by their subcontractors and suppliers (based upon the contractor exercising the practices approved by DCMA when approving its purchasing system). In addition, the contracting officer conducted an analysis of the parts included in the proposal, comparing the prices proposed to those acquired under similar procurements. A review was also conducted of the rates proposed (labor, indirect and profit/fee rates) as compared to those set forth under the basic contract. No concerns were identified; as such there was no basis for conducting negotiations.

~~(FOUO)~~ (4) Modification 09: This modification, provided incremental funding for the over and above work for (b)(4) aircraft; (b)(4) **of which were the aircraft included in the Northrop,** (b)(4) **and** (b)(4) **dispute**. The price for the over and above costs for these (b)(4) aircraft was $4,487,437.48.

Due to the urgency of the requirement, and pursuant to DFAR 252.217-7028, authority to proceed with the over and above work was provided and limited funding was applied pending the settlement of the price for the effort. The following clause was included in the modification, preserving the Government's rights to downward adjustment of the proposed price upon completion of its evaluation.

GOVT RESERVATION OF RIGHTS

This modification provides additional funding for the Over and Above (O&A) work identified in your proposal dated 31 March 2010. While O&A work involving a combination of new and refurbished parts was contemplated at the time of task order issuance, the Government is in receipt of your request for a change in the task order price to reflect your proposed O&A effort (inclusive of labor, materials, supplies and equipment) to address conditions present at the time of aircraft overhaul inspection that were not necessarily anticipated at the time of task order issuance and are necessary to complete the overhauls.

Due to the urgency of need to execute and complete the required O&A overhauls, this modification provides limited incremental funding and conditionally approves your submitted proposal dated 31 March 2010. However, you are notified that the Government reserves the right to renegotiate and/or off-set this task order modification based upon its final review of your submitted price(s) and supporting documentation. A final settlement negotiated price and/or off set modification (if needed) or other contracting officer direction will be issued NLT 10 August 2010.

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

The proposed price for the additional effort required was evaluated, consistent with the evaluation approach for Modification 05 and no exceptions were taken with the proposed approach, materials, ODCs or travel or the information other than cost or pricing data submitted by the contractor. As with Modification 05, a sampling of the materials proposed was evaluated; all prices were found to be in line with other competitions for the same or similar items. As such, negotiations were not conducted.

~~(FOUO)~~ (5) Modification 12: Modification 12 provided incremental funding for an additional set of overhaul parts in order to meet the operational requirements of the aircraft being overhauled. As discussed in the report, a dispute arose between Northrop and its subcontractors (b)(4) and (b)(4) Attempts to resolve the dispute were executed at various levels, including diplomatic channels by both Northrop and the Government. After substantial coordination with appropriate authorities within the Department of the Army, Department of Defense and Department of State, it was determined that funding would be provided to authorize the purchase of additional parts to enable the aircraft to be restored to flight worthy and mission ready status.

~~(FOUO)~~ The documentation included in the file indicated that excess parts would be provided to satisfy other overhaul requirements for Pakistan aircraft and that full evaluation of the prices for these parts would be subject to future audit. Due to the urgency of the requirement, and pursuant to DFAR 252.217-7028, authority to proceed with the over and above work was provided and funding was applied pending the settlement of the price for the effort. Northrop's proposal indicated that its proposal did not include final costs as negotiations with its subcontractor regarding the price for these parts was still ongoing. As such, the proposal was not evaluated and negotiations were not conducted, but rather deferred pending submission of a detailed proposal, including information other than cost or pricing data.

~~(FOUO)~~ (6) Modification 14: Modification 14 indicated the modification provided funding for over and above costs related to the overhaul of (b)(4) aircraft **not associated with Northrop (b)(4) dispute discussed in the report**. The categorization of the effort in the IG report as work repriced without negotiation is not an accurate depiction of this requirement. This effort provided for the overhaul of (b)(4) aircraft that had sustained substantial battle damage. The proposal provided by the contractor included over and above estimates were based upon the contractor's initial assessment. The proposal indicated a full over and above report would be provided once the aircraft were inducted into the overhaul facility and a more detailed inspection of the aircraft was conducted. These new overhaul efforts were applied to Option Year 2 requirements, which were exercised in Modification 10. Regarding the over and above costs, it appeared that both the technical evaluation and the price assessment considered the

Revised Pages i, 24, 29, 30, 33, 36, and 54

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18

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

contractor's preliminary assessment, which should not have been included in the modification. Rather, the preliminary notice should have been reviewed to ensure the Government desired to continue with the overhauls and had sufficient funding to cover the over and above costs, once finalized, and the price for the over and above costs negotiated once the full costs had been proposed.

In addition to this concern, it was noted that the technical evaluation took exception to the level of program management proposed; however, this was not addressed in the price analysis, nor were negotiations conducted to resolve this concern. Further, the proposal indicates that use of any excess parts resulting from the action taken in Modification 12 would be used to the greatest extent possible. However, the proposed did not reflect such utilization. As of this writing, these aircraft are still in the overhaul process and it is understood that additional over and above requirements may be identified. As such, the issues identified above will be taken into consideration where evaluating Northrop's updated proposal and negotiating a settlement of price for these overhauls, to include the total over and above costs.

(7) Modification 15: Modification 15 incorporated a new requirement for return to service validation inspections. Fair opportunity was provided to all five prime contractors for this new requirement; none other than Northrop indicated interest.

Modification 15 incorporated the return to service validation inspections for an overall price of $619,784.92. The proposal was evaluated consistent with the techniques identified above. The technical evaluation stated that there appeared to be an over abundance of Continental United States (CONUS) based Directors and Program Management for Outside CONUS (OCONUS), but didn't quantify the concern. Moreover, the technical evaluation also indicated that the proposed labor costs was lower than the IGCE and therefore considered the proposed labor costs reasonable to the Government. Resolution of this contradiction, or a record of discussions between the Contracting Officer and the technical evaluators was not included in the task order file. However, the IGCE represented a total of (b)(4) of labor and the hours submitted by NG represented (b)(4) A record of the assessment of the price was not found in the task order file.

~~(FOUO)~~ (8) Modification 17: Modification 17 related back to the [redacted] aircraft involved in the Northrop (b)(4) dispute. Due to the urgency of providing these aircraft back to operational status, the transport of the aircraft was split into additional delivery shipments than proposed and accepted in the original overhaul price. As depicted by the report, negotiations were conducted regarding the price of transport when questionable costs were identified by the Contracting Officer.

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

b. TORP 0164/Task Order 0035:

~~(FOUO)~~ (1.) Initial Task Order (TO) Award: The reasonableness of price of this TO was based upon competition. The items included in the basic award included the preparation of (b)(4) MI-17 aircraft (tail numbers (b)(4) to be transported by the Government to Ramstein, Germany (to include loading and unloading of the aircraft on/from the Government's transport aircraft and the overhaul of these aircraft. The order included priced options:

- Option A - Transportation from Overhaul Facility to Ft. Bliss;
- Option B – Overhaul and Repair (b)(4) MI-17 from Kandahar Airfield (AF), Afghanistan (tail numbers (b)(4);
- Option C – Transportation from the Overhaul Facility to Kandahar AF;
- Option D – Overhaul (b)(4) MI-17s from Kabul AF (tail numbers (b)(4)
- Option E – Transportation from the Overhaul Facility;
- Option F – Overhaul (b)(4) MI-17s from Kabul AF (tail numbers (b)(4) (b)(4)
- Option G – Transportation from the Overhaul Facility;
- Option H – Overhaul (b)(4) MI-17s from Kabul AF (tail numbers (b)(4) and,
- Option I – Transportation from the Overhaul Facility.

Options B, C, D, E, F and G were exercised at the time of task order award. The awarded value for the basic requirement and the exercised options was $19,661,092.14, which was fully funded.

~~(FOUO)~~ (2) Modification 01: This modification was awarded to include two new requirements (Option J for technical publications) and the conveyance of a mandated Service Life Reduction requirement imposed by the Department of the Army, and for the settlement of price for identified over and above work. The modification also exercised Options A, H, and I, which were previously priced. The modification also changed the point of delivery for Option A from Ft. Bliss to Crestview, AL, and changed the point of origination of the aircraft in Option H from Kabul, AF to Jordan. These changes resulted in the following:

- Base Requirement - The awarded price for the base requirement was (b)(4) Changes to the base requirement included the following:
  - Application of the new SLR requirement to the price for overhaul in the amount of (b)(4); and,
  - Incorporation of Over and Above costs in the amount of (b)(4) for aircraft (b)(4).

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

- Option A - Application of the change in point of deliver in the amount of (b)(4)
- Option H - Application of the change in point of origin in the amount of (b)(4)
- Option I: Addition of a new requirement for technical publications in the amount of (b)(4)

Due to the urgency of the requirement, this modification conditionally approved the proposal, subject to further evaluation and the following was included in the modification:

GOV RESERVATION OF RIGHTS

The Government is reviewing your proposal dated 04 June 2010, as well as your request for additional information. Based upon your proposal information submitted to date, and subject to the reservation of rights stated below, the Government agrees to your proposed replacement parts and approach identified in your proposal dated 04 June 2010, but has concluded that your proposed price is not fully supported by your proposal pricing information and data submitted to date.

This modification provides additional funding for the Over and Above (O&A) work identified in your proposal dated 04 June 2010. While O&A work involving a combination of new and refurbished parts was contemplated at the time of task order issuance, the Government is in receipt of your request for a change in the task order price to reflect your proposed O&A effort (inclusive of labor, materials, supplies and equipment) to address conditions present at the time of aircraft overhaul inspection that were not necessarily anticipated at the time of task order issuance and are necessary to complete the overhauls.

Due to the urgency of need to execute and complete the required O&A overhauls, this modification provides limited incremental funding and conditionally approves your submitted proposal dated 04 June 2010. However, you are notified that the Government reserves the right to renegotiate and/or off-set this task order modification based upon its final review of your submitted price(s) and supporting documentation. A final settlement negotiated price and/or off-set modification (if needed) or other contracting officer direction will be issued NLT 10 September 2010.

~~(FOUO)~~ (3) Modification 02: Modification 02 provided funding for additional parts in order to meet the operational requirements of the aircraft being overhauled (b)(4). As discussed in the report, a dispute arose between Northrop and its subcontractors (b)(4) (b)(4) and (b)(4). Attempts to resolve the dispute were executed at various levels, including diplomatic channels by both Northrop and the Government.

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

After substantial coordination with appropriate authorities within the Department of the Army, Department of Defense and Department of State, it was determined that funding would be provided to authorize the purchase of a second set of parts to enable the aircraft to be restored to flight worthy status. The documentation included in the file indicated that any excess parts would be provided to satisfy other overhaul requirements for Pakistan aircraft and that full evaluation of the prices for these parts would be subject to future audit in conjunction with the evaluation of the Requests for Equitable Adjustments that the subcontractor advised would be submitted. Due to the urgency of the requirement, and pursuant to DFAR 252.217-7028, authority to proceed with the over and above work was provided and funding was applied pending the settlement of the price for the effort.

Similar to modification 12 under TORP 0087, Northrop's proposal indicated that its proposal did not include final costs as negotiations with its subcontractor regarding the price for these parts was still ongoing. As such, the proposal was not evaluated and negotiations were not conducted, but rather deferred pending submission of a detailed proposal, including information other than cost or pricing data.

3. Contracting Officers Paid More than Fair and Reasonable Prices for Parts.

As stated above under TORP 0087 Modification 12 and TORP 0164 modification 02, a final price for the additional parts authorized was not agreed to nor negotiated at the time these modifications were executed. As of this writing, these negotiations are not complete. As such, the report's presentation of information regarding a price that has not been negotiated and subject to finalization of price is premature.

~~(FOUO)~~ **Recommendation B.1.** Implement a process to use the Army Contracting Command-Redstone Arsenal directorate of cost/price analysts and the Defense Contract Management Agency pricing
analysts to assist in fair and reasonable price determinations for all contracts related to Mi-17 aircraft.

Command Comments: **Concur.** Over the past year, emphasis has been placed on restoring cost/price analysis capability at ACC-Redstone that had been dissolved as a result of prior personnel cuts. A standard operating procedure is in draft regarding the utilization of the newly established pricing organization. A copy of this SOP will be provided by 15 June 2012. The current SOP and Acquisition Instructions do require appropriate cost/price analysis IAW regulatory requirements.

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

The FAR and DFARS defines guidelines and thresholds for the use of field pricing assistance and Defense Contract Management Agency. The ACC-Redstone Standard Operating Procedure (SOP) 715-1 defines guidelines for the use of the ACC-Redstone Pricing Directorate. The Department of Defense has made huge strides over the past two years to put the responsibility of overall management of the contract to include cost and price analyses with the contracting specialist/officer. Department of Defense Contracting Certification Programs have been modified and extended to incorporate extensive cost/pricing training. Contracting specialists/officers use DCMA and ACC-Redstone Pricing Directorate as directed and also as needed. Contracting specialist will use field pricing support and audit assistance as needed and commensurate with the task at hand.

~~(FOUO)~~ **Recommendation B.2.** Provide training to contract officials working on the Counter Narcoterrorism Technology Program Office contract for the requirements listed in Recommendation B.3.

Command Comments: Partial Concur. As stated above, the actions cited in this report do not include actions for which cost analysis should have been conducted and certified cost or pricing data obtained. However, ACC-Redstone does concur that additional training is required in cost/price analysis and such classes, tailored for both interns and journeyman level contract specialists, have been conducted and will continue to be conducted. The need for additional training and restoration of lost pricing skill sets is a challenge across DOD. Additional training has been mandated as a part of the Defense Acquisition Workforce Improvement Act certification process.

~~(FOUO)~~ **Recommendation B.3.** Establish controls to verify that the contracting officers:

a. Use cost or price analyses appropriately in accordance with Federal Acquisition Regulation 15.404-1, "Proposal Analysis Techniques."

b. Obtain cost and pricing data for modifications expected to exceed $700,000 as required by Federal Acquisition Regulation 15.4, "Contract Pricing."

c. Document fair and reasonable price determinations in accordance with Federal Acquisition Regulation 15.406-3, "Documenting the Negotiation."

Command Comments: Concur. A Policy and Compliance Guidance will be distributed across ACC-Redstone by 31 July 2012 reminding all personnel of the importance of conducting the appropriate level of analysis considering the nature, value and complexity of each action, and ensuring evaluation documentation is sufficiently comprehensive to support the determination of fair and reasonable price.

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US Army Aviation and Missile Life Cycle Management Command
Comments to DODIG Draft Report - Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays
(Project No. D2011-D000AS-0241.000)

(AMCOM Project 2012D010)

~~(FOUO)~~ References:

Attachment 1: June 04, 2010 (b)(4) Letter to Northrop Grumman
Attachment 2: August 24, 2010 (b)(4) Letter to USG
Attachment 3: MFR From
Attachment 4: Northrop Grumman Request for USG Involvement and USG Response
Attachment 5: August 12, 2010 and September 14, 2010 USG Response to Northrop Grumman
Attachment 6: September 20, 2010 Summary of Lithuania Meeting
Attachment 7: September 29, 2010 CNTPO Concurrence
Attachment 8: October 5, 2010 ODRP Concurrence
Attachment 9: (b)(4) Memo and (b)(4) Report on Authenticity
Attachment 10: Russian MOD 2010-2011 Letter Series
Attachment 11: Russian MOD 2002 Letter Series
Attachment 12: FSMTC Demil of A/C (b)(4)
Attachment 13: Sections B, H and J of Basic Contract W9113M-07-D-0007

Attachments omitted because of length. Copies will be provided upon request.

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24

Program Executive Officer, Aviation, Comments

DEPARTMENT OF THE ARMY
OFFICE OF THE PROGRAM EXECUTIVE OFFICER, AVIATION
REDSTONE ARSENAL, AL 35898-5000

APR 3 0 2012

REPLY TO
ATTENTION OF

SFAE-AV

MEMORANDUM FOR Inspector General, Department of Defense, 400 Army Navy Drive, Arlington, VA 22202-4704

SUBJECT: Department of Defense Inspector General (DoD IG) Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

1. The subject report makes two recommendations to the Program Executive Officer, Aviation, assess whether the Non-Standard Rotary Wing Aircraft Program Management Office should continue to do business with (b)(4) and (b)(4) (b)(4) and conduct training for Contracting Officer Representatives.

2. The Office of the Program Executive Officer, Aviation non-concurs with the recommendations and provides the enclosed comments.

3. Point of contact for this memorandum is [redacted]

Encls

WILLIAM T. CROSBY
Major General, USA
Program Executive Officer, Aviation

CF:
AMCOM IRAC (w/encl)

SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

Finding A. Mi-17 Overhauls Performed Without Oversight:

"The SMDC CAMO contracting officer and PMO CORs did not perform adequate oversight and management of CNTPO contracts for the overhaul of Mi-17 aircraft in accordance with the FAR. Specifically, the contracting officers and CORs did not support Northrop Grumman (the prime contractor) oversight of its subcontractor, (b)(4), during the overhaul of (b) Mi-17 aircraft. This occurred because the SMDC CAMO contracting officers continued to obligate DoD for additional costs for the (b) Mi-17aircraft overhaul efforts and the CORs accepted the completed aircraft even though (b)(4) did not meet the terms and conditions of its contracts with (b)(4), a Northrop Grumman subcontractor. (b)(4):

- denied DoD's, Northrop Grumman's, and (b)(4) quality assurance personnel access to its overhaul facility;
- did not identify unauthentic parts that affected flight airworthiness;
- purchased parts when there was no provision in its subcontracts to do so; and
- imported military variants of the Mi-17 aircraft owned by DoD in violation of Russian law.

~~(FOUO)~~ As a result, the planned overhaul of the (b) Mi-17 aircraft may cost up to (b)(4), (b)(4) more than the original contracted value of $37.7 million. This increase included:[6]

- $16.8 million of unnecessary costs for the purchase of duplicate parts, additional insurance and inspections costs, and unplanned demilitarization costs incurred as a result of (b)(4) actions and
- (b)(4) for (b)(4) request for equitable adjustment that the contracting officer is evaluating for approval."

In addition, the overhaul of the (b) Mi-17s took at least 12 to 20 months longer than the 6 months projected by Northrop Grumman. The delayed delivery of (b)(4) Mi-17s meant they were unavailable for rescue and recovery operations during the 2010 floods in Pakistan. Although overhaul efforts have been completed on the (b)(4) aircraft, they remain unavailable for their intended training mission at Fort Rucker, Alabama.~~(FOUO)~~

Final Report Reference

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SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

Recommendation A.5.a. Conduct a review of the Non-Standard Rotary Wing Aircraft Program Management Office actions regarding (b)(4) , and (b)(4) (b)(4) and determine whether Non-Standard Rotary Wing Aircraft Program Management Office should continue to do business with (b)(4) , and (b)(4) (b)(4)

Revised, redirected, and renumbered draft Recommendation A.5.a as Recommendation A.5

~~(FOUO)~~ Command Comments (PEO-AVN): Non-Concur. The recommendation that NSRWA PMO review actions regarding (b)(4) and determine whether or not it wishes to continue to do business with them, as a subcontractor, is improper for multiple reasons. First, there is a formal established process by which companies are suspended or debarred from USG contracts and a master list of suspended or debarred companies is maintained and is routinely consulted before contracts are awarded. As of this date, (b)(4) is not on that list and the NSRWA PMO has no authority to add or remove companies from that list. Second, (b)(4) has performed only as a subcontractor in support of the NSRWA PMO. The NSRWA PMO did not direct the prime, Northrop Grumman, to subcontract with (b)(4) , or any other particular company for that matter. The USG contract is with the prime contractor, Northrop Grumman; the prime contractor is responsible for selecting any subcontractors required to execute the effort, and the prime contractor is responsible for ensuring performance of all aspects of the overall effort to include those aspects they chose to sub-contract to other companies. The NSRWA PMO does not have privity of contract with Subcontractors, nor does NSRWA PMO engage in subcontracting with any existing entities. ~~(FOUO)~~

Recommendation A.5.b. Conduct training for contracting officer's representatives regarding the need to comply with contract and subcontract terms and conditions and the need to implement corrective measures when contractor performance is not compliant with the terms and conditions of contracts and subcontracts.

Revised and renumbered draft Recommendation A.5.b as Recommendation A.6

Command Comments (PEO-AVN): Non-Concur. Prior to the March 2011 assumption of Duties, the NSRWA CORs received the required training to perform the responsibilities of their positions. Since that time, they have maintained any additional training and refresher/currency training required by regulation, policy or statute. The USG has no privity of contract with subcontractors; therefore, the COR cannot enforce actions at the subcontractor level. The USG must ensure compliance with the contract terms with the prime contractor. It is the prime contractor's responsibility to ensure subcontractor compliance. This recommendation, to the extent that performance by subcontractors is involved, contradicts the report's premise that the USG was more involved at the subcontractor level than it should have been.

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SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

Encl 1: Command Comments on Finding A:

In accordance with (IAW) Office of the Under Secretary of Defense Acquisition Technology and Logistics Acquisition Decision Memorandum (ADM), the Army Program Executive Officer (PEO) Aviation officially chartered the Non-Standard Rotary Wing Aircraft (NSRWA) Project Management Office (PMO), on 1 July 2010, centralizing both Mi-17 procurement and Mi-17 support activities. A major challenge to the PMO, imposed by this ADM, was to eliminate confusion and inefficiency within the Department of Defense. The NSRWA PMO immediately supported contract management efforts and embraced the first "official" transition of oversight responsibility during March 2011 when contracting officer representative (COR) responsibility was transferred to the PMO. Contract administration transitioned to the Army Contracting Command-Redstone (ACC-Redstone) during August 2011.

The following paragraphs provide the background on Contract W9113M-07-D-0007, Task Orders 0021 and 0035 (the contractual instruments central to the audit report):

~~(FOUO)~~ Task Order 0021 was awarded on 30 September 2008 under contract to Northrop Grumman, previously known as TASC, Inc. The requirement was for the overhaul of Mi-17 rotary wing aircraft belonging to Pakistan Air Force. The awarded order was a hybrid task order arrangement, ordering labor on a fixed-price, level-of-effort (FP/LOE) basis, materials and other direct costs (ODCs) on a cost-plus-fixed-fee (CPFF) basis and travel and Defense Base Act insurance on a cost (no fee) basis. The overhauls were required to be conducted in an original equipment manufacturer (OEM) approved facility to OEM standards. Each overhaul was required to be performed to relevant standards and included the following actions:

- Inspect the Mi-17 helicopter to determine the extent of overhaul required;
- Update the aircraft assessment report with the current information;
- Overhaul the Mi-17 helicopters after receiving concurrence from the TTM;
- Perform post-overhaul test flights for the overhauled Mi-17 helicopter at the facility;
- Deliver the overhauled Mi-17 to Tarbela Airfield in Pakistan;
- Perform post-overhaul test flights for the overhauled Mi-17 helicopter at the Tarbela Airfield in Pakistan in coordination with Pakistani authorities; and
- Provide final inspection and test flight report for the Mi-17 helicopter to the TTM. At a minimum, the reports must document proof of compliance with applicable airworthiness regulations. ~~(FOUO)~~

~~(FOUO)~~Task Order 0035 was awarded on 30 September 2009 to Northrop Grumman. The base requirement of the task order was to overhaul (b) Afghanistan Mi-17 aircraft that were stationed at Fort Bliss, Texas. The contractor was required to disassemble the aircraft and transport the aircraft to the contractor's designated overhaul facility; and overhaul the aircraft to relevant standards, which included the following required actions:

SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

- At a minimum, execute each overhaul in IAW OEM standards, including Russian Interstate Aviation Committee (IAC) certification requirements;
- Inspect the Mi-17 helicopters at the OEM facility to determine the extent overhaul required and provide an aircraft assessment report; and prepare (b) aircraft for shipment by Mil-Air, C-17 aircraft;
- Overhaul the Mi-17 helicopters after receiving concurrence of the overhaul actions and notice to proceed (NTP) from the contracting officer's technical representative (COTR). The Government will inspect the aircraft during the overhaul process and before test flight at the contractor's overhaul facility;
- Perform post-overhaul test flights for the overhauled Mi-17 helicopter at the OEM IAC certified facility. The Government will require that a US Government (USG) test pilot, or qualified designee, fly in the right seat during test flights and the USG crew chief designated by the USG fly in cabin during pre-acceptance and acceptance test flights;
- Provide post-overhaul test flights report for (b) Mi-17 helicopters to the COTR. At a minimum, the reports shall document proof of compliance with applicable airworthiness regulations and OEM standards; and
- Prepare (b) aircraft for shipment from the overhaul facility to Fort Bliss, Texas. ~~(FOUO)~~

The following responses are referenced to the report's specific citations:

~~(FOUO)~~ The Mi-17 aircraft have now been successfully accepted and delivered, (b)(4) to Pakistan and (b) to Fort Rucker, Alabama. These aircraft were delivered subsequent to acceptance inspections and documented reports by both Northrop Grumman Corporation and USG representatives IAW established acceptance test plans and procedures as established by the NSRWA PMO and the Aviation Engineering Directorate (AED), the Army airworthiness authority. All (b) aircraft accepted under Task Orders 0021 and 0035 have been subjected to the same Government Acceptance Test Procedures. **The CORs performed their delegated quality assurance requirements and** the USG flight acceptance subject matter experts (SME) from NSRWA PMO performed in depth acceptance tests on all aircraft to assure airworthiness. The NSRWA PMO personnel who performed the acceptance testing are all Federal Aviation Authority-certified A&Ps. Most of them have over 10 years of experience on the Mi-17; and the crew included a retired U.S. Army Mi-17 maintenance test pilot with over 30 years of experience, more than 4500 hours of flying experience and more than 200 maintenance test flights in Mi-17 aircraft. The aircraft were accepted by the U.S. Army and a U.S. Army Airworthiness flight release was provided IAW AR 70-62. The acceptance test plan is the

Final Report Reference

standard plan used by the NSRWA PMO to accept Mi-17 aircraft deliverables. Based on recommendations from the CORs (CNTPO and NSRWA PMO), the Contracting Officer accepted the aircraft. The aircraft were verified coming out of overhaul through a rigorous inspection and acceptance procedure through test and evaluation conducted by SME in Lithuania and well as experts from Northrop Grumman prior to the Government's accepting the overhaul work. ~~(FOUO)~~

Specifically, IAW FAR 46.405, the prime contractor is responsible for accomplishing its quality control responsibilities over its subcontractors. USG CORs do not administer control of nor hold access to subcontractor facilities, and do not determine visit eligibility for subcontractor personnel. In addition, subcontracts do not commit the USG to subcontracted agreements. This report purports that on four occasions the USG, Northrop Grumman and (b)(4) (b)(4) personnel were denied access to (b)(4) The audit states that the (b)(4) quality assurance personnel were denied (b)(4) facility access, but does not cite the grounds for access being denied Based on (b)(4) letter dated 4 June 2010 (Attachment 1), (b)(4) provided an excerpt of its contract with (b)(4) that documented the agreed upon procedures for quality control inspection and access to the facility. The procedures include authorized representatives of their respective companies provide signed "non-disclosure statements," and that approved visit requests were submitted timely IAW visitation protocols. Further, by letter 24 August 2010 (Attachment 2), (b)(4) stated that their reasons for not providing unfettered access was in order to protect its intellectual property from industry competitors; (b)(4) was viewed by (b)(4) as a competitor for Mi-17 overhaul business. Ultimately, Northrop Grumman was allowed access in March/April of 2010, IAW contractual requirements between (b)(4) and (b)(4) (Attachment 3). USG representatives and Northrop Grumman representatives were given full access to the (b)(4) facility and all overhaul aircraft in various stages of completion. All aircraft delivered by Northrop Grumman were inspected by both the USG and Northrop Grumman and found to be airworthy.

Attachments omitted because of length. Copies will be provided upon request.

By letter dated 23 July 2010 (Attachment 4), Northrop Grumman requested the Government communicate to (b)(4) that only Northrop has the authority to direct and pay for completion of the overhauls. The contracting officer provided Northrop with a letter dated 28 July 2010 (Attachment 4) addressed "To Whom It May Concern" documenting the contractual relationship the Government has with Northrop. The letter further indicated that direction to subcontractors and suppliers regarding the overhauls must be provided by Northrop and not the Government. In the e-mail transmitting the letter (Attachment 4) to Northrop, the Government indicated that the letter could be used in Northrop's discussions with (b)(4). The USG's involvement was solely to facilitate resolution of disputes between parties and was executed in conjunction with Northrop Grumman in order to obtain release of these aircraft to satisfy critical mission support requirements. The USG's offers to facilitate are provided as Attachment 5.

Attachments omitted because of length. Copies will be provided upon request.

A collaborative meeting was held 20 September 2010 between Northrop Grumman, (b)(4), CNTPO, PM NSRWA and OSD in Lithuania to discuss issues precluding the completion of overhaul of the (b) aircraft. A summary of the meeting is provided as

Final Report Reference

SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

Attachment 6. It was continually stressed in the meeting that the USG is acting only as a facilitator to ensure this effort continues to move forward and that the Government will not negotiate contract disputes between the companies. The USG also stressed that it continues to hold Northrop Grumman accountable for completing their contractual obligations but that it was clear from the meeting that the relationship among the parties had deteriorated to a point that USG facilitation was required to get the overhauls moving forward and to sustain such movement until the aircraft were returned. One of the key courses of action from the meeting was the provision to procure a second set of parts. During the discussions, it was identified that (b)(4) had proactively installed parts on (b) of the aircraft in an attempt to facilitate delivery. The discussions acknowledged that some of these same parts had previously been procured by (b)(4); however, it was recognized that it would be cost prohibitive to un-install the parts provided by (b)(4) and re-install the parts when provided (b)(4). There was a question as to whether all needed parts were immediately available from (b)(4). The Government reviewed the recommendation, particularly considering whether or not there was a bonafide need for the additional parts, and determined that there were requirements for these parts. A summary of this meeting, including the discussions held and a recommended course of action was provided to OSD, which concurred and provided the additional funding for the USG aircraft, (b)(4) and to ODRP, which authorized the expenditure of funds for the additional (b)(4) aircraft for Pakistan (Attachments 7 and 8).

Attachments omitted because of length. Copies will be provided upon request.

This Government decision advanced the delivery of these aircraft to Pakistan upon complete USG acceptance and testing at the (b)(4) facility in Kaunas, Lithuania; however, Northrop Grumman's lengthy impasse with subcontractors resulted in the delay of aircraft deliveries 12 to 20 months longer than the six months projected, and adversely impacted the OSD initiative to support vital rescue and recovery operations during the 2010 floods in Pakistan.

Attachments omitted because of length. Copies will be provided upon request.

Another key aspect of the discussions held in Lithuania was the two-pronged quality assurance approach to be employed in accepting the aircraft. The first phase was to conduct inspection of the overhauled aircraft and the second phase was to review the documentation related to the parts installed to ensure the authenticity and integrity of the parts. In this regard, Northrop Grumman acquired the services of (b)(4) to validate the authenticity of aircraft parts for use in overhauls. (b)(4) did not find certain parts listed in its own data base; concluded that these parts were suspect and reported same to Northrop Grumman. (b)(4) unilaterally replaced all suspect parts with authenticated parts. **It is critical to note that the majority of the (b) suspect parts were subsequently found to have been installed by the aircraft OEM during the production of the aircraft at the OEM's facility and that (b)(4) obtained documentation from the aircraft OEM documenting part authenticities** (Attachment 9).

Attachments omitted because of length. Copies will be provided upon request.

~~(FOUO)~~ The statement that (b)(4) "imported military variants of the Mi-17 aircraft owned by DoD in violation of Russian law" implies that there is specific documentation to substantiate that (b)(4) purposely violated the law. The USG procured these aircraft as civilian Mi-17 aircraft and operated them for six years as civilian aircraft before providing them to

Final Report Reference

SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

Northrop Grumman for overhaul. The aircraft log books stated that the aircraft were demilitarized; and based on this documentation, (b)(4) (b)(4) . Documentation regarding (b)(4) (Attachments 10 and 11) indicated that (b) aircraft were demilitarized and authorized to operate as civilian aircraft. Based upon this information, it appears that (b)(4) appropriately imported the aircraft as civil aircraft. ~~(FOUO)~~

Attachments omitted because of length. Copies will be provided upon request.

~~(FOUO)~~ Subsequently, representatives from Northrop Grumman met with the Russian Government and questioned the military nature of the aircraft at (b)(4) in late 2010. Northrop Grumman informed the Government that the Ministry of Defense of the Russian Federation would not allow the export of these aircraft until they were "properly" demilitarized. At that time Northrop Grumman contracted with (b)(4) to certify the demilitarization of the aircraft. The USG did sustain additional costs (b)(4) due to the certification actions of Northrop Grumman, but no physical aircraft demilitarization effort actually occurred (Attachment 12). Upon further review, these circumstances suggest that the Government provided incremental funding that was attributable to actions initiated by Northrop Grumman that may have been unnecessary given the documented demilitarized status of the aircraft. Additional review of this matter is required by the Contracting Officer to determine whether these additional costs (b)(4) are allowable and allocable. ~~(FOUO)~~

Attachments omitted because of length. Copies will be provided upon request.

~~(FOUO)~~ The report purports unnecessary costs of $16.8M; however, it does not take into account costs associated with changes in requirement, that final negotiations are not complete, or that incurred costs audits will be executed as a normal course of business for a cost-type contract. For example, the report does not acknowledge that a portion of the additional costs are attributable to the Department of Army mandated Service Life Reduction Program (SLR), including the application of existing Army airworthiness and safety standards on all aircraft operating under Army airworthiness. The SLR was a risk mitigation initiative imposed to mitigate aircraft safety risk due to a lack of OEM engineering cognizance. SLR reduced the OEM service life of 18 flight critical components, requiring part replacements. These costs in the amount of (b)(4) were not included in the original requirement but were added after task order award when the requirement was levied by the Department of Army. ~~(FOUO)~~

Revised
Pages i, ii, 5, 8, 15, and 16.

The perceived cost growth purported in the report also fails to recognize that the initial award of these orders solely included the overhaul effort. Identification of over and above efforts once equipment is torn down and assessed is a standard practice throughout DoD. Unknown costs associated with over and above efforts can only be added once they are clearly identified and the additional effort determined to be in the Government's best interest.

~~(FOUO)~~ The overhaul costs per aircraft listed in Table 2 (page 15) and Appendix C (page 36) of the report are inaccurate. The table below depicts the incurred costs to date as reported by Northrop Grumman on 28 March 2012. These incurred costs are subject to audit.

Pages 16 and 45

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SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

Task Order	Aircraft Tail Number	Overhaul Facility	Total Cost ($)
21	(b)(4)	(b)(4)	(b)(4)
21			
21			
21			
21			
21			
21			
21			
21			
21			
21			
21			
21			
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21			
21			
35			
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35			

The report concentrated on (b)(4) aircraft inducted for overhaul under task order 0021 and 0035. The report suggests that the overhaul price from (b)(4) is unreasonably high; however, the

SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

conclusion may be misplaced when considering the average cost per aircraft at each of the overhaul facilities employed:

(b)(4) $5,140,154.48
(b)(4) $4,217,870.53
(b)(4) $4,450,095.87
(b)(4) $6,251,424.91

However, it is imperative to understand that the condition of each aircraft drives the total overhaul costs, inclusive of over and above costs. As such, a true comparison of an "average" overhaul is not possible; clearly the indication of highly unreasonable costs from (b)(4) is not evidenced by the information presented above. ~~(FOUO)~~

(b)(4) request for equitable adjustment (REA) cannot be concluded as valid cost at this time. The proposals that were submitted by Northrop Grumman were presented as REAs. However, the data suggests that the reimbursement requested was attributable to cost growth. Northrop Grumman is currently performing a detailed analysis of the documentation. Northrop Grumman intends to negotiate an agreement with its subcontractors pursuant to the cost growth. After the Government receives the negotiated cost growth and all analyses and documentation, the Government will review to determine the reasonableness of the cost growth.

Regarding the report's concern with NSRWA PMO's prime contractor continuing to contract with (b)(4), the prime contractor's subcontracting efforts with (b)(4) satisfied two distinct requirements. The first supports the cockpit modification requirements. The prime contractor initiated a sole source contract with (b)(4) to satisfy a small portion of this effort that it felt could not be satisfied by any other source. The second requirement for overhaul of Mi-17 resulted in the award of a new subcontract to (b)(4) after the prime contractor competed the requirement among other potential sources. At this time, (b)(4) is not listed as an excluded party or otherwise ineligible for award.

Recommendation A.3. We recommend that the Head of the Contracting Activity, U.S. Army Contracting Command-Redstone, review analyses of all costs associated with (b)(4) and (b)(4) Requests for Equitable Adjustment to ensure that all costs are reasonable, allowable, and allocable prior to payment.

Command Comments: **Concur.** Upon completion of analyses and review by Northrop Grumman and the contracting officer, it will be provided to the Head of the Contracting Activity, U.S. Army Contracting Command-Redstone for review.

Recommendation A.4. We recommend that the U.S. Army Contracting Command-Redstone Contracting Officer responsible for task orders W9113M-07-D-0007-0021 and W9113M-07-D-

Final Report Reference

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SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

0007-0035 make no payments on additional costs associated with the (b)(4) and (b)(4) (b)(4) Requests for Equitable Adjustment until:

a. All costs have been determined to be reasonable, allowable, and allocable and the requisite analyses have been reviewed by the Head of the Contracting Activity in accordance with Recommendation A.3., and

b. All investigations on actions related to these contract actions are complete and it has been determined whether criminal activity has occurred during the performance of the contract. No payment should be made for any contract performance, directly or indirectly related to these contracts, that is deemed to be illegal.

Command Comments: **Concur.** The Contracting Officer will make no additional payments on the cost growth associated with (b)(4) and (b)(4) until:

a. The Contracting Officer performs analyses on the cost growth to determine if it is reasonable, allowable, and allocable. Upon completion, the analyses will be provided to the Head of the Contracting Activity, U.S. Army Contracting Command-Redstone for review; and

b. The Contracting Officer is notified that all investigations are complete.

Recommendation A.5.a. Conduct a review of the Non-Standard Rotary Wing Aircraft Program Management Office actions regarding (b)(4) and (b)(4) (b)(4) and determine whether Non-Standard Rotary Wing Aircraft Program Management Office should continue to do business with (b)(4) and (b)(4) (b)(4)

Revised, redirected, and renumbered draft Recommendation A.5.a as Recommendation A.5

~~(FOUO)~~ **Command Comments (PEO-AVN):** Non-Concur. The recommendation that NSRWA PMO review actions regarding (b)(4) and determine whether or not it wishes to continue to do business with them, as a subcontractor, is improper for multiple reasons. First, there is a formal established process by which companies are suspended or debarred from USG contracts and a master list of suspended or debarred companies is maintained and is routinely consulted before contracts are awarded. As of this date, (b)(4) is not on that list and the NSRWA PMO has no authority to add or remove companies from that list. Second, (b)(4) has performed only as a subcontractor in support of the NSRWA PMO. The NSRWA PMO did not direct the prime, Northrop Grumman, to subcontract with (b)(4), or any other particular company for that matter. The USG contract is with the prime contractor, Northrop Grumman; the prime contractor is responsible for selecting any subcontractors required to execute the effort, and the prime contractor is responsible for ensuring performance of all aspects of the overall

Final Report Reference

SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

effort to include those aspects they chose to sub-contract to other companies. The NSRWA PMO does not have privity of contract with Subcontractors, nor does NSRWA PMO engage in subcontracting with any existing entities. ~~(FOUO)~~

Recommendation A.5.b. Conduct training for contracting officer's representatives regarding the need to comply with contract and subcontract terms and conditions and the need to implement corrective measures when contractor performance is not compliant with the terms and conditions of contracts and subcontracts.

Revised and renumbered draft Recommendation A.5.b as Recommendation A.6

Command Comments (PEO-AVN): Non-Concur. Prior to the March 2011 assumption of Duties, the NSRWA CORs received the required training to perform the responsibilities of their positions. Since that time, they have maintained any additional training and refresher/currency training required by regulation, policy or statute. The USG has no privity of contract with subcontractors; therefore, the COR cannot enforce actions at the subcontractor level. The USG must ensure compliance with the contract terms with the prime contractor. It is the prime contractor's responsibility to ensure subcontractor compliance. This recommendation, to the extent that performance by subcontractors is involved, contradicts the report's premise that the USG was more involved at the subcontractor level than it should have been.

SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

Encl 2:

Line-by-line review of DODIG Draft Report Project No. D2011-D000AS-0241.000

Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays

PEO Aviation - Non-Standard Rotary Wing Aircraft Project Management Office

4/03/2012

The purpose of this document is to provide a formal response to the Department of Defense Inspector General (DOD IG) relating to the 15 March 12 release of the Draft DOD IG report, Project No. D2011-D000AS-0241.000. These comments reflect perspective from the Non Standard Rotary Wing Aircraft Project Management Office (NSRWA PMO) after reviewing the Draft Report.

Throughout the report the terms PMO and COR are used without context as to which PM/COR they are referring (CNTPO, PM NSRWA PMO, SMDC, AAC) which lends itself to ambiguity in the report. Clarity is requested where a PMO and/or contract oversight is mentioned. NSRWA PMO was chartered in July 2010 in accordance with an USD (AT&L) Acquisition Decision Memorandum (ADM) dated 19 January 2010. The ADM addressed the disjointed support that was being provided to the Mi-17 Fleet in multiple theatres by multiple organizations with conflicting requirements and methodologies. Organizations from the United States Air Force (USAF), the United States Navy (USN) and the United States Army (USA) were attempting to autonomously manage Mi-17 sustainment and procurement efforts, sometimes at cross purposes and as competitors. This led to a caustic and convoluted program management environment. NSRWA PMO was established to bring a "Joint" synergy and provide more focused, manageable, and achievable support to the Warfighter. NSRWA PMO, in order to facilitate an orderly transition, operated under the current contract vehicles in place of which the preponderance were under the direction of the Counter Narco-Terrorism Technology Program Office (CNTPO). This was done in order to assure that while NSRWA PMO assessed the program and future options, we continued to provide support to the Warfighter through the CNTPO contract vehicles. While NSRWA PMO personnel supported contract management efforts from the outset, the first "Official" transition of oversight responsibility was in March 2011 when Contracting Officer Representative (COR) responsibility was transferred to NSRWA PMO. Contract administration did not transition to the local contracting command until August 2011. Due to the complexity and timing of the involvement of the various PMOs, CORs, and Contracting Officers, the report should be modified to clearly articulate the organization being referenced i.e. CNTPO, SMDC, NSRWA, AMCOM, etc.

Final Report Reference

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SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

The report seems to be based on limited and incomplete criteria and/or documentation. For example, there is a message from (b)(4) (EX 0725 JB) in which the USG was copy furnished. This letter addresses numerous areas discussed within the DOD IG report to include the overhaul completion schedule, providing replacement parts and materials to complete the overhauls, breach of contract issues and the lack of utilization of (b)(4) parts (Attachments provided in January response). Further, there is no indication of use of the information provided by NSRWA PMO personnel during the DOD IG site visit during May 2011, nor subsequent exchanges, in any substantive way. An example of the incomplete nature of the report is apparent in that though both Task Order (TO) 21 and 35 have multiple "Touch Labor" vendors performing work during the time period of reference, the only examples cited specify one vendor, (b)(4) (b)(4) In other words, even though (b)(4) aircraft were delivered under TO 35 with (b)(4) awaiting induction, only (b)(4) were reviewed in this report. On TO 21, only the aircraft from (b)(4) were reviewed even though there are currently (b)(4) other aircraft inducted at another facility. The report specifically does not address the fact that on TO 21 CNGS delivered an aircraft to the USG (b)(4) that was overhauled at (b)(4). Russia and was later determined to be a counterfeit aircraft. It would appear from any standard of Sample Data Collection (SDC) protocol that this would provide skewed, one-sided, and suspect results as they pertain to the overall audit of any effort. In addition, the omission of discussion concerning the other aircraft on these contracts could lead the reader to the incorrect conclusion that all the cost of these task orders are associated with only the subset of aircraft described in the report which is factually incorrect. Additionally, the report fails to address the mismanagement by the prime contractor and (b)(4) but rather directs all scrutiny toward the USG and (b)(4) (b)(4) This combined with the stated limitation of the scope of this investigation to only one of the (b)(4) is suspect at best.

Revised Pages ii, 6, 15, and 16

~~(FOUO)~~ It must also be reiterated that when the NSRWA PM was chartered, it inherited a mission that called for support to Warfighters in two (2) combat theaters as well as active Foreign Military Sales support to Pakistan, Yemen and others. We endeavored in all due diligence to support these requirements in the most proactive and comprehensive fashion that we could possibly achieve. The fervent nature of the pursuit of this due diligence may have led to perceived privity issues addressed in this report. We acknowledge this perception and endeavor to correct misconceptions that may have led to the misperception of a breach of privity. The NSRWA PM understood that the Prime Contractor (Northup Grumman) requested assistance with their sub-contractor issues to bring some USG presence to bear. It is our belief that the management environment and communications between various USG agencies and the Prime have led to these privity concerns. ~~(FOUO)~~

~~(FOUO)~~ The result though has been the delivery of aircraft that had previously experienced significant schedule delay as documented in this report. Specifically, since NSRWA took over management of this effort, the following aircraft deliveries have occurred:

(b)(4) Aircraft delivery to Afghanistan (TO 35)
(b)(4) Aircraft delivered to Pakistan (TO 21)

14
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SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

(b)(4) Aircraft delivered to Huntsville, Alabama (TO 35)
Aircraft currently in progress (TO 21) ~~(FOUO)~~

Our detailed response follows:

Page i, *"What we found"* **Para. 1:** This paragraph directly attributes the 12 – 20 month delay and the unidentified suspect parts to (b)(4) denying NGC and (b)(4) access to their facility. This is factually incorrect. There were numerous issues that resulted in the delay. Additionally, NGC and (b)(4) QA representatives would not have identified the suspect parts if they had been allowed on site as they did not have direct access the (b)(4) database. The use of (b)(4) was not part of NGC and (b)(4) QA plan. This would have been evident if the scope of this investigation had included all aircraft overhauled on these task orders rather than artificially limiting it to one (b)(4). In that case, the investigation would have shown that NGC \ (b)(4) delivered aircraft that were overhauled by a (b)(4) that also contained suspect parts.

Page I, (*what we found*) / **Page 5** (Finding A) Letter dated 4 June 2010 #EX 0725 JB was provided to the IG and clearly spells out that the initial request was denied but subsequent dates were provided (the reps showed despite written response) and inspectors did gain access (b)(6) called (b)(6), CNGS, and was verbally informed that CNTPO and CNGS personnel were provided access but was told not to provide email verification). BLUF, the 4 June memo addresses all of these concerns and despite being provided to the IG…did not find its way into the report

For the aircraft not available for flood relief…what is the substantiating information…what was the original schedule? i.e., did the relief occur when aircraft were in OH as originally planned (Would Northrop Grumman been able to support flood relief per original IMS?)

Page 1, Para. 1: recommend updating the objective paragraph; currently includes two statements of conclusion.

Page 3 Para. 5 *"We focused our audit on reviewing (b)(4) Mi-17s overhauled at (b)(4), ." "We reviewed documentation for (b)(4) Mi-17 aircraft overhauled at (b)(4) that were owned and operated by Pakistan and (b)(4) Mi-17 aircraft overhauled at (b)(4) that were owned and operated by DoD.."*

- There were (b)(4) additional aircraft completed under TO 35: (b)(4) returned to Afghanistan upon completion and the (b)(4) current aircraft here in Huntsville, AL under the PM cockpit modification program.
- There are currently (b)(4) aircraft in overhaul at this time under TO 21.

15
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Page 1

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SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

- An objective sampling from all vendors offers a more robust and complete approach to sample data collection and analysis. It appears incomplete to submit (b)(4) aircraft from a single vendor to this level of scrutiny while not addressing others. The total aircraft, to include the base year of TO 21, that have been completed or are currently in progress on both TOs totals (b) aircraft accomplished by three separate vendors.

Page 3

Page4 (contracting with other nations)...what is the relevance of this statement and quote...this refers to funds allocated for military equipment – Russian military equipment received by the Russian MoD..

Page 4, Para 2: The validity and relevance of the referenced Financial Times article is questionable at best. However, the US Army and the NSRWA are working with the Russian Federation to establish and increase cooperative efforts in the areas of Military and Technical Cooperation, which has been virtually non-existent since the start of the cold war. The progress that has made to date has been phenomenal and includes having a full time presence of USG Quality Assurance representatives at the Mi-17 production facility in Kazan Russia.

Page 5, Para 1: This report does not clearly specify which COR or PMO to which the report is referring in the paragraph. This should be clearly articulated to avoid confusion

- The statement that (b)(4) "did not identify unauthentic parts that affected flight airworthiness" is incorrect. CNGS provided aircraft to the USG inspection team (from (b)(4) facility) that met all Original Equipment Manufacturer (OEM), Interstate Aviation Committee (Russian CAA), Lithuanian CAA and U.S. Army airworthiness standards IAW AR 70-62. To address this situation immediately, (b)(4) replaced all suspect parts with authenticated parts. It is critical to note that the majority of the (b) suspect parts were subsequently found to have been installed by the aircraft OEM during the production of the aircraft at the OEM's facility, and (b)(4) have obtained documentation from the aircraft OEM documenting their authenticity. Based on the USG's understanding of the Russian Mi-17 Overhaul Standards, the Overhaul Facility is not required to validate the authenticity of parts installed by the OEM during production.

Page 5 Para 1: ***"CORs from PMOs, did not perform oversight and management of CNTPO contracts for the overhaul of Mi17 aircraft in accordance with the FAR. Specifically the contracting officer and CORs did not support Northrop Grumman oversight of its subcontractor..."***

SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

- In accordance with FAR 46.405, the CORs and KOs are not responsible for supporting the Prime in accomplishing its Quality Control responsibilities over its subcontractors (Attachments provided in January Response). This is the sole responsibility of the prime contractor.

Page 5 Para 1 bullet 1: *"Specifically, (b)(4) denied the DoD's, Northrop Grumman's, and (b)(4) quality assurance personnel access to their overhaul facility."*

- This is an inaccurate statement. What is not addressed here is that the USG (CNTPO) and (b)(4) on numerous occasions ignored the understood and contractually agreed to "Foreign Visitor" requirements that not only (b)(4) have but the Russian Government as well.

- These are the same requirements that we have in the USG relating to foreign visitors to a PMO as an example. Thus, if a foreign person from any company were to show up at the PM, we would do the same thing that (b)(4) did and ask that person to schedule a visit and meet certain security and visitor protocols such as prior notification, visitor/foreign visitor request, and local/federal government protocols for facility access.

- The specific incidents in reference occurred without prior notice on a bank holiday. Ultimately, Northrop Grumman was allowed access in March/April of 2010, three weeks later, in accordance with contractual requirements between (b)(4) and (b)(4) USG representatives and Northrop Grumman representatives were given full access to the (b)(4) facility and all overhaul aircraft in various stages of completion. All aircraft delivered by Northrop Grumman were inspected by both the USG and Northrop Grumman (Attachments provided in January Response).

Page 5 para 1 bullet 2: (b)(4) ***did not identify unauthentic parts that affected flight airworthiness."***

- Note: Unauthentic parts would be parts which are counterfeit in nature of some other issue with their authenticity. Suspect parts are those that have inconsistencies in documentation leading to suspect pedigree.
- This is an incorrect statement. (b)(4) a Northrop Grumman subcontractor, initially found suspect parts which are not UNAUTHENTIC parts. The parts were suspect because (b)(4) did not find the parts in their internal company data base. A subsequent search by the aircraft OEM found that the entire list of suspect parts were installed in the aircraft at the time of manufacture by the OEM and were OEM approved validating their authenticity.

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SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

Page 5 para 1 bullet 4: (b)(4) *imported military variants of the Mi-17 aircraft owned by DoD in violation of Russian law"*

- The statement that (b)(4) "imported military variants of the Mi-17 aircraft owned by DoD in violation of Russian law" does not take into account that on behalf of its prime contractor, Northrop Grumman, and prior to the stand up of the NSRWA PMO, the USG procured these aircraft as civilian (demilitarized) Mi-17 aircraft. The USG operated these aircraft for 6 years as civilian aircraft before providing them to Northrop Grumman for overhaul. The aircraft log books stated that the aircraft were demilitarized and, based on this documentation, (b)(4) (b)(4) Subsequently, representatives from Northrop Grumman met with the Russian Government and questioned the military nature of the aircraft at (b)(4) in late 2010 (Attachments provided in January Response). This action by Northrop Grumman directly contributed to the 12 to 20 month delay.

~~(FOUO)~~ **Page 5 Para. 2** *"This increase included: $16.8 million of unnecessary costs for the purchase of duplicate parts, additional insurance and inspections costs, and unplanned demilitarization costs incurred as a result of* (b)(4) *actions and* (b)(4) *or* (b)(4) *REA that the contracting officer is evaluating for approval."* ~~(FOUO)~~

- The unnecessary cost was a result of Northrop Grumman's failure to properly manage its subcontractors who procured duplicate sets of parts.

- This does not take into consideration the Service Life Reduction (SLR) program which was incorporated bilaterally into the delivery order and funded. The SLR was a risk mitigation initiative imposed to mitigate aircraft safety risk due to a lack of OEM engineering cognizance. SLR reduced the OEM service life of eighteen flight critical components, requiring part replacement. Northrop Grumman allowed both (b)(4) and (b)(4) to procure duplicate parts. SLR was a result of the Aviation Engineering Directorate's (AED) airworthiness oversight of these aircraft and the application of existing Army airworthiness and safety standards.

- This also does not take into effect the planned utilization of the duplicate parts for sustainment of other aircraft supported by the USG. The resulting cost savings directly offset the cost associated with procuring the duplicate parts.

Page 6 Para 2: *"... continued to deny access throughout the Mi-17 Overhauls."*

18
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Revised Pages i, ii, 5, 8, 15, and 16

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SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

- This statement is factually incorrect. While initially denied, the USG and NGC personnel were later allowed access during the overhauls.

Page 6 Para. 3: *"In July 2010, Northrop Grumman informed the SMDC CAMO Director of Contract Operations Directorate A that the CNTPO and NSRWA officials' actions caused* (b)(4) *to be under the impression that it could circumvent Northrop Grumman's authority by dealing directly with DoD officials."*

- NSRWA PMO had no direct contact with (b)(4) as related to the subcontract with Northrop Grumman.

- Any inference that was made that (b)(4) was directed to ignore the Prime should have been cleared up by the clarifying memo sent by SMDC KO (see DoD IG Report, Appendix D Timeline 28 July 2010).

Page 9, para 3: *"The CORs from CNTPO and NSRWA PMO accepted overhaul and repair work valued at $40.9 million for* (b) *Mi-17s without verifying whether the aircraft were overhauled in accordance with the contract quality requirements as required by the FAR."*

Revised
Page 10

- The statement is incorrect. The USG flight acceptance SMEs from NSRWA PMO performed in depth acceptance test on all aircraft that the IG's own SME states "if qualified maintenance and aircrew personnel followed the inspection guide and test flight procedures the aircraft would be airworthy." The NSRWA PMO personnel that performed the acceptance testing are all FAA certified A&P's. Most of them have over 10 years of experience on the Mi-17 specifically. The crew included a retired US Army Mi-17 maintenance test pilot with over 30 years of experience, more than 4500 hours of flying experience and more that 200 maintenance test flights in the Mi-17 alone. The qualification of the crew that performed the acceptance testing is impeccable. The aircraft were accepted by the U.S. Army and provided an U.S. Army Airworthiness release to flight IAW AR 70-62. NSRWA PMO asked Northrop Grumman to provide its acceptance test plan, but it stated that the NSRWA PMO acceptance test plan was more through and it preferred that the NSRWA PMO acceptance test plan be used for the joint USG/Northrop Grumman acceptance test of the (b) aircraft. Based on recommendations from the CORs from both CNTPO and NSRWA PMO, the KO accepted the aircraft.

- In addition, the USG's contract is with Northrop Grumman (NG), and when presented with the completed aircraft by NG, the USG is responsible for ensuring the product is compliant with the prime contract without regard to any ongoing subcontracting issues NG may have with any of its subcontractors.

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SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

~~(FOUO)~~ **Page 9 Para. 3:** *"The CORs from CNTPO and NSRWA PMO accepted overhaul and repair work valued at $40.9 million for* (b) *Mi-17s without verifying whether the aircraft were overhauled in accordance with the contract quality requirements as required by the FAR."* ~~(FOUO)~~

Page 10

- This is blatantly inaccurate and is contradicted by this same report during the discussion of the NSRWA Mi-17 Post Overhaul Inspection and Acceptance procedures. Each aircraft has been accepted IAW agreed to (USG and Contract Prime) Inspection and Acceptance criteria and procedures. The NSRWA PMO would never accept an aircraft that does not meet these requirements.

- The NSRWA PMO takes the further step of providing airworthiness via AED and stringent AED standards on all aircraft we deliver, even when they do not fall under Army Airworthiness.

- Lastly, these procedures were provided to the DOD IG and vetted through their Subject Matter Experts (SMEs) who endorsed and validated their quality and thoroughness.

Supports for comments above are also provided in your own document

Page 11

Page 9 Para. 3: *"A DoD Office of Inspector General (OIG) technical expert reviewed the Mi-17 NSRWA Acceptance Inspection Guide and the Mi-17 Helicopter Maintenance Test Flight Procedures and agreed that if qualified maintenance and aircrew personnel followed the inspection guide and test flight procedures the aircraft would be airworthy."*

"The OIG technical expert is a U.S. Air Force helicopter instructor pilot with 26 years of experience, more than 3,300 hours of flying experience in a variety of helicopters, and more than 100 maintenance flight checks."

Revised and redirected page 21 and 27

Page 10 (bottom): *"We recommend that the Program Executive Officer, Aviation conduct training for CORs, technical experts and subject matter experts regarding the need to comply with contract and subcontract terms and conditions."*

- The Government has no privity with subcontractors. Additionally, the Government is responsible for ensuring compliance with the contract terms with the Prime contractor.

Revised pages i, 5, 11, 12, 23, 28, 50, and 51

Page 11 Para. 1: *"Unauthentic Parts"*

- As previously explained, "Unauthentic" is an inaccurate adjective for these parts. The proper descriptor is "Suspect". This should be changed throughout the report to increase the accuracy and clarity.

Page 11 Para. 2 (and footnote 12): (b)(4) *subcontracted with the* (b)(4) (b)(4) *to check the authenticity of 85 flight critical aircraft components on each aircraft as they were accepted."*

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SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

- **The statement that "an additional (b)(4) that could have been avoided if (b)(4) had allowed (b)(4) quality assurance personnel access to the facility." is incorrect. (b)(4) did not have access to the (b)(4) database to authenticate the parts, so no matter how many quality assurance personnel (b)(4) had in the (b)(4) facility, (b)(4) could not have determined the authenticity of any parts. The only organization that has that capability is (b)(4) As we are finding out now, the (b)(4) database for authenticating parts is not 100% accurate, as many suspect parts are later determined to be authentic.**

Page 12 Para. 1: *"The SMDC CAMO contracting officer obligated the Government for parts purchased by (b)(4) for the overhaul of (b) Mi-17 aircraft when there was no provision in (b)(4) subcontracts with (b) to do so unless (b) approved (b)(4) to purchase the parts."*

See comment above regarding Page 5 Para. 2

Page 12 Para 2: *Letters between NGC* (b)(4)

Page 13

- The letter writing campaign described in this paragraph is demonstrative of NGC's mismanagement of their subcontractors. Yet the scope of the investigation and resulting report is solely focused on the USG and (b)(4) and does not mention mismanagement by NGC or (b)(4)

Page 12 Para 3: *Authorization to reimburse (b)(4) for the duplicate parts.*

Page 13

- This paragraph draws a conclusion while ignoring the impact of the operational need for these aircraft that existed in Pakistan that is discussed on pages 15 and 16 of the report.

Pages 16 and 17

~~(FOUO)~~ **Page 13:** (b)(4) *Imported Aircraft into Russia in Violation of Russian Law*

Page 14

- The whole paragraph is in direct contradiction to the current on hand documentation and log books for these aircraft. Northrop Grumman (b)(4) used exactly the same process when it imported and exported aircraft (b)(4) into and out of (b)(4) Russia as commercial aircraft. The only difference is that Northrop Grumman informed the FSMTC of the aircraft at (b)(4) and not the (b) aircraft at (b)(4) Russia. After aircraft (b)(4) were exported to the US, FSMTC informed the USG that aircraft (b)(4) were Military variants and were exported in violation of Russian Law. Concerning aircraft (b)(4) (overhauled by (b)(4) there were four (4) commissions chartered by the Russian Federation to investigate whether these aircraft were civilian or military aircraft. All four (4) commissions concluded they were "transport variant" i.e., civilian aircraft. ~~(FOUO)~~

21
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SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

- Conclusions of report:

  1. ~~(FOUO)~~ Components of armament, instrument, special equipment and armament control units are missing in Mi-17 helicopter, Ser. No. (b)(4).
  2. Helicopter set corresponds to the set of transport version helicopter. Further operation of helicopter as military transport version is impossible (Attachments provided in January Response).

- The USG plans to conduct an audit to determine if the costs are allowable and allocable. For example, one item in question is the cost charged to the USG for demilitarization of (b)(4) ~~(FOUO)~~

Page 13 Para 2: "Consequently, the delays adversely affected pilot training."

Page 14

- ~~(FOUO)~~ The sentence is incorrect. As of today, the delays of aircraft (b)(4) (b)(4) have had no impact on pilot training at Ft. Rucker. Ft. Rucker is not currently ready to accept any of the Mi-17 aircraft to support pilot training and is still in the process of developing its training curriculum. ~~(FOUO)~~

Page 17

Page 16 Para 2: "*... this work is being completed under contract W58RGZ-09-D-0130, task order 102, managed by NSRWA. This work was subcontracted to* (b)(4) *by the prime contractor Science and Engineering Services Inc (SESI) at the same time that* (b)(4) *was having trouble meeting terms and conditions of their subcontracts for task orders 0021 and 0035.*"

- This contract for aircraft cockpit modification was put in place on a competitively awarded IDIQ contract with SESI that was already in existence for PEO Aviation for the purpose of doing aircraft modifications.

Page 19: "*NSRWA PMO continues to subcontract with* (b)(4)."

Page 21

- The NSRWA PMO does not subcontract with anyone. The AMCOM contract is with a prime and the prime's contract is with subcontractors.

~~(FOUO)~~ **Page 19-20:** "*We confirmed with NSRWA PMO and contracting personnel that* (b)(4) *is the subcontractor for this task order and will perform the overhaul effort. These* (b) *overhauls could have been added to several task orders already under the CNTPO IDIQ contracts that used overhaul facilities other than* (b)(4), *or the overhauls could have been solicited through the Federal Business Opportunities System*"

Page 21

- This report chooses to ignore the information provided by the NSRWA PMO that directly speaks to (b)(4) Pakistan Mi-17 overhauls being awarded on three separate contract vehicles (b)(4) on task orders on the CNTPO IDIQ, and (b) on the LSF contract.) This strategy was taken to minimize the time until all (b)(4) aircraft could be returned to Pakistan, due to the urgency which was stated by ODRP. ~~(FOUO)~~

22

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SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

Page 29 Table 7: *Sample Parts*

- It is impossible to compare the parts accurately in Table 7 without additional information. There are a number of valid reasons that could explain these differences and without additional details; there is no way to determine the table's accuracy. Some of the information needed to clarify this table includes:
    - Are the items listed in fact the same part? Example: the Storage battery could be a lead acid battery or a lithium Ion sealed battery which have significantly different costs.
    - If they are the same part, are they the same condition? Is the part new, reconditioned, overhauled, etc.?
    - Parts pricing is based on market pricing. What time frame where these parts purchased?

Add the following dates to Appendix D

Apr 2010

(b)(4), (b)(6) [redacted]

July 2010

NSRWA PMO attended Farnborough Air Show.

August 2010

NSRWA PMO attended Berlin Air Show.

May 2011

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SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

NSRWA personnel made a trip to Russia to meet key Mi-17 companies.

The following statements in the Timeline are incorrect:

"April 29, 2011 – (b)(4) reports (b) unauthentic parts for aircraft (b)(4) (b)(4). April 29 2011

June 21, 2011 – (b)(4) reports (b) unauthentic parts for aircraft (b)(4).

August 2, 2011 – (b)(4) reports (b) unauthentic parts for aircraft (b)(4)." These statements are incorrect because only the OEM is able to valid counterfeit parts as stated earlier in this report. (b)(4) report that the parts were suspect. Further research has shown that the OEM installed the parts on at the OEM facility and the OEM approved the parts.

Revised pages 50 and 51

Final Report Reference

We addressed these comments in the official draft report.

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SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

Encl 3:

Line-by-line review of DODIG Discussion Draft of a Proposed Report Project No. D2011-D000AS-0241.000

Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays

PEO Aviation - Non-Standard Rotary Wing Aircraft Project Management Office
1/12/2012

The purpose of this document is to provide a preliminary response to the Department of Defense Inspector General (DOD IG) relating to the 5 Jan 12 release of the Discussion Draft DOD IG report, Project No. D2011-D000AS-0241.000. These comments reflect perspective from the Non Standard Rotary Wing Aircraft Project Management Office (NSRWA PMO) after reviewing the Discussion Draft Report which was forwarded to this office without the referenced appendices A B, C and E. This office requested these documents on 11 Jan 12. This request was rejected As a result, this response is in no way to be construed as complete; we will submit additional information as required.

Throughout the report the terms PMO and COR are used without context to which PM/COR they are referring which lends itself to ambiguity in the report. Clarity is requested where a PMO and contract oversight is mentioned. NSRWA PMO was chartered in July 2010 in accordance with an USD (AT&L) ADM dated 19 January 2010. The ADM addressed the disjointed support that was being provided to the Mi-17 Fleet in multiple theatres by multiple organizations with conflicting requirements and methodologies. Organizations from the United States Air Force (USAF), the United States Navy (USN) and the United States Army (USA) were attempting to autonomously manage Mi-17 sustainment and procurement efforts, sometimes at cross purposes and as competitors. This led to a caustic and convoluted program management environment. NSRWA PMO was established to bring a "Joint" synergy and provide more focused, manageable, and achievable support to the Warfighter. NSRWA PMO, in order to facilitate an orderly transition, operated under the current contract vehicles in place of which the preponderance were under the direction of the Counter Narco-Terrorism Technology Program Office (CNTPO). This was done in order to assure that while NSRWA PMO assessed the program and future options, we continued to provide support to the Warfighter through the CNTPO contract vehicles. While NSRWA PMO personnel supported contract management efforts from the outset, the first "Official" transition of oversight responsibility was in March 2011 when Contracting Officer Representative (COR) responsibility was transferred to NSRWA PMO. Contract administration did not transition to the local contracting command until August 2011.

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SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

The report seems to be based on limited and incomplete criteria and/or documentation. For example, there is a message from (b)(4) (EX 0725 JB) in which the USG was copy furnished. This letter addresses numerous areas discussed within the DOD IG report to include the overhaul completion schedule, providing replacement parts and materials to complete the overhauls, breach of contract issues and the lack of utilization of (b)(4) parts (see Attachment 1). Further, there is no indication of use of the information provided by NSRWA PMO personnel during the DOD IG site visit during May 2011, nor subsequent exchanges, in any substantive way. An example of the incomplete nature of the report is apparent in that though both Task Order (TO) 21 and 35 have multiple "Touch Labor" vendors performing work during the time period of reference, the only examples cited specify one vendor, (b)(4) In other words, even though (b)(4) aircraft were delivered under TO 35 with (b)(4) awaiting induction, only (b)(4) were reviewed in this report. On TO 21, only the aircraft from (b)(4) were reviewed even though there are currently (b)(4) other aircraft inducted at another facility. The report specifically does not address the fact that on TO 21 CNGS delivered an aircraft to the USG (b)(4) that was overhauled at (b)(4) , Russia and was later determined to be a counterfeit aircraft. It would appear from any standard of Sample Data Collection (SDC) protocol that this would provide skewed, one-sided, and suspect results as they pertain to the overall audit of any effort. In addition, the omission of discussion concerning the other aircraft on these contracts could lead the reader to the incorrect conclusion that all the cost of these task orders are associated with only the subset of aircraft described in the report.

~~(FOUO)~~ It must also be reiterated that when the NSRWA PM was chartered, it inherited a mission that called for support to Warfighters in two (2) combat theaters as well as active Foreign Military Sales support to Pakistan, Yemen and others. We endeavored in all due diligence to support these requirements in the most proactive and comprehensive fashion that we could possibly achieve. The fervent nature of the pursuit of this due diligence may have led to perceived privity issues addressed in this report. We acknowledge this perception and endeavor to correct misconceptions that may have led to the misperception of a breach of privity. The NSRWA PM understood that the Prime Contractor (Northup Grumman) requested assistance with their sub-contractor issues to bring some USG presence to bear. It is our belief that the management environment and communications between various USG agencies and the Prime have led to these privity concerns. ~~(FOUO)~~
~~(FOUO)~~ The result though has been the delivery of aircraft that had previously experienced significant schedule delay as documented in this report. Specifically, since NSRWA took over management of this effort, the following aircraft deliveries have occurred:

(b)(4)
- Aircraft delivery to Afghanistan (TO 35)
- Aircraft delivered to Pakistan (TO 21)
- Aircraft delivered to Huntsville, Alabama (TO 35)
- Aircraft currently in progress (TO 21) ~~(FOUO)~~

Our detailed response follows:

SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

Page 1, Para. 1: recommend updating the objective paragraph; currently includes two statements of conclusion.

Page 2 Para. 2: *"NSRWA PMO has program management and oversight responsibility for the Mi-17 task orders issued under the CNTPO contracts."*

- This is not completely accurate. Prior to spring/summer 2011 contract management and oversight was the purview of CNTPO and SMDC.

Page 2 Para. 4 (Footnote 3 and 4): *"3 We reviewed (b)(4) aircraft under option year one of this task order overhauled by (b)(4) 4 We reviewed (b)(4) aircraft under the base year of this task order overhauled by (b)(4) "*

- There were (b)(4) additional aircraft completed under TO 35: (b)(4) returned to Afghanistan upon completion and the (b)(4) current aircraft here in Huntsville, AL under the PM cockpit modification program.
- There are currently (b)(4) aircraft in overhaul at this time under TO 21.
- An objective sampling from all vendors offers a more robust and complete approach to sample data collection and analysis. It appears incomplete to submit (b)(4) aircraft from a single vendor to this level of scrutiny while not addressing others. The total aircraft, to include the base year of TO 21, that have been completed or are currently in progress on both TOs totals (b) aircraft accomplished by three separate vendors.

Page 4, Para 1:
This report does not clearly specify which COR or PMO to which the report is referring in the paragraph.

- The statement that (b)(4) "did not identify nonconforming parts that affected flight airworthiness" is incorrect. CNGS provided aircraft to the USG inspection team (from (b)(4) facility) that met all Original Equipment Manufacturer (OEM), Interstate Aviation Committee (Russian CAA), Lithuanian CAA and U.S. Army airworthiness standards IAW AR 70-62. It is critical to note that all (b) suspect parts were subsequently found to have been installed by the aircraft OEM during the production of the aircraft at the OEM's facility, and (b)(4) has obtained documentation from the aircraft OEM documenting their authenticity.
- **The statement that (b)(4) "imported military variants of the Mi-17 aircraft owned by DoD in violation of Russian law" does not take into account that on behalf**

of its prime contractor, Northrop Grumman, and prior to the stand up of the NSRWA PMO, the USG procured these aircraft as civilian (demilitarized) Mi-17 aircraft. The USG operated these aircraft for 6 years as civilian aircraft before providing them to Northrop Grumman for overhaul. The aircraft log books stated that the aircraft were demilitarized and, based on this documentation, (b)(4) (b)(4) (b)(4) . Subsequently, representatives from Northrop Grumman met with the Russian Government and questioned the military nature of the aircraft at (b)(4) in late 2010 (see Attachments 2 and 3).

Page 4 Para 1: ***"CORs from PMOs, did not perform oversight and management of CNTPO contracts for the overhaul of Mi17 aircraft in accordance with the FAR. Specifically the contracting officer and CORs did not support Northrop Grumman oversight of its subcontractor."***

- In accordance with FAR 46.405, the CORs and KOs are not responsible for supporting the Prime in accomplishing its Quality Control responsibilities over its subcontractors (see Attachment 4). This is the sole responsibility of the prime contractor.

Page 4 Para 1 (and bullet): ***"Specifically,*** (b)(4) ***denied the DoD's, Northrop Grumman's, and*** (b)(4) ***quality assurance personnel access to their overhaul facility."***

- This is an inaccurate statement. What is not addressed here is that the USG (CNTPO) and (b)(4) on numerous occasions ignored the understood and contractually agreed to "Foreign Visitor" requirements that not only (b)(4) have but the Russian Government as well.

- These are the same requirements that we have in the USG relating to foreign visitors to a PMO as an example. Thus, if a foreign person from any company were to show up at the PM, we would do the same thing that (b)(4) did and ask that person to schedule a visit and meet certain security and visitor protocols such as prior notification, visitor/foreign visitor request, and local/federal government protocols for facility access.

- The specific incidents in reference occurred without prior notice on a bank holiday. Ultimately, Northrop Grumman was allowed access in April of 2010, three weeks later, in accordance with contractual requirements between (b)(4) and (b)(4). USG representatives and Northrop Grumman representatives were given full access to the (b)(4) facility and all overhaul aircraft in various stages of completion. All aircraft delivered by Northrop Grumman were inspected by both the USG and Northrop Grumman (see Attachments 1, 5 and 6).

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SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

Page 4 paragraph 3: ***"Northrop Grumman representatives found nonconforming parts that affected the flight worthiness of the aircraft in all 5 Mi-17s accepted so far."***

- **Note: Non-conforming parts do not meet the quality or configuration of the aircraft. Suspect parts are those that have inconsistencies in documentation leading to suspect pedigree.**
- **This is an incorrect statement. (b)(4) a Northrop Grumman subcontractor, initially found suspect parts which are not NON-CONFORMING parts. The parts were suspect because (b)(4) did not find the parts in their data base. A subsequent search by the aircraft OEM found that the entire list of suspect parts were installed in the aircraft at the time of manufacture by the OEM and were OEM approved validating their authenticity.**

Page 5 Para. 3: *"NSRWA personnel were communicating directly with (b)(4). In July 2010, Northrop Grumman informed the SMDC CAMO Director of Contract Operations Directorate A that the CNTPO and NSRWA officials' actions caused (b)(4) to be under the impression that it could circumvent Northrop Grumman's authority by dealing directly with DoD officials."*

- NSRWA PMO had no direct contact with (b)(4) as related to the subcontract with Northrop Grumman.
- Any inference that was made that (b)(4) was directed to ignore the Prime should have been cleared up by the clarifying memo sent by SMDC KO (see DoD IG Report, Appendix D Timeline 28 July 2010).

~~(FOUO)~~ **Page 6 Para. 2 (and Bullet):** *"This increase included: $16.8 million of unnecessary costs for the purchase of duplicate parts, additional insurance and inspections costs, and unplanned demilitarization costs incurred as a result of (b)(4) actions and (b)(4) for (b)(4) REA that the contracting officer is evaluating for approval."* ~~(FOUO)~~

- The unnecessary cost was a result of Northrop Grumman's failure to properly manage its subcontractors who procured duplicate sets of parts (see Attachment 1).
- This does not take into consideration the Service Life Reduction (SLR) which was incorporated bilaterally into the delivery order and funded. Northrop Grumman allowed both (b)(4) and (b)(4) to procure duplicate parts. SLR was a result of the Aviation Engineering Directorate's (AED) airworthiness oversight of these aircraft and the application of existing Army airworthiness and safety standards.

29
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SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

Page 8, para 3: *"The CORs from CNTPO and NSRWA PMO accepted overhaul and repair work valued at $40.9 million for* (b)(4) *Mi-17s without verifying whether the aircraft were overhauled in accordance with the contract quality requirements as required by the FAR."*

- The statement is incorrect. The USG flight acceptance SMEs from NSRWA PMO performed in depth acceptance test on all aircraft that the IG's own SME states "if qualified maintenance and aircrew personnel followed the inspection guide and test flight procedures the aircraft would be airworthy." The NSRWA PMO personnel that performed the acceptance testing, are all FAA certified A&P's. Most of them have over 10 years of experience on the Mi-17 specifically. The crew included a retired US Army Mi-17 maintenance test pilot with over 30 years of experience, more than 4500 hours of flying experience and more that 200 maintenance test flights in the Mi-17 alone. The qualification of the crew that performed the acceptance testing is impeccable. The aircraft were accepted by the U.S. Army and provided an U.S. Army Airworthiness release to flight IAW AR 70-62. NSRWA PMO asked Northrop Grumman to provide its acceptance test plan, but it stated that the NSRWA PMO acceptance test plan was more through and it preferred that the NSRWA PMO acceptance test plan be used for the joint USG/Northrop Grumman acceptance test of the (b)(4) aircraft. Based on recommendations from the CORs from both CNTPO and NSRWA PMO, the KO accepted the aircraft.

- In addition, the USG's contract is with Northrop Grumman (NG), and when presented with the completed aircraft by NG, the USG is responsible for ensuring the product is compliant with the prime contract without respect to any ongoing subcontracting issues NG may have with either of its subcontractors.

~~(FOUO)~~ **Page 8 Para. 4:** *"The CORs from CNTPO and NSRWA PMO accepted overhaul and repair work valued at $40.9 million for* (b)(4) *Mi-17s without verifying whether the aircraft were overhauled in accordance with the contract quality requirements as required by the FAR."* ~~(FOUO)~~

- This is incorrect. Each aircraft has been accepted IAW agreed to (USG and Contract Prime) Inspection and Acceptance criteria and procedures. The NSRWA PMO would never accept an aircraft that does not meet these requirements.

- The NSRWA PMO takes the further step of providing airworthiness via AED and stringent AED standards on all aircraft we deliver, even when they do not fall under Army Airworthiness.

- Lastly, these procedures were provided to the DOD IG and vetted through their Subject Matter Experts (SMEs) who endorsed and validated their quality and thoroughness.

SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

Support for comments above:

Page 9 Para. 3: "A DoD Office of Inspector General (OIG) technical expert reviewed the Mi-17 NSRWA Acceptance Inspection Guide and the Mi-17 Helicopter Maintenance Test Flight Procedures and agreed that if qualified maintenance and aircrew personnel followed the inspection guide and test flight procedures the aircraft would be airworthy."

"The OIG technical expert is a U.S. Air Force helicopter instructor pilot with 26 years of experience, more than 3,300 hours of flying experience in a variety of helicopters, and more than 100 maintenance flight checks."

Page 9 Para. 3: *"Between March and June 2011, the Pakistani Government conducted an additional review on the* (b) *Pakistani aircraft before acceptance was completed."*

- This is incorrect.
- ~~(FOUO)~~ Between February and June 2011 all (b)(4) Pakistani aircraft were inspected and accepted in Kaunus, Lithuania, delivered to Pakistan, and accepted into the operational fleet. ~~(FOUO)~~

Page 9-10: *"We recommend that the Program Executive Officer, Aviation conduct training for CORs, technical experts and subject matter experts regarding the need to comply with contract and subcontract terms and conditions."*

- The Government has no privity with subcontractors. Additionally, the Government is responsible for ensuring compliance with the contract terms with the Prime contractor.

Page 10 Para. 2 (and footnote 12): (b)(4) (b)(4) *to check the authenticity13 of 85 flight critical aircraft components on each aircraft as they were accepted."*

- **The statement that "an additional (b)(4) that could have been avoided if (b)(4) had allowed (b)(4) quality assurance personnel access to the facility." is incorrect. (b)(4) did not have access to the (b)(4) database to authenticate the parts, so no matter how many quality assurance personnel (b)(4) had in the (b)(4) facility, (b)(4) could not have determined the authenticity of any parts. The only organization that has that capability is (b)(4) As we are finding out now, the (b)(4) database for authenticating parts is not 100% accurate.**

Page 11 Para. 2: *"The SMDC CAMO contracting officer obligated the Government for parts purchased by* (b)(4) *for the overhaul of* (b) *Mi-17 aircraft when there was no provision in* (b)(4) *subcontracts with* (b) *to do so unless* (b) *approved* (b)(4) *to purchase the parts."*

See comment above regarding Page 6 Para. 2.

SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

~~(FOUO)~~ **Page 12** (b)(4) Imported Aircraft into Russia in Violation of Russian Law

- The whole paragraph is in direct contradiction to the current on board documentation and log books of these aircraft. Northrop Grumman (b)(4) used exactly the same process when it imported and exported aircraft (b)(4) into and out of (b)(4) Russia as commercial aircraft. The only difference is that Northrop Grumman informed the FSMTC of the aircraft at (b)(4) and not the (b) aircraft at (b)(4). Russia. After aircraft (b)(4) were exported, the US FSMTC informed the USG that aircraft (b)(4) were Military variants and were exported in violation of Russian Law. Concerning aircraft (b)(4) (overhauled by (b)(4) there were four (4) commissions chartered by the Russian Federation to investigate whether these aircraft were civilian or military aircraft. All four (4) commissions concluded they were "transport variant" i.e., civilian aircraft. ~~(FOUO)~~

- ~~(FOUO)~~ Conclusions of report:

  1. Components of armament, instrument, special equipment and armament control units are missing in Mi-17 helicopter, Ser. No. (b)(4).
  2. Helicopter set corresponds to the set of transport version helicopter. Further operation of helicopter as military transport version is impossible (See Attch 7).

- The USG plans to conduct an audit to determine if the costs are allowable and allocable. For example, one item in question is the cost charged to the USG for demilitarization of (b)(4). ~~(FOUO)~~

Page 13 Para 1: *"Consequently, the delays adversely affected pilot training."*

- The sentence is incorrect. As of today, the delays of aircraft (b)(4) have had no impact on pilot training at Ft. Rucker. Ft. Rucker is not currently ready to accept any of the Mi-17 aircraft to support pilot training and is still in the process of developing its training curriculum.

Page 15 Para 2: *"... this work is being completed under contract W58RGZ-09-D-0130, task order 102, managed by NSRWA. This work was subcontracted to (b)(4) by the prime contractor Science and Engineering Services Inc (SESI) at the same time that (b)(4) was having trouble meeting terms and conditions of their subcontracts for task orders 0021 and 0035."*

- This contract for aircraft cockpit modification was put in place on a competitively awarded IDIQ contract with SESI that was already in existence for PEO Aviation for the purpose of doing aircraft modifications.

SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

Page 19: *"NSRWA PMO continues to subcontract with* (b)(4) *"*

- The NSRWA PMO does not subcontract with anyone. The PM's contract is with a prime and the prime's contract is with subcontractors.

Page 29 Table 7: Sample Parts

- It is impossible to compare the parts accurately in Table 7 without additional information. There are a number of valid reasons that could explain these differences and without additional details, there is no way to determine the table's accuracy. Some of the information needed to clarify this table includes:
    - Are the items listed in fact the same part? Example: the Storage battery could be a lead acid battery or a lithium Ion sealed battery which have significantly different costs.
    - If they are the same part, are they the same condition? Is the part new, reconditioned, overhauled, etc.?
    - Parts pricing is based on market pricing. What time frame where these parts purchased?

Add the following dates to Appendix D

January 2010

NSRWA PMO ADM issued.

Apr 2010

(b)(4), (b)(6)

[redacted]

July 2010

NSRWA PMO attended Farnborough Air Show.

July 2010

SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

NSRWA PMO chartered.

August 2010

NSRWA PMO attended Berlin Air Show.

22-25 September 2010

NSRWA PMO personnel reviewed and validated (b)(4) parts. ***Remove September 2010 entry that CNTPO personnel reviewed and validated (b)(4) parts.***

May 2011

NSRWA personnel made a trip to Russia to meet key Mi-17 companies.

The following statements in the Timeline are incorrect:

"April 29, 2011 – (b)(4) reports (b) counterfeit parts for aircraft (b)(4) (b)(4). April 29 2011

June 21, 2011 – (b)(4) reports (b) counterfeit parts for aircraft (b)(4).

August 2, 2011 – (b)(4) reports (b)(4) counterfeit parts for aircraft (b)(4)
These statements are incorrect because only the OEM can valid counterfeit parts as stated earlier in this report. (b)(4) report that the parts were suspect. Further research has shown that the OEM installed the parts on at the OEM facility and the OEM approved the parts.

SFAE-AV
SUBJECT: PEO Aviation Response to Discussion Draft Report Mi-17 Overhauls Had Significant Cost Overruns and Schedule Delays (Project No. D2011-D000AS-0241.000)

SUMMARY OF ATTACHMENTS

1. (b)(4) letter dated 4 June 2010, Subject (b)(4) agreed upon procedures for quality control inspections and access to the facility
2. (b)(4) letter dated 24 August 2010, Subject Reasons for not providing unfetted access to protect its intellectual property
3. Memorandum from [redacted] dated 12 January 2012, Subject Access
4. Northrop Grumman letter dated 23 July 2010, Subject Request for Status on TORPs 0087 and 0164 (Aircraft at (b)(4) and funding)
5. SMDC letter dated 14 September 2010, Subject: Northrop Grumman Request – W9113M-07-D-0007, Task Orders 0021 and 0035 and TO Packages 0087 and 0164
6. Email from Director, CNTPO dated 20 September 2010, Subject (b)(4) meeting
7. Email from Director, CNTPO dated 29 September 2010, Subject NG TORP proposal
8. Email from [redacted] dated 5 October 2010, Subject (b)(4) Update
9. (b)(4) letter dated 16 August 2011, Subject Continued Failure to provide Warranty Claim Information/Required Parts under Contract (b)(4) -CNTPO-003
10. Russian Ministry of Defense final statements on demilitarization of Mi-17-IV helicopters (b)(4) 2010-2011 Letter Series
11. Russian Ministry of Defense final statements on demilitarization of Mi-17-IV helicopters (b)(4) 2002 Letter Series
12. Summary of findings and conclusions of Official Commission at (b)(4), ZAO facility in 2010-2011
13. Sections B, H, and J of Basic Contract W9113M-07-D-0007

Attachments omitted because of length. Copies will be provided upon request.

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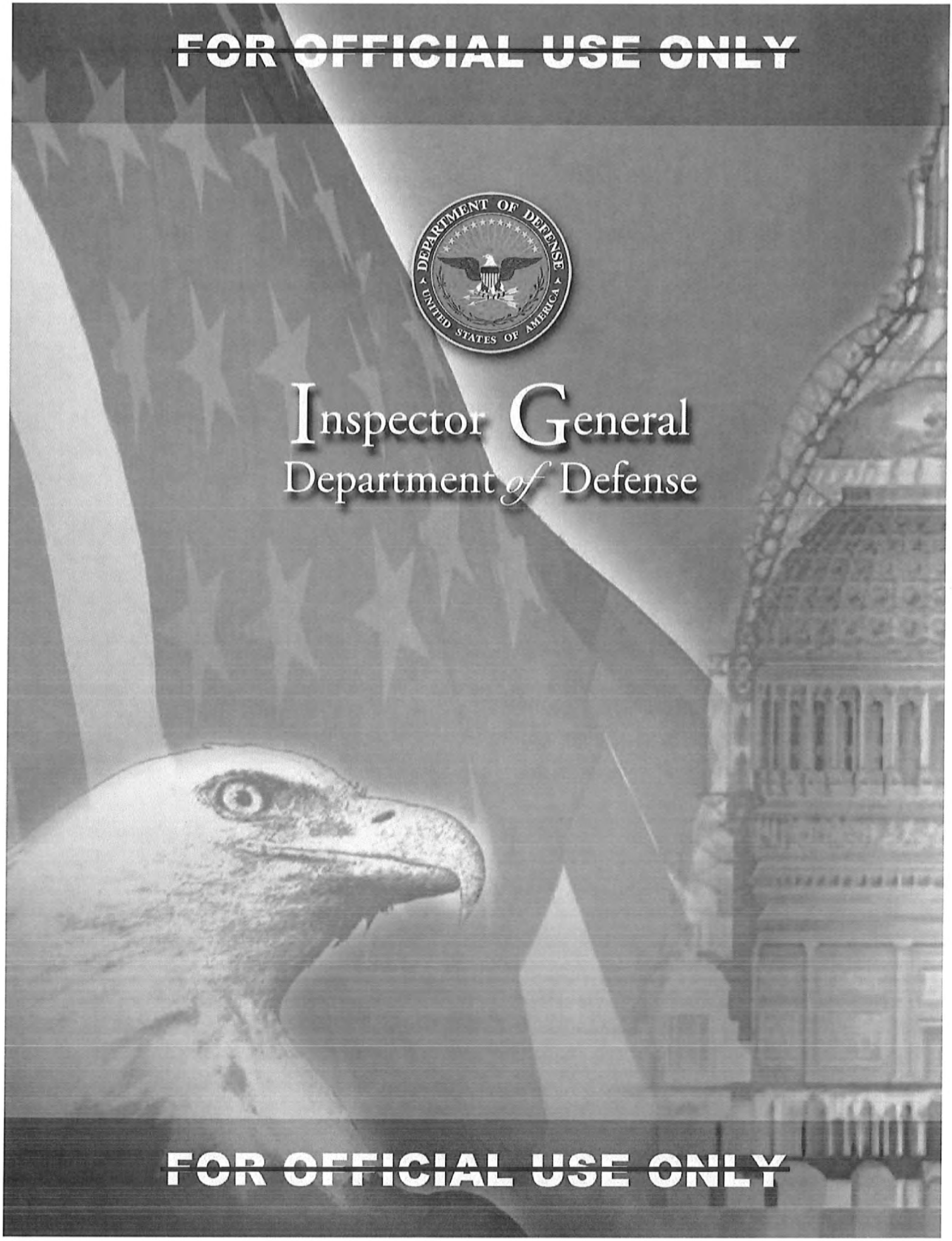

Inspector General
Department of Defense

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