



# Pricing and Escalation Issues Weaken the Effectiveness of the Army Contract With Sikorsky to Support the Corpus Christi Army Depot

## What We Did

We evaluated the Army Aviation and Missile Life Cycle Management Command (AMCOM) material purchases from Sikorsky Aircraft Corporation (Sikorsky) supporting the Corpus Christi Army Depot (CCAD) to determine whether the partnership agreement effectively minimized the cost of direct materials to the depot. This report addresses spare parts pricing problems. A subsequent report will address other contract concerns.

## What We Found

AMCOM officials did not effectively negotiate prices for 28 of 46 noncompetitive spare parts reviewed because neither Sikorsky nor AMCOM officials performed adequate cost or price analyses of proposed subcontractor prices. Sikorsky also paid excessive prices to subcontractors (pass-through costs) and did not always provide the most current, complete, and accurate cost data (defective pricing). In addition, the CCAD/Sikorsky contract established excessive inflation rates that were not tied to an economic index.

We calculated that Sikorsky charged the Army \$11.8 million or 51.4 percent more (\$34.7 million versus \$22.9 million) than fair and reasonable prices for 28 parts. If prices are not corrected, AMCOM officials will pay excessive profits of approximately \$16.6 million over the remaining 2 years of the contract. During the audit, Sikorsky agreed to provide refunds of about \$1.0 million. In addition, AMCOM will pay excessive escalation costs of \$21.0 million because contract escalation was not tied to an economic index.

## Recommendations, Management Comments, and Our Response

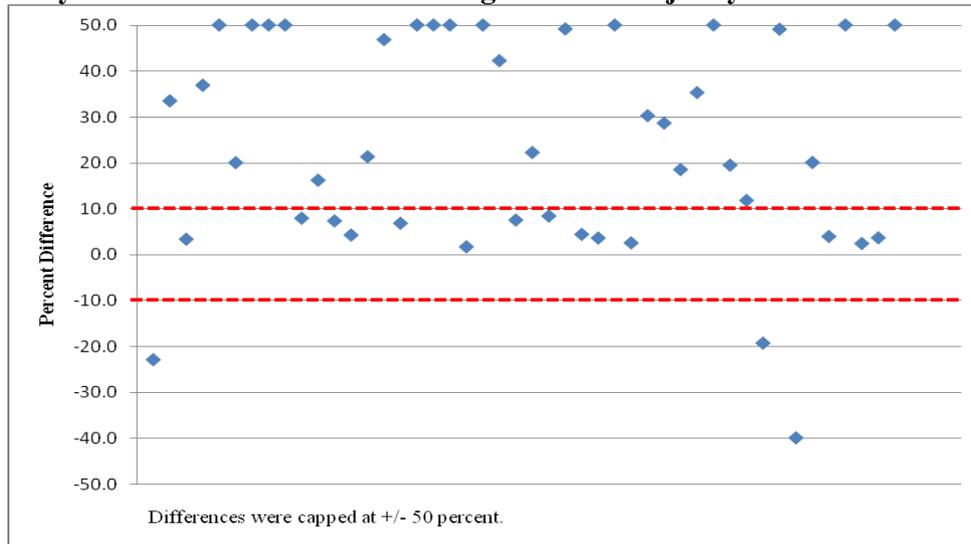
Among other recommendations, AMCOM officials need to correct prices and seek refunds totaling about \$11.0 million for unnecessary subcontractor pass-through costs, an unacceptable quantity curve, and instances where Sikorsky negotiated lower supplier prices after negotiating with the Army. AMCOM officials should procure the remaining contract requirement for a rotor from the Defense Logistics Agency (DLA), to save more than \$1.3 million. AMCOM officials need to develop procedures that require the contracting officers or other oversight officials to perform price analysis in conjunction with cost analysis. Also, AMCOM officials need to take immediate action to correct excessive prices caused by too much escalation and use an appropriate economic index for the contract. The Director, Defense Procurement and Acquisition Policy, needs to issue guidance that emphasizes performing cost analysis of a sample of spare parts before exercising an option under a firm-fixed-price contract.

Overall, management comments were responsive, and management is taking action to address pricing problems. AMCOM is working to obtain items from DLA at lower prices or reduce the current contract price and will conduct cost analysis of a sample of high-risk, high-dollar items before exercising future options. However, some management comments were not fully responsive to the recommendations. Therefore, we request additional comments by October 11, 2011. Please see the recommendations table on page iii.

## Report Highlights

Army contract prices were higher than DoD OIG calculated fair and reasonable prices, and prices for the majority of parts were outside what we considered an acceptable range of plus or minus 10 percent. See the finding for a more detailed discussion of pricing problems identified. The figure below appears on page 37 of the report.

**Army Contract Prices Were Too High for the Majority of Parts Reviewed**



Some specific examples of pricing problems found were for the rotor and flush door ring (reproduced here from pages 15 and 28, respectively). In each case, the contract price was significantly higher than DLA’s standard unit price.

**Rotor**



DLA 2011 Standard Unit Price: \$1,536.65  
 Sikorsky 2011 Unit Price: \$7,814.88  
**Excessive Prices:** 2008–2010: \$686,293  
 (Potential) 2011–2012: \$1,344,973

**Flush Door Ring**



DLA 2010 Standard Unit Price: \$8.37  
 Sikorsky 2010 Unit Price: \$284.46  
**Excessive Prices:** 2008–2010: \$195,276  
 (Potential) 2011–2012: \$218,523

## Recommendations Table

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Director, Defense Procurement and Acquisition Policy		3
Commander, Army Aviation and Missile Life Cycle Management Command	2.b(1), 2.b(3), 2.b(4), 2.b(7), 2.b(8), 2.b(9)	2.a, 2.b(2), 2.b(5), 2.b(6), 2.b(10)
Director, Defense Contract Management Agency		1

**Please provide comments by October 11, 2011.**