Objective

The objective of the audit was to determine whether the Defense Logistics Agency (DLA) obtained fair and reasonable prices for its integrated logistics partnership (ILP) contract with AM General, LLC (AM General) to manage High Mobility Multipurpose Wheeled Vehicle (HMMWV) repair parts. We also determined whether DLA Land and Maritime contracting officials properly approved AM General invoices associated with repair parts for payment.

Findings

DLA Land and Maritime contracting officials negotiated questionable prices for HMMWV repair parts purchased on its sole-source, commercial ILP contract with AM General. Specifically, contracting officials applied escalation rates that exceeded U.S. Bureau of Labor Statistics market rates. Contracting officials did not justify these rates used in their fair and reasonable price determination. As a result, contracting officials paid an additional $26.3 million for escalation rates that were not supported. Also, contracting officials did not:

- request commercial sales data or cost data before purchasing $563.2 million of commercial repair parts;
- perform sufficient analysis and limited their review to using past procurements from AM General to establish prenegotiation objectives, or a target price range, for $182 million in repair parts;
- effectively use prenegotiation objectives for $221.4 million in repair parts; and
- maintain contract files containing pricing support for $233.6 million in repair parts.

These conditions occurred because contracting officials relied on having a primary and secondary source, DoD or AM General as the repair part provider, instead of obtaining sufficient data to ensure fair and reasonable prices. Applying such practices to future HMMWV repair parts contracts or follow-on contracts will continue to provide limited assurance that negotiated HMMWV repair parts prices are fair and reasonable. Before DLA Land and Maritime contracting officials procure these HMMWV repair parts again, improved pricing practices are needed.

In addition, AM General overbilled DLA Land and Maritime 34 times for a HMMWV repair part purchased on the ILP contract from November 2012 through June 2013. These overbillings occurred because contracting officials did not ensure that AM General’s unit price aligned with the unit of issue for that repair part. As a result, contracting officials authorized overpayments to AM General of at least $1.5 million for a repair part provided through the ILP contract. During the audit, we notified contracting officials of the overpayments and their cause. DLA Land and Maritime agreed that overpayments were made to AM General and began recouping the overpayment. AM General
credited DoD about $1.62 million for overpayments related to the HMMWV repair part.

**Recommendations**

We recommend that the Director, DLA establish policy for applying escalation rates to multiyear contracts; perform quality reviews of contracting officers compliance with the Federal Acquisition Regulation and the Defense Federal Acquisition Regulation Supplement for obtaining sufficient data to ensure fair and reasonable prices and maintaining contract files; and assess and implement available options to recover from AM General the additional $26.3 million paid. In addition, we recommend that the Commander, DLA Land and Maritime include the total amount of improper payments identified during this audit in DLA’s next quarterly overpayment report. We also recommend that the Contracting Officer, DLA Land and Maritime review ILP contract invoices and vouchers and collect any overpayment from AM General and require that AM General align its repair part prices with the Government standard units of issue on future delivery orders and invoices associated with the ILP contract and its planned follow-on contract.

**Management Comments and Our Response**

The Acting Director, DLA Acquisition, responding for the Commander, DLA Land and Maritime, fully addressed the recommendation. The acting director, responding for the Director, DLA and the Contracting Officer, DLA Land and Maritime, partially addressed the report recommendations. The acting director commented that DLA provided policy and will provide tools and training to assist DLA contracting personnel with contract pricing and negotiations. However, DLA’s analysis of the contract escalation was insufficient. The Director, DLA should provide options consistent with the Contract Pricing Reference Guides Volume II, “Quantitative Techniques,” to assess contract escalation rates in determining whether the Government made overpayments to AM General in option years 1 through 4. In addition, the Director, DLA should assess the contracting officials responsible for maintaining its ILP contract files and consider corrective actions during its April 2014 procurement management review. We also request that DLA obtain the $224 million in ILP contract billing records through November 2011 and review unit-of-issue conversion payments to determine whether any additional overpayments to AM General occurred. We request comments to the final report by May 5, 2014.