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## **Appendix F. Commercial Item Procurement Strategy – Pricing Issues**

The following discusses the commercial item procurement strategy and pricing issues associated with the Boeing KC-767A Tanker Program, the obtaining of a fair and reasonable price for the Boeing KC-767A tanker aircraft, and a summary of how the Air Force arrived at the Boeing KC-767A tanker aircraft price.

### **Commercial Item Procurement Strategy – Pricing Issues Related to the Boeing KC-767A Tanker Program**

In order to use an operating lease to recapitalize the Air Force KC-135 tanker aircraft fleet, the Boeing KC-767A tanker aircraft had to be a commercial item. Department of Defense Office of the Inspector General Report No. D-2004-064 stated that “contrary to the Air Force interpretation, the military tanker aircraft is not a commercial item as defined in Section 403 of title 41, United States Code. Further, there is no commercial market to establish reasonable prices by the forces of supply and demand.”

Throughout the negotiation process, Boeing maintained a hard line commercial pricing strategy and provided virtually no transparency into the costs of the basic Boeing 767 aircraft, tanker development and modification costs, and logistics support costs totaling almost [REDACTED] for the first 100 aircraft. Boeing also failed to provide any information on prices at which the same or similar items (Boeing 767 aircraft) had been sold in the commercial market and refused to accept any type of cost reimbursable contract for the tanker development and modification costs. This lack of insight into commercial prices for Boeing 767 aircraft and cost data to support development, modification, and contract logistics support costs plagued the negotiation process and placed the Air Force at a disadvantage during the negotiation process. Again, similar to the operating lease analysis, senior members of the Office of the Assistant Secretary of the Air Force (Acquisition) consistently reported that the Air Force was getting a fair and reasonable price for the Boeing KC-767A tanker aircraft; however, the Office of Management and Budget, the Institute for Defense Analyses, and the Department of Defense Office of the Inspector General did not agree.

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### **Obtaining a Fair and Reasonable Price for the Boeing KC-767A Tanker Aircraft**

Several of the most serious issues identified with obtaining a fair and reasonable price include.

- Improper influence by Ms. Darleen A. Druyun, former Principal Deputy Assistant Secretary of the Air Force (Acquisition and Management) to increase tanker modifications prices and the failure by other senior Air Force officials to support the Air Force

negotiator/cost price analyst on June 17, 2002;

- Incorrect statements made by senior Air Force officials (originating from Ms. Druyun on October 26, 2002) relating to the discount on the “green aircraft” (basic Boeing 767 aircraft) made to the Office of the Secretary of Defense Leasing Review Panel, the Office of Management and Budget, and [REDACTED] about the Air Force receiving a [REDACTED] better discount than a preferred airline customer;
- Questionable statements from Boeing on whether the Air Force was getting a better or equal deal than a major airline; and
- Continuous “battle of BOE’s [basis of estimate]” among the Air Force, the Office of the Secretary of Defense, the Office of Management and Budget, and the White House as a result of the commercial pricing strategy.

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## Summary of How the Air Force Arrived at the Boeing KC-767A Tanker Aircraft Price

The following are selected e-mails and memorandums that identify accountable officials associated with the pricing of the Boeing KC-767A tanker aircraft and excerpts from interviews conducted of senior Office of the Secretary of Defense and Air Force officials associated with how the Air Force arrived at the Boeing KC-767A tanker aircraft price.

February 2001. On February 5, [REDACTED]

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October 2001. [REDACTED] Air Force Air Mobility Command stated that early figures on airplane costs from the internet for Boeing 767-200 and Boeing 767-400 aircraft ranged from [REDACTED] to [REDACTED] while Boeing was offering between [REDACTED] and [REDACTED]. Boeing asked where the figures came from and when informed they came from the internet, the figures were removed from the internet less than a week later. [REDACTED] also stated that the Air Force was not going to take the tanker aircraft program out of hide because it could not get the money any other way; therefore, it would have to do something else.

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December 2001 to November 2002. [REDACTED] Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller) commented that [REDACTED] Office of the Air Force Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition) was basically delegated to run the show and his main concern was getting something on the ramps. He said he went to a number of investment

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\*Removed for reason stated in the initial asterisked footnote. (The reference is also on page 31.)

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places on Wall Street to find out what a commercial Boeing 767 aircraft should cost and came back with a price of about [REDACTED] (maybe as low as [REDACTED] for the "green aircraft." He said that the Boeing internet price for the "green aircraft" was about [REDACTED]. [REDACTED] said he thought Ms. Druyun was trying to increase the Air Force price for the aircraft and to get [REDACTED] Cost Price Analyst, Aeronautical Systems Command, Wright-Patterson Air Force Base to justify a higher price for the aircraft. He said that he felt sorry for [REDACTED] because he was under a lot of pressure to increase the aircraft price. He also stated that the Air Force was complaining about increases in maintenance costs for the KC-135 tanker aircraft even though it was negotiating a maintenance contract for Boeing KC-767A tanker aircraft that was higher than what they were paying for the KC-135 tanker aircraft. He said that he felt sorry for [REDACTED] because of the pressure he was under to increase the aircraft price and because he, as [REDACTED], was alone and did not have anyone from the KC-767 System Program Office defending him.

**January 2002.** [REDACTED] Contracting Officer, Aeronautical Systems Command, Wright-Patterson Air Force Base stated that his task was to get on contract the lease called for in Section 8159 of the Department of Defense Appropriations Act for FY 2002. Further, he stated that he was involved on the initial team that started work on the Commercial Derivative Air Refueling Aircraft, later changed to the KC-767 System Program Office. [REDACTED] also stated that Lieutenant General Reynolds, Commander, Aeronautical Systems Center, Wright-Patterson Air Force Base directed that the KC-767 System Program Office be established to handle the tanker aircraft lease program.

On January 18, 2002, [REDACTED] Deputy Chief of Contracting, Air Force Materiel Command recalled attending a meeting in response to a short notice that the Aeronautical Systems Command received to put the tanker aircraft lease on contract as called for in Section 8159 of the Department of Defense Appropriations Act for FY 2002.

**February 2002.** [REDACTED] System Program Director, KC-767 System Program Office, who was assigned to KC-767 team by Lieutenant General Reynolds to support the Office of the Assistant Secretary of the Air Force (Acquisition). Before the assignment, he was working on the KC-135 tanker aircraft replacement program.

**At a meeting in Saint Louis, Missouri, Ms. Druyun pulled Brigadier General Ted F. Bowlds, Program Executive Officer for Strategic Programs, Office of the Assistant Secretary of the Air Force (Acquisition); [REDACTED] and [REDACTED] aside and told the team that you are trying to drive the price too low and for [REDACTED] to work with the team to bring the price back up. [Emphasis added.]**

On February 26, 2002, a congressional staffer asked why the Air Force had asked Airbus North America, Inc. (European Aeronautic Defence and Space Company, Incorporated) to provide information in response to a request for information before notifying a Senator. The congressional staffer noted that the issue regarding Boeing supplying the tankers had been decided by an overwhelming

vote of the Senate (98 to 2). In response, Brigadier General Darryl A. Scott explained that the request for information did not commit the Air Force to competition. The congressional staffer's final words were "It is important to pick and choose your friends very carefully. It is clear that you have chosen, and the Committee has noted it."

**April 2002.** On April 1, Mr. Andrew Ellis at Boeing sent an e-mail to Mr. Gerald Daniels with a cc: to Mr. Rudy De Leon and Mr. Bob Gower at Boeing in which he commented on a "green aircraft" price list (from \$100 million to \$112 million) with a [redacted] discount that had been discussed with Ms. Druyun. He stated that, "If this is her benchmark, we aren't in too bad shape based on the little I know." In addition, Mr. Ellis noted that the Boeing webpage list price for a green 767 aircraft was approximately \$100 million with a price range of from \$100 million to \$112 million. b(4)

**On April 5, 2005,** Ms. Druyun commented that the Air Force pre-negotiation prices appeared low in comparison to Boeing's. Specifically, for the "green aircraft," the Air Force price ranged from [redacted] to [redacted] to [redacted] (discount) with Boeing at [redacted] and for the tanker aircraft, the Air Force ranged from [redacted] to [redacted] with Boeing at [redacted]. In addition, she stated that the Air Force contractor logistics support costs range from [redacted] to [redacted] per aircraft per year with Boeing at [redacted]. b(4) - OSD Redaction

**May 2002.** On May 13, Brigadier General Bowlds sent an e-mail to Dr. Sambur with a cc: to Ms. Druyun; Major General Essex, Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition); and [redacted] in which he provided the tanker aircraft lease negotiations status: "Air Force [redacted] (FY02S) Boeing- [redacted] (FY01S) and CLS [contract logistics support] Boeing [redacted] per aircraft per year Air Force [redacted] per aircraft per year." b(6) - OSD Redaction b(4) - OSD Redaction

**On May 18, 2002,** [redacted] sent an e-mail to Major General Essex and [redacted] Office of the Air Force Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition) in which he provided the tanker aircraft lease negotiations status: "Air Force [redacted] [million] Boeing [redacted]" b(6) - OSD Redaction b(4) - OSD Redaction

**On May 21, 2002,** in an e-mail from [redacted] to Ms. Druyun and Major General Essex he stated that Ms. Druyun believed that [redacted] was the right number, a discount from the list price of about [redacted]. She compared that number with a [redacted] discount for C-32 aircraft, [redacted] on a major airline's buy, and [redacted] on another major airline's buy. Further, he stated that Boeing was at [redacted] and the KC-767 System Program Office was at [redacted] but seems willing to go to [redacted]" b(6) - OSD Redaction b(4) - OSD Redaction

**On May 22, 2002,** Mr. John Ferguson at Boeing sent an e-mail to Mr. Randall Simons with a cc: to Mr. John Sams at Boeing in which he commented that Major General Essex advised Boeing to follow [redacted] advice and not the KC-767 System Program Office's and that [redacted]" b(6)

[REDACTED]

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In the e-mail, Mr. Ferguson stated:

John Sams apparently did talk with MGen [Major General] Essex. Advise was to follow [REDACTED] advise not SPO [System Program Office]. Given your low opinion of [REDACTED] business acumen, that may be dangerous – so my advise to [REDACTED] is to be cautious and make sure the deal can stand the light of day.

The team is still working the art of the possible in terms of obfuscating construction financing, transaction costs and lease administration by folding all three into aircraft price to help the business case close. [REDACTED] comments in that regard tend to support my thesis that they are not as concerned about aircraft price as we might have been led to believe. Emphasis at this point might best be shifted to making their business case close – regardless of our view of its validity. Big issue will be cash flow both from the stand point of rolling construction financing, etc. into price as well as team reported issue that “market” may not be willing to finance more than about 80% of “average price.” If so, this will give us some front end issues.

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On May 22, 2002, in response to questions from the Office of Management and Budget about the Air Force negotiating team being led by a GS-13, Ms. Druyun commented that the staff of the Office of the Assistant Secretary of the Air Force (Acquisition) is deeply involved, including Major General Essex; Brigadier General Darryl A. Scott, Deputy Assistant Secretary (Contracting), Office of the Assistant Secretary of the Air Force (Acquisition); and [REDACTED]

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June 2002. On June 17, the Air Force and Boeing negotiating teams met in Long Beach, California. [REDACTED] Cost Price Analyst, Aeronautical Systems Command, Wright-Patterson Air Force Base described the meeting in Long Beach as the “Long Beach Massacre.” [REDACTED] stated that Ms. Druyun pretty much by herself pushed the Air Force team to the high end of the price reasonableness range. He asked Brigadier General Scott to jump in any time with support. [REDACTED] also talked about what he called the [REDACTED] provision. This provision provided that, because the Air Force was going to fill up the Boeing pipeline and other buyers might start buying Boeing 767s, Boeing would reap the benefit of any quantity efficiencies and the Air Force wanted a share. [REDACTED] agreed but Ms. Druyun later took the provision off the table. [REDACTED] believed that Major General Essex, Brigadier General Bowlds, and Brigadier General Scott were all at the Long Beach meeting. [REDACTED] identified 26 data points relating to learning curve for the modifications costs ranging from about 57 percent to about 83 percent. Each of the data points was weighted based on reliability of data. Ms. Druyun went through each data point until only 4 were left, and the 4 that were left were the high ones that favored Boeing. Further, he stated that the Price Negotiation Memorandum stated that the learning curve was [REDACTED] because “Air Force leadership based on their expertise said it was so.” However, the data suggested that the highest end of the learning curve ought to be [REDACTED] and one would expect it to be better than that.

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On June 17, 2002, Mr. Bob Gower at Boeing sent an e-mail to Messrs. Andrew Ellis and John Sams at Boeing in which he commented that:

Meeting today on price was very good. Darleen [Drayun] spent most of the time bringing the USAF [U.S. Air Force] pricer up to the Boeing numbers. We did not finalize the price because the USAF went to caucus on how to present the figures for the business case. It was a good day.

Further, in regard to the June 17, 2002 meeting, [REDACTED] Contracting Officer(GS-12), Aeronautical Systems Command stated in his interview that he was present at the pricing meeting in Long Beach, California, and that Ms. Drayun made most of the decisions on the numbers. Further, he stated that Brigadier General Bowlds, Brigadier General Scott, and [REDACTED] were at the meeting.

[REDACTED] stated in his interview that, as far as he could tell regarding the June 17, 2002 meeting, Ms. Drayun was never in negotiations for the Boeing 767A tanker aircraft and that he had no recollection of the meeting in Long Beach, California.

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Major General Scott stated in his interview that he did not remember the June 17, 2002, meeting in Long Beach, California. However, he followed-up his interview with an e-mail in which he stated that he was at the meeting but did not recall any discussions with the Air Force Materiel Command pricer. Further, Major General Scott stated that his contracting authority flowed through Ms. Drayun and that she basically oversaw his work but that he reported to Dr. Sambur, the Senior Acquisition Executive. He also stated that the tanker aircraft was not a commercial item, but that the Boeing 767 aircraft was a commercial item.

August 2002. On August 1, [REDACTED] sent an e-mail to Major General Essex in which he stated that preliminary KC-767 agreement had been reached: purchase price was [REDACTED] and the lease price was [REDACTED]. Later, Major General Essex forwarded the e-mail to Dr. Sambur, Ms. Drayun, and Lieutenant General Stephen Plummer, Air Force Principal Deputy (Acquisition).

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September 2002. On September 20, Mr. Rudy De Leon at Boeing sent an e-mail to many key Boeing officials in which he reported that two Representatives spoke directly with a White House official in support of moving ahead and the tanker lease deal. Further, he stated that a Senator continues to engage the Office of Management and Budget and a Representative directly engaged an Office of Management and Budget official. Several Congressional members supporting the tanker initiative reported extremely positive comments from the Administration.

October 2002. On October 22, [REDACTED] sent an e-mail to Ms. Drayun with a cc: to Major General Essex in which he stated that “[a major airline’s] buy of [Boeing] 767-200ERs and engines is pretty complicated. Bottom line: [the major airline] is the only one who knows exactly what the full-up aircraft cost (I’m checking with [REDACTED] to see if he got any insight into [the major airline’s] engine discount).”

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On October 24, 2002, Ms. Druyun sent an e-mail to Dr. Sambur stating:

[A major airline] has agreed to talk to me and I expect to sign a nondisclosure statement. It is my understanding that I will also get the data in writing. I may fly out to Seattle early next week with [REDACTED] to look at other sales of [Boeing] 767's to airlines to see their discounts as well. Will keep you posted.

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On October 25, 2002, Ms. Druyun sent an e-mail to Dr. Sambur stating:

Had two more discussions with the guys from [a major airline] including their chief negotiator. His bottom line is that we negotiated a very good deal. In fact our discount off of the published catalog price is higher than that given to Boeings most favored customer. We also got some other things thrown into the green aircraft which they would have paid for. He is now working a letter. I asked him to state "very good deal." He said the company lawyers would have to pass on what they put in writing. In any event I can characterized our discussion. I also verified that the so called market price of [REDACTED] thrown about is fictitious. They have NEVER bought an aircraft at that price and he doesn't know anyone in industry who has.

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On October 25, 2002, in response to Ms. Druyun, Dr. Sambur e-mailed:

Darleen  
Good work. We need to be careful with characterizing verbal discussion because [an Office of Management and Budget official] tends to think we exaggerate.  
Marv

On October 25, 2002, Ms. Druyun sent an e-mail to [REDACTED] at General Electric stating:

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Need your help for a quick answer to help us in our OMB [Office of Management and Budget] discussion. I assuming for the GE engines you sold to [a major airline] for its [Boeing] 767-200ER purchase with deliveries in 2001 that your ship set engine price was in the range of [REDACTED] and that they probably got a discount of [REDACTED] because of the high utilization rate of 3000 hours a year. For the same type of engine for the AF [Air Force] (yes I know we are using a larger one for MTOW [maximum takeoff weight]) but with a utilization rate of 750 hours a year that our discount would be in the [REDACTED] range. Need an answer ASAP [as soon as possible]. Call me at home if you need to discuss.

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On October 26, 2002, [REDACTED] responded to Ms. Druyun stating:

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[REDACTED]

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[REDACTED]

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On October 27, 2002, Ms. Druyun sent an e-mail to Dr. Sambur stating:

[REDACTED]

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On October 28, 2002, Dr. Roche sent an e-mail to Dr. Sambur and Ms. Druyun stating:

[REDACTED]

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On October 28, 2002, Ms. Druyun sent an e-mail to Dr. Roche in which she stated that:

[REDACTED]

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On October 28, 2002, [REDACTED] Cost Price Analyst, Aeronautical Systems Command, Wright-Patterson Air Force Base informed [REDACTED] that the appraiser valuations for the "green aircraft" obtained in May 2002 showed the aircraft price at [REDACTED] for a 50/50 split of Boeing 200 and Boeing 400 aircraft, same as shown in the BCA [Benefit/Cost Analysis].

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**On October 30, 2002, Dr. Roche sent a letter to Ms. Robin Cleveland, Office of Management and Budget, in which he stated that:**

You also questioned whether or not we thought a lower price was achievable in the current economic environment. In fact, we believe the

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\*Removed for reason stated in the initial asterisked footnote. (The second and third references are also on page 110.)



current climate of low interest rates and few commercial aircraft orders was the reason we were able to negotiate a deal superior to that of Airlines with multiyear exclusivity contracts. It is a tribute to the government's tough stand that these negotiations took three months longer than planned and resulted in a total price [REDACTED] less than expected by one of these Airline customers-prompting their Senior Vice President of Finance to call ours a "great deal." In short, we believe we're already bringing in the price cut you suggested.

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**November 2002.** On November 5, Major General Essex sent an e-mail to [REDACTED] Office of Program Analysis and Evaluation, stating:

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[REDACTED]  
Gen [Lieutenant General] McNabb told me that you had mentioned OMB's [Office of Management and Budget's] concern that the negotiated price for the airplane was too high and that it appears we did not get a good deal.

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[REDACTED] We actually have an excellent price with a better discount than the best airline company customers can get. We have gone back to get documentation to back this up and I am very confident of it . . . .

**On November 7, 2002.** Dr. Roche and members of the Office of the Assistant Secretary of the Air Force (Acquisition) presented to the Office of Secretary of Defense Leasing Review Panel a briefing that contained the following pricing information;

- The Air Force has more funding flexibility outside the Future Years Defense Program.
- The Air Force negotiated a good price-- [REDACTED]
  - Boeing 767 discounted [REDACTED] from list price.
  - [REDACTED] better than discounts given to 20-year exclusive, "preferred" airline customer. (DoD OIG audit shows no support for this statement.)
- If the Air Force only negotiated to same discount as this "preferred airline," it would have added [REDACTED] per aircraft. This is a very good deal -- [REDACTED] better than the "pros."

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**December 2002.** On December 20, Mr. Andrew Ellis sent an e-mail to Mr. Bob Gower in which he stated that an Office of Management and Budget official was overheard at a recent dinner commenting that the Air Force was getting the Boeing 767 "green aircraft" for [REDACTED] but that a major airline got the Boeing 767 "green aircraft" for [REDACTED]

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**January 2003.** Dr. Roche stated that General Jumper has a note from a [REDACTED] Further, he stated that he got thrown out of a Senator's office because he wanted competition

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and a Representative crowned him the “most politically tone deaf political appointee” he had ever met in his life because he wanted competition. Dr. Roche also stated that Mr. Aldridge, who ran this thing for the Department not him, decided in January that this thing was a good thing. In addition, he stated that the Chief Executive Officer of Boeing did not want to talk to him because he was talking to a [REDACTED]. So at that point, the only thing we were debating was what was the right price for something for which there was no known market price. Dr. Roche also stated that, “If you can make it a military line you can build on all of the mods as you’re going and you could probably save [REDACTED] more per plane,” versus modifying planes you just built.

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**On January 23, 2003, Mr. Bob Gower at Boeing sent an e-mail to Mr. Jim Albaugh at Boeing in which he stated that Boeing should:**

stay away from validating the \$65M [million] since we do not really know and specifically talk to the deltas if we get drug into that. [Dr.] Roche has said publicly that he has a good price and I propose we have the USAF [U.S. Air Force] stay the lead on working the fair value question.

**On January 30, 2003, General Jumper sent an e-mail to Dr. Roche in which he discussed a [REDACTED] interest in the tanker aircraft lease. Specifically, he stated:**

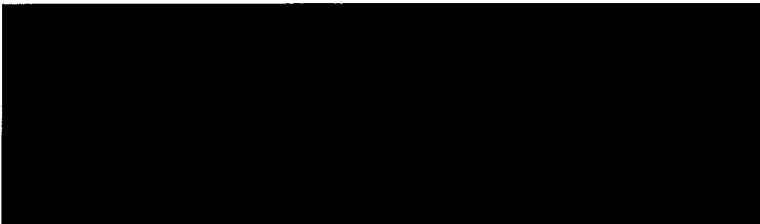
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February 2003. On February 7, Mr. Michael Wynne, Principal Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics sent to [redacted] Office of Management and Budget a comparison of prices developed by the Office of Management and Budget (low estimate of \$100 million per aircraft and high estimate of \$125 million per aircraft) and the Air Force [redacted] per tanker aircraft). Mr. Wynne believed that the Office of Management and Budget estimates had potential errors relating to the Boeing 767 200/400 modification work and that the learning curve on the tanker modification.

On February 11, 2003, [redacted] Office of Management and Budget responded to Mr. Wynne:

KC-767-200 Modifications: The extent of the needed modification to the green aircraft are somewhat unclear. Note, however, that the Air Force's price of a [redacted] 767-400/-200 aircraft was not based on a content analysis, but on a melding of the list prices for these two aircraft types provided by Boeing. We understand that the green aircraft will fly out of Seattle to Wichita certified as a B767-200 by the FAA [Federal Aviation Administration]. In order to be certified as a B767-200 it cannot have major structural changes to the airframe (wings, tanks, tails etc. that have sometimes been mentioned by the Air Force). Our approach to pricing, which is to determine the basic market price of a B767-200 and then add the recurring cost of a digital cockpit and its associated electrics is the most sensible given how the basic aircraft will be built. The tanker manager for Boeing indicated to us at a meeting that the recurring cost of such changes was not large. Our \$5M [million] and \$10M numbers cover what we believe the Air Force wants done on a recurring basis and could be low or high, but is likely in the ball park.

The Air Force change to the heading of its modification chart after months of briefings simply will not suffice as an explanation for the Air Force's tanker modification cost. Once the Air Force alerted us to the "typo", we asked for details of the learning curve that the Air Force applied and for the T1 cost, but have not received an answer from the Air Force. We would think that upon noticing its "typo" in the chart, the Air Force would have been prepared to provide us (and PA&E [Program Analysis and Evaluation]) with the supporting details which are critical to the price analysis; they did not do so. Moreover, if this is a legitimate typo, it raises the question as to why the initial cost of the tanker modifications is greater than the cost of the basic aircraft. In this situation, I expect that you would want to call for an independent cost estimator to go over every CLIN [contract line item number] in the proposed work to understand how costs are derived.

\*Removed for reason stated in the initial asterisked footnote. (The reference is also on pages 17, 120, 188, and 210.)

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**March 2003.** On March 6, the Office of the Secretary of Defense Leasing Review Panel issued a memorandum that addressed:

- **Institute for Defense Analyses Report.** The study showed a conservative estimate of [REDACTED] (FY 2002 dollars) per aircraft for 100 aircraft ([REDACTED] for green aircraft, [REDACTED] for modification, and [REDACTED] for recurring costs). The aggressive estimate was [REDACTED]. The Air Force agreed to work with the Institute for Defense Analyses to address differences. b(5)
- **Department of Defense Office of the General Counsel Report.** The Department of Defense Office of the General Counsel indicated that parties could resolve legal issues but additional risk would shift to the Government.
- **Office of Management and Budget Report.** The Office of Management and Budget reported that the tanker aircraft lease was the largest and most complex in the history of the Office of Management and Budget Circular No. A-94 and had the potential to set future precedence. At that time, no A-94 precedence existed for leasing when purchasing was less expensive. The Office of Management and Budget stated that, if a termination liability waiver was not obtained, the lease was not affordable. In addition, the Office of Management and Budget reported another precedent setting issue relating to using a rolling discount rate for the A-94 analysis. The Air Force agreed to work the issues with the Office of Management and Budget and the Department of Defense Office of the General Counsel.

On March 7, 2003, [REDACTED] sent an e-mail to Dr. Sambur and Major General William Hodges, Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition) in which he stated that "IDA [Institute for Defense Analyses], Boeing, and the Air Force met this morning to discuss cost estimate differences. Boeing's bases of estimate were very strong in face of IDA's relatively weak rationale." b(6) - OSD Redaction

**In Mid-March, 2003, according to Mr. Richard P. Burke, Deputy Director for Resource Analysis, Office of Program Analysis and Evaluation, a representative from the Office of the Assistant Secretary of the Air Force (Acquisition) called and asked exactly how much money did the Institute for Defense Analyses receives annually from the Air Force.**

**On March 20, 2003, Dr. Nancy Spruill, Director, Acquisition Resource and Analysis, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics provided Dr. Sambur information on funding for the Institute for Defense Analyses.**

On March 27, 2003, the Office of the Assistant Secretary of the Air Force (Acquisition) provided an overview of the Boeing KC-767 tanker aircraft lease pricing and negotiation issues that stated:

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- Federal Acquisition Regulation Part 12 Commercial Contract Negotiations
    - Negotiating team had to use price-based techniques, rather than FAR Part 15's normal cost-based methods.
    - Proposal evaluation switches from scrubbing predicted man-hours to finding analogous systems with known cost data.
  - Lacking a detailed cost-based proposal, price-based negotiations become a "battle of BOEs [Basis of Estimate]."
    - One's negotiating position is only as good as one's basis of estimate.
  - Impact of competing cost [price] estimates
    - If based on a superior basis of estimate, negotiate to get lower price.
    - If based on an inferior basis of estimate, disregard/explain/discredit/ . . .

**April 2003. Mr. Wynne became heavily involved in tanker aircraft lease program. He stated that he called Boeing concerning a most favored customer clause and told them they were going to have to allow audit and asked that they cap the maximum earnings at [redacted] percent. Mr. Wynne also asked that the Institute for Defense Analyses do a price analysis of the tanker aircraft lease proposal.**

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Dr. Roche stated that in April 2003, a [redacted] took the lead for the White House in developing the Administration's tanker proposal, concentrating in particular on unit price. Further, he stated that Boeing met with the [redacted] on at least one occasion to discuss the tanker lease. Dr. Roche also stated that Messrs. Wolfowitz and Aldridge negotiated the approval of the proposal with the [redacted] based largely on what the Administration believed would be an acceptable price for tanker aircraft. In addition, he stated that near the end of May 2003, Mr. Aldridge recommended to Mr. Wolfowitz and presumably the Secretary of Defense, that the Department go forward with the lease, given the dramatic price reduction obtained over the spring. Dr. Roche stated that, with the approval of the White House and the Secretary of Defense, Mr. Aldridge announced the Department's position to go forward with the tanker aircraft lease at a press conference.

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On April 7, 2003, Mr. Andrew K. Ellis at Boeing sent an e-mail to Mr. Jim Albaugh at Boeing in which he stated in part:

- The Secretary of Defense told Mr. Aldridge and the Air Force this weekend to proceed with negotiations to finalize the tanker deal.
- Focus from here on will be 200 tankers not 100.

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\*Removed for reason stated in the initial asterisked footnote. (The references are also on page 147.)

- Messrs. Aldridge and Wolfowitz will interface with the White House and the Office of Management and Budget.
- Secretary Roche comfortable with more Office of the Secretary of Defense involvement – views it as necessary “top cover” for Air Force.
- General Handy, Air Mobility Command told Dr. Roche that he thought that all requirements were needed.
- Lieutenant General John Corley, Principal Deputy (Acquisition), Office of the Assistant Secretary of the Air Force (Acquisition) observed that General Handy understood what was needed to move ahead and that his staff was working closely with Dr. Sambur.

**On April 10, 2003, Mr. Jim Albaugh sent an e-mail to Mr. Philip Condit at Boeing in which he stated that Mr. Wynne asked the Air Force for a \$100 million tanker aircraft. The Air Force was livid with this. Mr. Albaugh stated that he talked to Drs. Roche and Sambur and armed them with a descoped \$139.5 million version of the tanker aircraft, which they liked and with information on why the option at the lower price did not work. Further, he stated that Drs. Roche and Sambur did not think that Mr. Aldridge was on board with Mr. Wynne request.**

**On April 15, 2003,**



b(5)

On April 15, 2003, Dr. Sambur sent to Dr. Roche and General Jumper a tanker aircraft chart that showed the cost savings by removing capability.

<b>Proposal to Remove Capability to Lower Price</b>			
<b>Option A:</b>			
Current Price			
Auxiliary Tanks Redesign			
Convertible Freighter			
Non-recover more aircraft			
<b>Total</b>			
<b>Option B:</b>			
Option A Price			
Delete receptacle			
Delete 10 crew accommodations .			
Delete hose drum unit			
Freighter only			

b(4) - OSD Redaction

Total			
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b(4) - OSD Redaction

On April 23, 2003, Mr. Andrew Ellis at Boeing sent an e-mail to Mr. Rudy De Leon, Mr. George Muellner, and Mr. Bob Gower at Boeing in which he discussed a meeting with Dr. Sambur and Lieutenant General John Corley and stated that the Institute for Defense Analyses dialogue was continuing with only modest progress being made on price. Further, he stated that the tanker aircraft lease deal had better close on Mr. Aldridge's watch, because it probably will not close on Mr. Wynne's watch. Mr. Ellis also stated that the Institute for Defense Analyses price was up to \$124.6 million per tanker aircraft.

On April 28, 2003, Ms. Robin Cleveland, Office of Management and Budget, sent Dr. Roche an e-mail stating:

I stand by my view; [redacted] b(5) - OSD Redaction

[redacted] I am not sure what else OMB [Office of Management and Budget] could have done. Since [redacted] and others value this plane around \$65 m [million] green, and Boeing still believes they should get [redacted] I guess you are right, the price issue has lost it bearings. Cost over-runs are only the most recent justification as to why we must pay [redacted] the explanation has varied literally by the week. By the way, if the F-22 is the model on cost over run commitments, this proposal may be worse than we could imagine.

b(4) - OSD Redaction

It has become clear to me that Boeing was persuaded that eventually we would agree to their entering price position notwithstanding budget priorities and market facts. [redacted]

b(5) - OSD Redaction

[redacted] Even with rotating senior level involvement from AT&L [Under Secretary of Defense for Acquisition, Technology, and Logistics], AF [Air Force], and the Comptroller, it looks like we are off track and unable to produce an agreement. What a shame.

**May 2003. On May 2, [redacted] reported in an e-mail to Dr. Sambur that he met with Mr. Aldridge; Vice Admiral Stanley Szemborski, Principal Deputy Director, Program Analysis and Evaluation; and their staff on the Boeing KC-767 tanker aircraft lease. The outcome was that Mr. Aldridge would sign out a decision that authorized the Air Force to proceed with a lease program and that asked the Office of Management and Budget to waive the termination liability for the tanker aircraft lease. Specifically, [redacted] stated:**

b(6) - OSD Redaction

I met this afternoon with Pete Aldridge, VAdm [Vice Admiral] Szemborski and their staffs concerning KC-767 lease. The outcome was a decision to be signed out by Pete (as an Acquisition Decision Memo) authorizing the AF [Air Force] to proceed with a lease program and asking OMB [Office of Management and Budget] to waive termination liability. He will also direct a unit price of about [redacted] below our current position), but will allow us to craft a cost-plus arrangement for the tanker modification. We believe this is do-able

b(4) - OSD Redaction

\*Removed for reason stated in the initial asterisked footnote.

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within a lease contract and, though out of the box, should be acceptable to Boeing.

This will allow us to proceed without cutting content and at a price that matches the OMB/IDA [Office of Management and Budget/Institute for Defense Analyses] estimate, but only if we can shift cost risk for that estimate to the government. In essence, if OSD [Office of the Secretary of Defense] believe the IDA estimate and isn't willing to pay Boeing to assume the risk of a fixed-price contract, then OSD should be willing to assume it through a cost-plus contract. I think we'll have full support of AT&L [Acquisition, Technology, and Logistics], PA&E [Program Analysis and Evaluation] and Comptroller for this course of action (they predicted OMB support as well).

There are going to be plenty of details to work out in the coming weeks, but this looks like a win-win decision to me.

**On May 3, 2003, Mr. John Sams at Boeing sent an e-mail to Mr. Bob Gower in which he stated that Mr. Aldridge, Dr. Sambur, and many Office of the Secretary of Defense types, except for Mr. Wynne who was not present, put forward a concept of cost plus. Further, he stated that a cost plus offer would be based on the Institute for Defense Analyses estimate and would let the Government assume the risk (Institute for Defense Analyses believed low risk). Mr. Sams also stated that the deal would call for a target price of \$125 million but the Air Force would budget for \$143 million. In addition, he stated that the "green aircraft" would not be part of cost plus initiative so the Air Force and Boeing would have to agree on "green aircraft" price before signing. Mr. Sams stated that Mr. Aldridge would submit the concept to the White House. He also stated that Mr. Aldridge retires effective May 23 and that [REDACTED] retirement was already effective. Further, Mr. Sams stated that there was no long term sponsor and that the understanding of this concept will fade and would be difficult to negotiate. He stated that Boeing was concerned about implication and precedent on future negotiations, not just tanker aircraft.**

b(6)

**On May 3, 2003, Mr. Jim Albaugh at Boeing sent an e-mail to Mr. Philip Condit at Boeing on cost plus and profit limit in which he stated that the cost plus tanker contract for \$125 million was not doable because it would not be Federal Acquisition Regulation Part 12 compliant as implied by the legislation currently in place. Further, he stated that Boeing was putting a proposal on the table that gave the Government their best commercial customer price on the "green airplane" and limited profit on the aircraft modification work to no more than 15 percent, an outside 3<sup>rd</sup> party would verify this. Mr. Albaugh stated that in the event that an additional 100 aircraft were not ordered after the first 100, the price would go up because nonrecurring costs were amortized over 200 aircraft.**

**On May 3, 2003, Dr. Sambur sent an e-mail to Dr. Roche and Mr. Aldridge in which he stated that Boeing would not go along with a mixed fixed price and cost plus approach. In regard to the "most favored customer" clause, Dr. Sambur stated that "If they were to lower their price to us, it would mean that they would have to give a rebate to everyone else that has this clause." He also stated that the cost plus modification at [REDACTED] has a [REDACTED] for Boeing. He mentions that the cap on profit at [REDACTED] and stated that, "If the true mod cost plus [REDACTED] profit is more than [REDACTED] most favored green A/C**

b(4) - OSD Redaction



[aircraft]), Boeing eats the difference. Boeing will let us completely audit all costs associated with the mods . . .” Dr. Sambur liked the approach except for the “give back” provision that requires the Air Force to refund [redacted] for each aircraft if the Air Force did not order 200 tanker aircraft. b(4) - OSD Redaction

On May 3, 2003, [redacted]

[redacted]

b(5)

On May 4, 2003, [redacted] sent an e-mail to Major General Hodges, Director of Global Reach Programs, stating: b(6) - OSD Redaction

According to Bob Gower, Dr. Sambur and Boeing have decided to hold firm on the following:

- Cost-plus is unacceptable to Boeing
- Boeing has countered with a Fixed-Price [redacted] convertible freighter, but no combi, with a profit cap of [redacted] (i.e., if they make more than [redacted] Return of Sales, they'll reimburse the gov't [Government]) b(4) - OSD Redaction
- This will prevent any windfall profits (gouging)

Bob said Dr. Sambur claims SECAF [Secretary of the Air Force] supports this approach. Apparently, they all feel that if SECDEF [Secretary of Defense] disapproves the program on price ground, Boeing will take it to WH [White House] and/or Congress and win.

Recommendation: No email to Dr S [Sambur]. Based on the political poker game now being played, I suggest AQQ [Office of the Director of Global Reach Programs] do nothing until we see who has the upper hand. We have a fallback position if we absolutely must have a [redacted] contract, but in the meantime, the AF [Air Force] position today looks to be “call OSD’s [Office of the Secretary of Defense] bluff and see what [redacted] and Congress say. b(4) - OSD Redaction  
b(5) - OSD Redaction

On May 5, 2003, Mr. Bob Gower at Boeing sent an e-mail to Drs. Roche and Sambur explaining how the Air Force was paying for development costs. He stated that:

Jim Albaugh asked that I send a note explaining GTTA. The Global Tanker Transport Aircraft (GTTA) is the baseline tanker effort Boeing began in March 2001 when we launched the commercial 767 Tanker. This develops the basic tanker capability such as the [redacted]

At the SPO [System Program Office] & PEO [Program Executive Officer] levels we have agreement the USAF [U.S. Air Force] will pick up a portion of this development cost since they are one of the major beneficiaries. FYI [for your information], our competitive strategy [redacted]

b(4) - OSD Redaction

\*Removed for reason stated in the initial asterisked footnote.

[REDACTED] This approach is what makes the program commercial.

[REDACTED] the [REDACTED]  
[REDACTED] etc.

b(4) - OSD Redaction

Hope this helps,

On May 5, 2003, Dr. Sambur sent an e-mail to Mr. Bob Gower at Boeing:

I am willing to agree that we received most favored price for green aircraft, [Boeing] 200 ER. The issue of contention is that of the mods. We need to have an agreement that has a NTE [not-to-exceed] on the mods of [REDACTED] per cent. That will remove the perception issue of Boeing ripping us off.

b(4) - OSD Redaction

We give you the price on the 200 ER and we monitor the mod to ensure the profit is NTE [REDACTED] per cent.

**On May 7, 2003, Mr. Jim Albaugh at Boeing sent an e-mail to Mr. Philip Condit at Boeing in which he stated that Dr. Sambur called and said that "again Mike Wynne wanted us [Boeing] to take a \$125M airplane tanker deal with CPFF [cost plus fixed-fee] on the airplane mod portion." Further, he stated that Boeing replied back that "at [REDACTED] [REDACTED] Mr. Albaugh stated that he met with Dr. Roche and General Jumper, who both think they have a fair deal on the table and that Rudy De Leon has engaged a Representative, who had a call into Mr. Aldridge. Specifically in the e-mail, Mr. Albaugh stated:**

b(4)

Phil, we had a flurry of activity today, Marv Sambur called and said that once again Mike Wynne wanted us to take a \$125M [million] airplane tanker deal with CPFF [cost plus fixed-fee] on the airplane mod portion. We replied back that a CPFF contract had little likelihood of being financeable and that at [REDACTED]

b(4)

[REDACTED] Marv supports this position.

Met with Roche and Jumper later in the day. They both think we have a fair deal on the table. They are concerned about where Wynne is on this deal especially in light of Aldridge being out of the country. Roche believed that Wynne may take the \$125M deal to the DepSecDef [Deputy Secretary of Defense] and wanted to know if we would 'blow in the USAF [U.S. Air Force]' by accepting such a deal. I assured him we would not.

Rudy has engaged [a Representative] who has a call into Aldridge. We meet with [the Representative] at 10:30 in the AM.

**On May 7, 2003, Mr. Bob Gower at Boeing sent an e-mail to Mr. Jim Albaugh at Boeing in which he stated that [REDACTED] called and said that he saw a decision memorandum that showed the "green aircraft" at a fixed-price and the modification at cost plus. He asked whether Boeing should get to the Deputy Secretary of Defense before "Wynne goes to him to make sure he does not approve a Wynne end run prior to USAF [U.S. Air Force]/Boeing input?" Specifically in the e-mail, Mr. Gower stated:**

b(6)

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██████████ called and said this could end up in a decision memo by Friday. He indicated he saw the memo and it showed the green aircraft at fixed and the modification at cost plus.

Can we get to DepSecDef [Deputy Secretary of Defense] before [Mr.] Wynne goes to him to make sure he does not approve a Wynne end run prior to USAF [U.S. Air Force]/Boeing input?

b(6)

On May 12, 2003, Mr. Bob Gower at Boeing sent an e-mail to Dr. Sambur about the most favored customer clause in which he stated that:

This is a follow up to our recent conversation. As we committed Boeing has provided a Most Favored Customer Clause for the Boeing] 767-200C aircraft. The USAF [U.S. Air Force] has this clause.

As committed Boeing will extend the Most Favored Customer status to the [Boeing] 767-200ER. This will cover that model and guarantees that if Boeing sells that model for less than the USAF price that Boeing will refund the difference for the number of aircraft involved. We will finalize the clause and provide it later today but I wanted to reconfirm our commitment to providing best value.

On May 12, 2003, Mr. Aldridge sent an e-mail to Drs. Roche and Sambur that discussed a ██████████ meeting on the tanker price. Specifically, Mr. Aldridge stated that:



On May 12, 2003, Dr. Sambur sent an e-mail to Dr. Roche and Mr. Aldridge on why Boeing cannot give the Air Force a better price. Specifically, Dr. Sambur stated:

Pete, Jim

I spoke to Jim Albaugh on the issue of ROS [return on sales]. Before speaking to him, I researched the Boeing financials and found that the commercial sector operating margin on AVERAGE was less than ██████████ and the [Boeing] 767 is doing worse than average because its base is shrinking . . . . I told Albaugh these facts and he promised to get me the AVERAGE ROS (again the 767 will be less than the average).

██████████ Also, Boeing can not give away its commercial 767 cost structure because it would hurt them in the ██████████ arena. Albaugh is having a conference call with De Leon and Condit and will get back to me this afternoon.

b(5) - OSD Redaction

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\*Removed for reason stated in the initial asterisked footnote.

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On May 13, 2003, Dr. Roche sent Mr. Jim Albaugh at Boeing an e-mail in which he stated:

Jim, I need to have you set up a meeting here in my office with OMB [Office of Management and Budget] (or [REDACTED]). I need for you, Mike Sears, and possibly Phil to come here for a meeting with me and Robin Cleveland. I cannot get OMB comfortable with the price, no matter what I argue. So, the last chance is for you all to listen to the basic question about why is the price this high [REDACTED]. If we can't get anywhere, then, Jim it's all over because we will never get there. Pls contact me soonest.

b(6) - OSD Redaction

b(4) - OSD Redaction

On May 14, 2003, Mr. James "Ty" Hughes, Office of the Air Force General Counsel, sent an e-mail to Dr. Sambur expressing concerns about contract clauses that Dr. Sambur forwarded to Mr. Bob Gower at Boeing. Concerns relating to pricing were:



b(5) - OSD Redaction

On May 14, 2003, Dr. Roche sent an e-mail to Ms. Robin Cleveland, Office of Management and Budget, about an upcoming meeting with Mr. Jim Albaugh and Mr. Phil Condit at Boeing. Specifically, Dr. Roche stated:

... I will try to summarize where we stand, and ask for discussion among us about how to grapple with the issue of price; the possibility of transferring the [Boeing] 767 from a commercial product to a military one (thus, breaking it out from the pack and permitting cost discussions, audits, etc.); some history of other DoD purchases of commercial planes (737's, Air Force One and Two); and, how can we come to grips with this issue since it will plague us for future aircraft. I will be teamed with you, and not put you in a corner. Chime in whenever.

**On May 16, 2003, Mr. Jim Albaugh of Boeing sent an e-mail to Mr. Bob Gower, Mr. Philip Condit, and Mr. Michael Sears at Boeing in which he described a meeting among Mr. Condit, Mr. Sears, Dr. Roche, and Ms. Robin Cleveland, Office of Management and Budget to discuss the path forward on the tanker aircraft. Mr. Albaugh stated that the principal issue was how to ensure to the Office of Management and Budget and the Administration that they were getting a fair and equitable deal and that Boeing was not getting windfall profits. Further, he stated that Boeing planned on proposing a [REDACTED] profit cap on the "green aircraft" and**

b(4)

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\*Removed for reason stated in the initial asterisked footnote.

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**modification by opening their books to a 3<sup>rd</sup> party audit.** Specifically, Mr. Albaugh stated in the e-mail that:

Yesterday Phil and I met with Jim Roche, Secretary of the AF [Air Force], and Robin Cleveland of OMB [Office of Management and Budget] to discuss the path forward on the tankers. The principal issue is how to ensure OMB and the administration that they are getting a fair and equitable deal on the green aircraft and how they can demonstrate to detractors that Boeing is not getting windfall profits. I believe the issue is not price, but the % of profit. As I think you all know we have addressed this issue on the aircraft mod work by opening up our books to a 3<sup>rd</sup> party audit and to limit profit to 15%.

An idea discussed to provide assurance on the green aircraft profits was a similar cap. This was discussed last night with Phil, Mike and Allan.

The concept would be that Phil would provide a written certification that profits on the aircraft would not exceed [REDACTED]. This would be a certification based on a D&T [Deloitte & Touche] audit. While there is reluctance to do this because of the precedence it sets, the logic would be that this is the end of the 767 line and that the market is really being set by the USAF [U.S. Air Force] not competition in the marketplace.

b(4)

I intend to call Roche and Aldridge this morning to discuss this concept with them.

Rudy, we'd like you to ask [REDACTED] to try this on [a White House official]. We believe it meets the intent of what he asked for this Monday in his meeting with OSD [Office of the Secretary of Defense] and OMB. We should probably also let [a Representative] know what we are doing.

b(6)

**On May 16, 2003, Mr. Andrew Ellis sent an e-mail to Mr. Rudy De Leon in which he commented on a meeting with Ms. Robin Cleveland, Office of Management and Budget. He stated that the "Air Force has little credibility with OMB [Office of Management and Budget], and others in the White House. Air Force numbers change in every meeting-and have for months." Mr. Ellis had the following observations on the meeting:**

-Boeing's integrity (e.g., rumors of gouging, windfall, etc) not in question in her mind. However, air force has little creditability with OMB [Office of Management and Budget], and others in the White House. Air force numbers change in every meeting – and have for months.

-she doesn't care about capping profit – and said so very openly and directly (called it "anti-market"). Although she acknowledged that Boeing was going to provide a concept/proposal on certifying a profit cap on green aircraft, she indicated that she believes tanker price (and green airplane discount and price) is the issue.

-she spoke to lots of analysts/bankers/wall street types "who know about airplanes." Through this effort, OMB established a range for what a 767 green aircraft should cost – from a low of \$65M [million] to a high of \$74M (air force [page cut off])

-she asserts that both [a White House official] and [another White House official] reacted negatively when shown air force figures that [a major airline] had received a [REDACTED] discount and air force only received a [REDACTED] discount on green aircraft. Don't we realize that 100 aircraft is a big order from a reliable customer and more importantly, that it's likely the front end of 400-500 aircraft.

b(4)

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-she said [the other White House official] needs a "new" figure on tanker price (between IDA's [Institute for Defense Analyses'] \$125M and current air force/Boeing \$134.3M) to take to [the White House official] in order to close this deal. Robin implied that that "right number" might be in the \$130-131M range. . .

If one takes this at face value, we seem to be looking on the one hand at an air force that doesn't want us to drop price and thinks the deal might close if we find a way to cap green aircraft profit and, on the other hand, at OMB that seems to be saying dropping the price is the path forward and capping green aircraft profit not a priority and not enough to close the deal . . .

As discussed, we need to figure out what [the other White House official] believes is necessary to close deal, and in a manner that doesn't encourage a response arguing for both price drop and profit cap.

**On May 19, 2003, Mr. Jack House at Boeing sent an e-mail to Mr. John Ferguson at Boeing about a discussion Mr. Bob Gower at Boeing had with Dr. Sambur, who said that the plan was to get the Deputy Secretary of Defense to approve the tanker aircraft deal on Tuesday. "USAF [U.S. Air Force] will then use the political process to work OMB [Office of Management and Budget] and get the lease through Congress." He believed that profit cap will work and that Boeing did not need to change price.**

**On May 19, 2003,** [REDACTED]

b(4)

**On May 22, 2003,** [REDACTED]

b(4)

On May 23, 2003, Mr. Aldridge signed the "Air Force Boeing 767 Tanker Lease Decision Memorandum." He directed the Air Force "to work with Boeing to negotiate the best possible total purchase price not to exceed \$131 million per unit and lease unique costs." Specifically, the memorandum stated:

After a comprehensive and deliberative review by the Leasing Review Panel, the Secretary of Defense has approved the Air Force's proposal to enter into a multiyear Pilot Program for leasing general purpose Boeing 767 aircraft under the authority in section 8159 of the Department of Defense Appropriations Act, 2002. While the currently approved plan will provide for delivery of a total of 100 KC-767 aircraft, approximately 67 of which will be delivered in the Future Years Defense Program (FYDP), it is the intent of the Department to go beyond the initial 100 aircraft as we begin the recapitalization of the airborne tanker fleet.

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The Leasing Review Panel compared the merits and shortcomings of both leasing and purchasing the aircraft, and the Secretary determined that the lease option best satisfied military needs and was preferable for two primary reasons. First, the lease will require a lesser initial outlay in the FYDP. Second, leasing accelerates the delivery of aircraft.

The Secretary of Defense approved this lease proposal contingent upon securing a waiver of the requirement to fund termination liability and approval from the Office of Management and Budget. While the KC-767 program is in its initial stages, I am designating the program as an ACAT [Acquisition Category] ID Major Defense Acquisition Program. In the interests of the government and the taxpayer, I direct the Air Force to work with Boeing to negotiate the best possible total purchase price not to exceed \$131 million per unit and lease unique costs, which the Special Purpose Entity will be responsible for paying to Boeing, and which will form the basis for government payments under the lease. The total purchase price shall include a firm, fixed-price for the 'green' aircraft (767-200C) and for modifications and additional tanker equipment on the green aircraft. The Return on Sales (ROS) shall not exceed [REDACTED] for the green aircraft or for the additional equipment; and the configuration shall meet the minimum set of requirements to satisfy the Air Force's mission. I further direct the Air Force to work with the Office of the Under Secretary of Defense (Comptroller) and the Office of the Director, Program Analysis & Evaluation, to finalize offsets in the FYDP to fully fund the lease plan.

b(4)

In addition, as mandated by the legislation, the Air Force shall submit a report to the Congressional Defense Committees before signing the lease contract, and report back to Congress one year after the first delivery and annually thereafter.

Finally, the Air Force shall develop a long-range recapitalization plan beyond the current lease proposal and present that plan to the Secretary of Defense by 1 November 2003.

**June 2003. On June 13, Mr. Bob Gower at Boeing sent an e-mail to Mr. Jim Albaugh at Boeing in which he addressed questions by Dr. Sambur for data on a major airline's price that showed how the Air Force received a better deal than the major airline. "The data show they received a deal about equal to [the major airline's]." He stated that Dr. Sambur also asked me to provide to him a statement that states that the Air Force received the best deal ever from Boeing and that Boeing could certify to. Mr. Gower also stated that "This could get tricky but the USAF [U.S. Air Force] is receiving a good price and IT IS CONSISTENT WITH OUR BEST CUSTOMER DEALS. The USAF is not getting a fire sale though."**

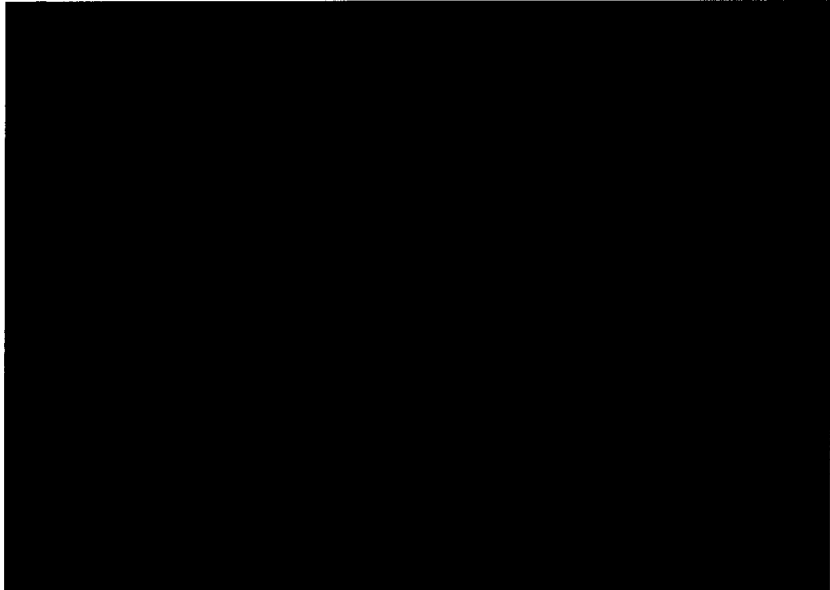
On June 27, 2003, [REDACTED]

b(4)



b(4)

**September 2003.** On September 1, Mr. James "Ty" Hughes, Office of the Air Force General Counsel, sent an e-mail to Dr. Sambur in which he stated:



b(5) - OSD Redaction

On September 1, 2003, in response, Dr. Sambur sent an e-mail to Mr. Hughes in which he stated:

Ty

I will NOT let the contract to Boeing unless it is an audit opinion AND we get a yearly audit. You can tell them that they may win the SASC [Senate Armed Services Committee] hearing but they will not get a contract!!! Marv



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## Appendix G. Placard Paradox

Appendix G responds to a January 27, 2005, letter from the Chairman, Committee on Commerce, Science, and Transportation to the Secretary of the Defense, requesting that we determine who intentionally deleted information from placards that were displayed during a tour that members of the Senate Armed Services Committee staff participated in during Tinker Air Force Base visit in October 2003. Subsequent to the tour, the Committee staff asked for copies of the placards.

We interviewed 30 individuals associated with the placards to determine who changed the original placards submitted to the Senate Armed Services Committee staffers and why the placards were changed. Exhibit 1 shows an abbreviated organization chart of the Air Logistics Center as of October 2003 and identifies the key divisions and branches that the Senate Armed Services Committee staff visited relating to the KC-135 production line. Appendix H provides a listing of the key players involved in the placard paradox.

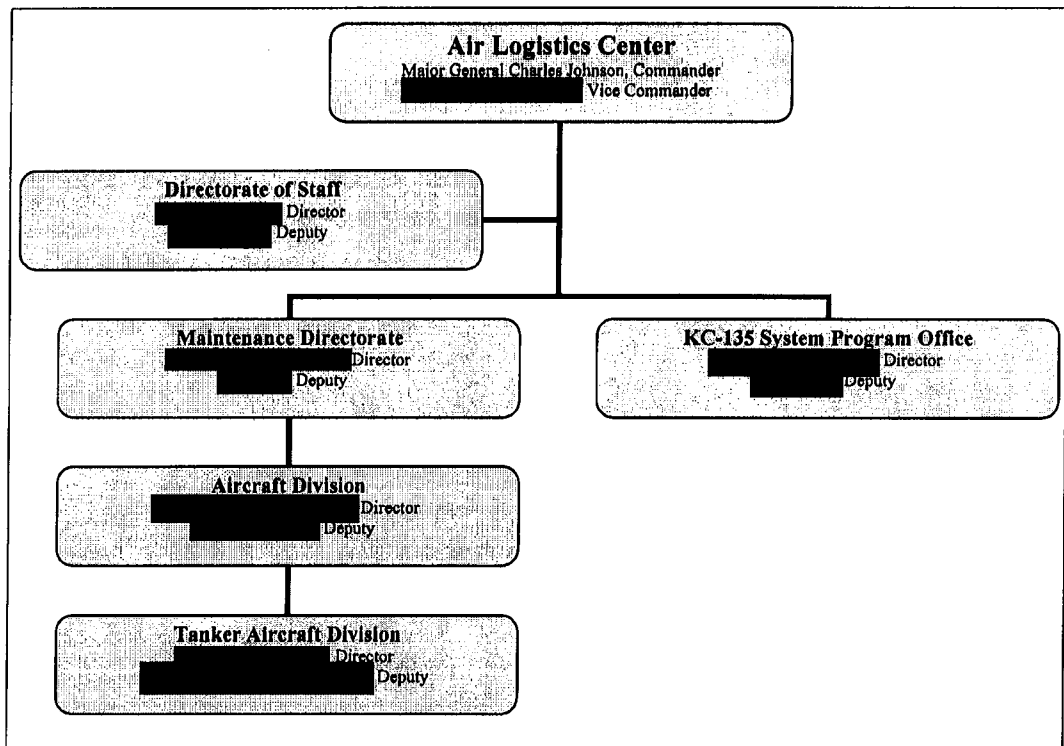


Exhibit 1. Excerpt from the Air Logistics Center, Tinker Air Force Base, Oklahoma Organization Chart (October 2003)

b(6)

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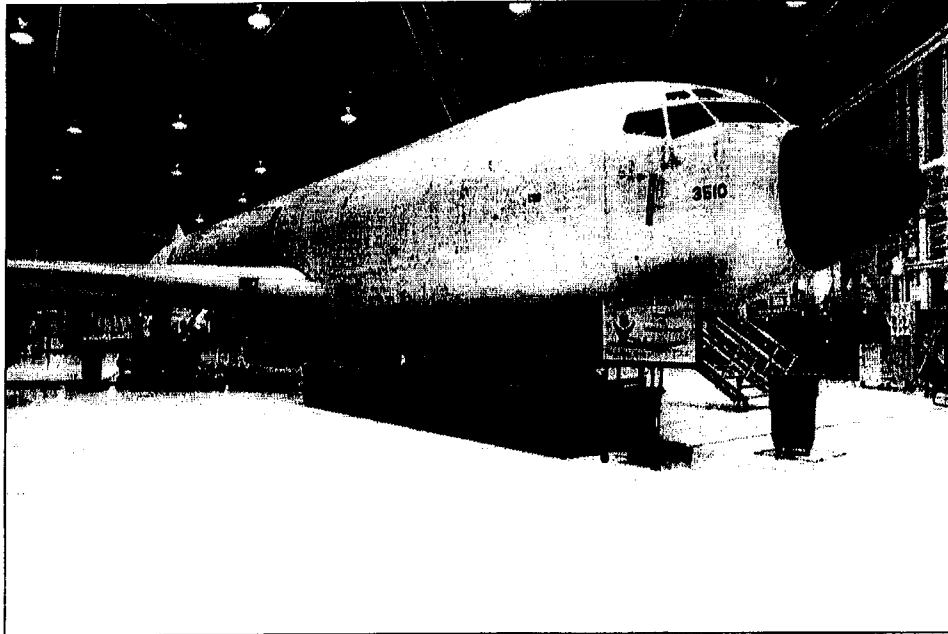
We concluded that Air Force officials intentionally deleted and modified information contained on placards displayed during the Senate Armed Services Committee tour. However, we determined that these actions were taken to portray the most current and accurate maintenance status of the aircraft. We did not find evidence to indicate that the placard information was changed to misrepresent the health of the KC-135 fleet.

- **Initial Submission.** With respect to the initial submission of placards to the Committee staff on October 22, 2003, we concluded that actions taken by members of the Air Logistics Center staff and the Department of the Air Force were not meant to misrepresent maintenance information related to corrosion on the KC-135. Personnel at Tinker Air Force Base indicated that collaborative discussions occurred between members of the Maintenance Division staff who wanted to ensure that they updated the placards to show the most current and accurate information associated with the Tinker-only fleet.
- **Final Submission.** With respect to the second and final submission of placards to the Committee staff, we determined that Air Logistics Center command officials and Deputy Chief of Staff Air Force, Installations and Logistics officials became involved once concerns were raised about the initial submission of placards. We found that during the staffing of the placards, Deputy Chief of Staff Air Force, Installations and Logistics, determined that the Air Force would supplement the maintenance information on the original placards to represent the health of the entire KC-135 fleet. We determined that the corrosion information contained on the placards was current, accurate, and not misrepresented for the entire KC-135 fleet.

## Background

On October 10, 2003, staffers from the Senate Armed Services Committee participated in a tour of the Air Logistics Center at Tinker Air Force Base, Oklahoma. Several representatives from the Air Logistics Center accompanied the staffers. [REDACTED] Legislative Liaison for the Office of Legislative Liaison, Secretary of the Air Force, coordinated the visit and accompanied the staffers to Tinker Air Force Base and throughout the tour. Exhibit 2 depicts the staging of the KC-135 maintenance production line tour. The photographs contained in this appendix were obtained during a re-creation of the October 2003 tour provided to investigative team members, Office of the Inspector General Department of Defense on February 8, 2005.

b(6)



**Exhibit 2. Staging of the KC-135 maintenance production line tour**

The KC-135 production line tour segment included a plasma screen briefing followed by a guided walking tour around the aircraft. During the walking tour, briefers identified examples of major structural repairs<sup>8</sup> that may have been performed on KC-135 aircraft during depot maintenance. At each major structural repair exhibit, a placard was displayed.

**What were the placards?** The placard slides were small story boards commonly used during tours of the KC-135 aircraft maintenance line. The placards were placed at each major structural repair exhibit and identified resource requirements needed to repair or replace the major structural item. Exhibit 3 illustrates how the placards were displayed around the aircraft during the tour.

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<sup>8</sup>Major structural repairs are repairs or replacements of core aircraft components. Major structural repairs typically caused by corrosion or stress corrosion are not part of the planned or scheduled maintenance of the aircraft.



**Exhibit 3. Example of the placards displayed around the aircraft during the KC-135 maintenance production line tour**

The resource requirement information included on the placards addressed labor hours, labor rate, fitting cost, total cost, and occurrence factor.<sup>9</sup> Information on the placards pertained to the Tinker KC-135 fleet and did not include information related to the remainder of the KC-135 aircraft fleet. The original placards displayed during the tour are located in Appendix I.

## **Findings of Fact**

**Placard Request and Coordination.** A congressional staffer first requested a copy of the original placards made on October 10, 2003. The request was made to [REDACTED] Chief of Tanker Maintenance. Normally, data requests are initiated through [REDACTED] Legislative Liaison. However, the [REDACTED] did not become aware of the placard request until Friday, October 17, 2003.

[REDACTED] delegated the Senate Armed Services Committee request to [REDACTED] Chief Analyst, Procedures and Analysis Division who normally was not involved in the tours. The following week, [REDACTED] requested that the placards be updated with current 2003 data. Although [REDACTED] recalls [REDACTED] tasking, he did not recall who asked him to update the placard information. The updated charts included the current information on 66 KC-135

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<sup>9</sup>Occurrence factor indicates the number of times a core aircraft component was replaced or repaired over a set series of KC-135 aircraft at Air Logistics Center, Tinker Air Force Base

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aircrafts repaired at the Air Logistics Center between fiscal year 2002 and 2003. The placards still depicted labor hours, labor rate, total cost, and occurrence factors. However, a material cost figure was added and the fitting cost was removed. Because the request for the placards was provided only to the Tanker Maintenance Branch, the placards were not forwarded up through the Air Logistics Center Command at that time. On Tuesday, October 21, 2003, [REDACTED] Executive Officer to [REDACTED] Director of Maintenance, sent a copy of the placards to [REDACTED] Deputy Director of Staff, Oklahoma City Air Logistics Center, Air Force Materiel Command. The initial placard submission is located at Appendix J. The placards sent to [REDACTED] contained the updated 2003 data,<sup>10</sup> minus the fitting cost, hourly rate and occurrence factor. On Wednesday, October 22, 2003, [REDACTED] forwarded the same copy to [REDACTED] who forwarded the charts to the Senate Armed Services Committee staffers.

The Senate Armed Services Committee staffers realized that the information contained on the placards provided was different from what they had recalled was displayed and contacted [REDACTED]. The staffers indicated that their request was for the "exact" placards shown to them during their visit. On October 28, 2003, [REDACTED] provided the information in the original placards to Senate Armed Services Committee staffers. This submission contained the original placard information with added header and footer information, a point paper explaining the placards, and excerpts from the Corrosion Service Life Report for the KC-135. The final submission is located at Appendix K. The Corrosion Service Life Report for the KC-135 was released in its entirety on October 24, 2003.

**Who Changed the Placards and Why?** We were unable to determine the identity of the individual that made key stroke changes to the placards regarding the first submission of the placards. However, we did determine that the decision to modify the initial set of charts was a collaborative decision between at least two individuals, [REDACTED] Chief of Aircraft Maintenance and [REDACTED] Director of Maintenance. The request for the placards generated intense discussion over what information should be provided.

**October 13 though October 17, 2003.** The week following the tour (October 13 though October 17, 2003), [REDACTED] requested that [REDACTED] KC-135 Industrial Engineering Technician, update the placards to current 2003 data. [REDACTED] did not recall who asked him to update the placard information. The updated charts included the current information on 66 KC-135 aircraft repaired at the Air Logistics Center between 2002 and October 2003. The placards still showed labor hours, labor rate, total cost, and occurrence factor; however a material cost figure was added and fitting cost was removed. We found that during this week the placards remained within the Tanker Maintenance Branch.

**October 20 though October 24, 2003.** During the second week following the tour (October 20 though October 24, 2003), [REDACTED] and [REDACTED]

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<sup>10</sup>We were unable to fully verify the placards with the 2003 data because Air Logistics Center updated their maintenance system in 2004 and were unable to determine what aircraft supported the 66 aircraft identified in the updated placards.

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██████████ raised concerns about the data contained in the placards and how the Senate Armed Services Committee staffers would interpret the information. The original placards contained Tinker Air Force Base-only data and did not address maintenance data from the other two centers that maintained the fleet of KC-135's. We found that:

- On Monday, October 20, 2003, ██████████ requested an electronic copy of the original placards and the updated 2003 placards from ██████████ through ██████████ deputy, ██████████ Deputy of the Tanker Aircraft Branch.
- On Tuesday, October 21, 2003, ██████████ production management specialist, provided the original placards and updated 2003 placards for the Aircraft Maintenance Branch. We were not able to determine how or who coordinated the information, but suspect the information was emailed through ██████████ to ██████████ to ██████████ and ██████████. Witnesses recalled discussions among ██████████ and ██████████ regarding the placards but were not able to determine specific conversations or times of these discussions. ██████████ recalled a discussion about the placard charts with ██████████ during this timeframe and remembered that they only contained Tinker-only data. Subsequently, ██████████ executive Officer to ██████████ provided an electronic version of the placards to ██████████. These placards constituted the initial submission of the placards to the Senate Armed Services Committee staffers (placards included the 2003 data less occurrence factors, fitting costs, and labor rates). ██████████ did not recall who provided the placards to him; however, under normal protocol, witnesses advised that coordination would come from ██████████. We determined that during this timeframe ██████████ was on travel. ██████████ stated that he would have coordinated the charts with ██████████ before submitting them to ██████████. However, he does not specifically recall the coordination with either ██████████ or ██████████.
- On Wednesday, October 22, 2003, ██████████ provided the initial submission of the placards to ██████████ and a courtesy copy to ██████████ Director of Staff, Air Logistics Center, Tinker Air Force Base by email. (Appendix J) ██████████ stated that he coordinated the placards with Mr. Conner, Deputy Commander, Air Logistics Center. However, Mr. Conner told us that he did not recall the coordination, but would not deny that the coordination transpired. ██████████ submitted the placards to the Senate Armed Services Committee staffers later that day. Upon review, the Senate Armed Services Committee staffers realized that the placards were not the same placards as those displayed around the KC-135 maintenance production line tour. The staffers contacted ██████████ and again, requested a copy of the placards, but this time asked for the "exact" placards displayed around the KC-135 aircraft. ██████████ responded by contacting ██████████ Director of

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Staff, and indicated a sense of urgency to provide the original placards to the Senate Armed Services Committee staffers.

- On Thursday October 23, 2004, [REDACTED] again contacted [REDACTED] to obtain an update on the status of the placards. We found that senior members of the command were now involved in the placard request. [REDACTED] Vice Commander, became involved in coordinating the placard request. Because the original placards contained outdated Tinker-only depot maintenance data, [REDACTED] wanted to ensure that the information was understood. [REDACTED] held several meetings to better understand the information contained on the placards and tasked the KC-135 System Program Office to prepare a point paper explaining the distinction between Tinker-only data and fleet wide data. We confirmed that several individuals were involved in one or all of these discussions including Major General Johnson, Commander Air Logistics Center, [REDACTED] Vice Commander Air Logistics Center, [REDACTED] Deputy Director Maintenance Division, [REDACTED] and [REDACTED] structural engineer. We found that [REDACTED] and [REDACTED] were on travel during this period.
- On Friday October 24, 2003, [REDACTED] submitted the placard charts to [REDACTED]. The submission included the original placards with the footer reference, an explanative point paper, and an excerpt from the Corrosion Service Life Report for the KC-135. The office of the Deputy Chief of Staff Air Force, Installations and Logistics contacted [REDACTED] and requested that the placards be coordinated prior to submission to the staffers.

**October 27 though October 28, 2003.** During the third week following the tour, (October 27 though October 28, 2003), we found that the placards were reviewed by individuals at the Air Staff level. At this point the placards still contained Tinker-only data.

- On Monday October 27, 2003, [REDACTED] provided the placard package from [REDACTED] to the [REDACTED] Deputy Chief of Staff Air Force, Installations and Logistics coordinated the package with Lieutenant General Zettler, Deputy Chief of Staff Air Force, Installations and Logistics. [REDACTED] was on leave and [REDACTED] added the header information to the placard charts per Lieutenant General Zettler's request.
- On Tuesday October 28, 2003, [REDACTED] received the coordinated package from the Office of the Deputy Chief of Staff Air Force, Installations and Logistics and submitted the placards to the Committee staffers.

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## Appendix H. Key Air Force Players in the Placard Paradox

The following Air Force representatives were key players in executing the Senate Armed Services Committee staffers tour at Tinker Air Force Base on October 10, 2003, or were involved in providing the KC-135 placards to the Senate Armed Services Committee staffers.

### Air Logistics Command, Tinker Air Force Base, Oklahoma

**Major General Charles Johnson.** Major General Charles Johnson, Commander Air Logistics Center, was not involved during the tour; however he did meet the staffers following the tour's conclusion. Major General Johnson was involved with providing the final submission of the placards to the Senate Armed Services Committee staffers

██ Vice Commander, Air Logistics Center, was not involved during the tour; however, ██████████ did coordinate the final submission of the placards and the point paper explaining the placards information.

**Mr. Robert Connor.** Mr. Robert Connor, Executive Director, reportedly coordinated the initial submission of the placards before it left Tinker Air Force Base.

██ Director of Staff, escorted Senate Armed Services Committee staffers during base tour, and was involved with providing the placards to the Senate Armed Services Committee staffers

██ Deputy Director of Staff, was not present during the tour but was tasked with coordinating the placard submissions to the Senate Armed Services Committee staffers.

### Maintenance Division, Air Logistics Command, Tinker Air Force Base, Oklahoma

██ Director of Maintenance, Air Logistics Command, Tinker Air Force Base, Oklahoma, escorted the Senate Armed Services Committee staffers on the tour and presented the lean engineering briefing. ██████████ was involved in discussions about the content of the placards and his executive Officer processed the initial placard submission.

██ was one of ██████████ executive Officers. ██████████ was not involved with the Senate Armed

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Services Committee Staffer tour, but was involved in the coordination of the initial submission of the placards to the staffers.

[REDACTED] Deputy Director of Maintenance, assisted in the preparation of the point paper with [REDACTED] and [REDACTED] that accompanied the final placard submission.

### **Aircraft Branch, Maintenance Division, Air Logistics Command, Tinker Air Force Base, Oklahoma**

[REDACTED] Chief Aircraft Division, was not present during the tour, but was involved with providing the placards to the Senate Armed Services Committee staffers.

### **Tanker Aircraft Branch, Maintenance Division, Air Logistics Command, Tinker Air Force Base, Oklahoma**

[REDACTED] KC-135 Production Chief, Tanker Aircraft Branch, Maintenance Division, was involved during the tour; however, he had limited involvement with providing the placards to the staffers.

[REDACTED] recalls the Senate Armed Services Committee staffers placard request.

[REDACTED] Deputy Chief of Tanker Aircraft Maintenance Branch, was not present during the tour however was involved with coordinating the initial placard submission to the Senate Armed Services Committee staffers.

[REDACTED] Analyst Chief, stated that he help set up for the tour on the morning of October 10, 2003. He also asked [REDACTED] to update the placards, although he did not recall who ask him to update the placard information.

[REDACTED] KC-135 Industrial Engineering Technician, updated the original placards to 2003 Tinker Air Force Base data. The data used to update the placards was obtained from the Program Depot Maintenance Support System database.

[REDACTED] Production Management Specialist, transmitted the updated placards with 2003 Tinker data to the Aircraft Maintenance branch.

### **KC-135 System Program Office**

[REDACTED] Director of the KC-135 System Program Office did not attend the tour and was on travel around key placard submission dates.

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[REDACTED] Deputy Director of the KC-135 System Program Office did not attend the tour and was on travel around key placard submission dates.

[REDACTED] structural engineer, prepared the point paper dated October 24, 2003, on the information contained on the original placards and explained why the transmission of the actual placards as delayed. He also prepared point paper with the assistance of [REDACTED] and [REDACTED].

## **Deputy Chief of Staff Air Force, Installations and Logistics**

**Lieutenant General Michael Zettler.** Lieutenant General Michael Zettler, Deputy Chief of Staff Air Force, Installations and Logistics, coordinated the final placard submission and directed that the header information was added to the original placards before submission.

[REDACTED] action officer for the KC-135 desk, Office of the Deputy Chief of Staff Air Force, Installations and Logistics, received the placards for coordination. However, he went on leave the following the coordination and [REDACTED] assisted with the coordination.



[REDACTED] co-worker of [REDACTED] Deputy Chief of Staff Air Force, Installations and Logistics and assisted the coordination of the final placard submission while [REDACTED] was on leave. [REDACTED] added the header information to the original placards prior to the final submission per Lieutenant General Zettler's Request.



## **Department of the Air Force, Office of Legislative Liaison**

[REDACTED] legislative liaison action officer coordinated the Senate Armed Services Committee staffer visit to Tinker Air Force Base. [REDACTED] also accompanied Committee staffers to Tinker Air Force Base and submitted both versions of the placards to the Senate Armed Services Committee staffers.

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## Appendix I. Original Placards Displayed

	
<b>Aft Terminal Fitting: [REDACTED]</b> <b>(Body Station 820)</b>	
<ul style="list-style-type: none"><li>• (Due to extensive disassembly both fittings are changed, "R" model only)</li><li>• Man hours for installation (both sides): [REDACTED]</li><li>• Prepare 820 fittings</li><li>• Jacking</li><li>• Total Labor [REDACTED]</li><li>• Fitting Cost [REDACTED]</li><li>• History of 82 A/C: 0 Occurrences</li></ul>	

	
<b>Main Landing Gear Trunnion: [REDACTED]</b>	
<ul style="list-style-type: none"><li>• Man hours per installation: [REDACTED]</li><li>• Beavertail rework : [REDACTED]</li><li>• Jacking : [REDACTED]</li><li>• Total Labor [REDACTED] : [REDACTED]</li><li>• Fitting Cost [REDACTED]</li><li>• History of 82 A/C: 1 Occurrence<ul style="list-style-type: none"><li>• 1.2% Occurrence Factor</li></ul></li></ul>	



**Bulkhead Fitting: [REDACTED]**  
**(Body Station 960)**

- Man hours per installation: [REDACTED]
- Jacking [REDACTED] :
- Total Labor [REDACTED] :
- Fitting Cost [REDACTED]
- History of 82 A/C: 4 Occurrences
  - 5% Occurrence Factor



**Bulkhead Fitting: [REDACTED]**  
**(Body Station 820)**

- Man hours per installation: [REDACTED]
- Jacking [REDACTED]
- Total Labor [REDACTED]
- Fitting Cost [REDACTED]
- History of 82 A/C: 4 Occurrences
  - 5% Occurrence Factor

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**Forward Terminal fitting: [REDACTED]**  
**(Body Station 620)**

- **Man hours per installation:** [REDACTED]
- **Jacking** : [REDACTED]
- **Total Labor** [REDACTED] : [REDACTED]
- **Fitting Cost** [REDACTED]
- **History of 82 A/C: 1 Occurrence**
  - **1.2% Occurrence Factor**



**Right Fuselage Skin Body: [REDACTED]**  
**(Station 360-620)**

- **Man hours per installation:** [REDACTED]
- **Jacking** : [REDACTED]
- **Total Labor** [REDACTED] : [REDACTED]
- **Fitting Cost** [REDACTED]
- **History of 82 A/C: 18 Occurrences**
  - **22% Occurrence Factor**

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**R/H 880 Beam Replacement:** [REDACTED]  
**(must remove L/H to replace R/H)**

- Man hours per installation: [REDACTED]
- Jacking & Jig : [REDACTED]
- 10.9 Pressure check : [REDACTED]
- Total Labor [REDACTED] : [REDACTED]
- Fitting Cost [REDACTED]
- History of 82 A/C: 1 Occurrence
  - 1.2% Occurrence Factor



**R/H 890 Beam Replacement:** [REDACTED]

- Man hours per installation: [REDACTED]
- Jacking & Jig : [REDACTED]
- 10.9 Pressure check : [REDACTED]
- Total Labor [REDACTED] : [REDACTED]
- Fitting Cost [REDACTED]
- History of 82 A/C: 0 Occurrences







**Boom Shock Absorber receptacle:** [REDACTED]

- **Man hours per installation:** [REDACTED]
- **No jacking required** :
- **Total Labor** [REDACTED] :
- **Fitting Cost** [REDACTED]
- **History of 82 A/C: 1 Occurrences**
  - **1.2% Occurrence Factor**

b(5)

## Appendix J. Initial Placard Submission

	
<b>Aft Terminal Fitting (Body Station 820)</b>	
<ul style="list-style-type: none"><li>• (Due to extensive disassembly both fittings are changed, "R" model only)</li><li>• Man hours for installation (both sides) : [REDACTED]</li><li>• Prepare 820 fittings : [REDACTED]</li><li>• Jacking : [REDACTED]</li><li>• Total Labor (Hrs) : [REDACTED]</li><li>• Material Cost [REDACTED]</li></ul>	
* Bench Stock Not Included	
1	

	
<b>Main Landing Gear Trunnion Fitting</b>	
<ul style="list-style-type: none"><li>• Man hours for installation [REDACTED]</li><li>• Beavertail Rework [REDACTED]</li><li>• Jacking [REDACTED]</li><li>• Total Labor (Hrs) [REDACTED]</li><li>• Material Cost [REDACTED]</li></ul>	
* Bench Stock Not Included	
2	





## Bulkhead Fitting (Body Station 960)

- Man hours for installation : [REDACTED]
- Jacking : [REDACTED]
- Total Labor (Hrs) : [REDACTED]
- Material Cost [REDACTED]

\* Bench Stock Not Included

3



## Bulkhead Fitting (Body Station 820)

- Man hours for installation : [REDACTED]
- Jacking : [REDACTED]
- Total Labor (Hrs) : [REDACTED]
- Material Cost [REDACTED]

\* Bench Stock Not Included

4



## Forward Terminal Fitting (Body Station 620)

- Man hours for installation : [REDACTED]
- Jacking : [REDACTED]
- Total Labor (Hrs) : [REDACTED]
- Material Cost [REDACTED]

\* Bench Stock Not Included

6



## Right Fuselage Skin Body (Station 360-620)

- Man hours for installation : [REDACTED]
- Jacking : [REDACTED]
- Total Labor (Hrs) : [REDACTED]
- Material Cost [REDACTED]

\* Bench Stock Not Included

6

b(5)



## R/H 880 Beam Replacement (must remove L/H to replace R/H)

- Man hours for installation : [REDACTED]
- Jacking & Jig : [REDACTED]
- 10.9 Pressure Check : [REDACTED]
- Total Labor (Hrs) : [REDACTED]
- Material Cost [REDACTED]

\* Bench Stock Not Included

7



## R/H 890 Beam Replacement

- Man hours for installation : [REDACTED]
- Jacking & Jig : [REDACTED]
- 10.9 Pressure Check : [REDACTED]
- Total Labor (Hrs) : [REDACTED]
- Material Cost [REDACTED]

\* Bench Stock Not Included

8



## Boom Shock Absorber Receptacle


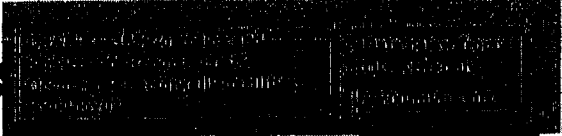




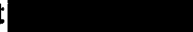

- Man hours for installation : [REDACTED]
- No Jacking Required : [REDACTED]
- Total Labor (Hrs) : [REDACTED]
- Material Cost [REDACTED]











\* Bench Stock Not Included

9

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## Appendix K. Final Placard Submission

		
<b>Bulkhead Fitting:</b>  <b>(Body Station 820)</b>		
<ul style="list-style-type: none"><li>• Man hours per installation: </li><li>• Jacking</li><li>• Total Labor </li><li>• Fitting Cost </li><li>• History of 82 A/C: 4 Occurrences<ul style="list-style-type: none"><li>• 5% Occurrence Factor</li></ul></li></ul>		
		

		
<b>Bulkhead Fitting:</b>  <b>(Body Station 960)</b>		
<ul style="list-style-type: none"><li>• Man hours per installation: </li><li>• Jacking : </li><li>• Total Labor  : </li><li>• Fitting Cost </li><li>• History of 82 A/C: 4 Occurrences<ul style="list-style-type: none"><li>• 5% Occurrence Factor</li></ul></li></ul>		
		



**R/H 880 Beam Replacement:** [REDACTED]  
(must remove L/H to replace R/H)

- Man hours per installation: [REDACTED]
- Jacking & Jig : [REDACTED]
- 10.9 Pressure check : [REDACTED]
- Total Labor [REDACTED] : [REDACTED]
- Fitting Cost [REDACTED]
- History of 82 A/C: 1 Occurrence
  - 1.2% Occurrence Factor [REDACTED]



**R/H 890 Beam Replacement:** [REDACTED]

- Man hours per installation: [REDACTED]
- Jacking & Jig : [REDACTED]
- 10.9 Pressure check : [REDACTED]
- Total Labor [REDACTED] : [REDACTED]
- Fitting Cost [REDACTED]
- History of 82 A/C: 0 Occurrences



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[Redacted]  
 [Redacted]  
 [Redacted]



**Right Fuselage Skin Body:**  
**(Station 360-620)**

- Man hours per installation: [Redacted]
- Jacking [Redacted]
- Total Labor [Redacted]
- Fitting Cost [Redacted]
- History of 82 A/C: 18 Occurrences
  - 22% Occurrence Factor

[Redacted]



[Redacted]  
 [Redacted]  
 [Redacted]



**Forward Terminal fitting:**  
**(Body Station 620)**

- Man hours per installation: [Redacted]
- Jacking [Redacted]
- Total Labor [Redacted]
- Fitting Cost [Redacted]
- History of 82 A/C: 1 Occurrence
  - 1.2% Occurrence Factor

[Redacted]



**Aft Terminal Fitting:  
(Body Station 820)**

- (Due to extensive disassembly both fittings are changed ,  
"R" model only)
- Man hours for installation (both sides) [REDACTED]
- Prepare 820 fittings [REDACTED]
- Jacking [REDACTED]
- Total Labor [REDACTED]
- Fitting Cost [REDACTED]
- History of 82 A/C: 0 Occurrences

[REDACTED]



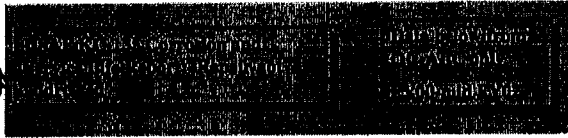
**Main Landing Gear Trunnion: [REDACTED]**

- Man hours per installation: [REDACTED]
- Beavertail rework : [REDACTED]
- Jacking : [REDACTED]
- Total Labor [REDACTED] : [REDACTED]
- Fitting Cost [REDACTED]
- History of 82 A/C: 1 Occurrence
  - 1.2% Occurrence Factor

[REDACTED]

b(5)





**Boom Shock Absorber receptacle:** [redacted]

- Man hours per installation: [redacted]
- No jacking required : [redacted]
- Total Labor [redacted] : [redacted]
- Fitting Cost [redacted]
- History of 82 A/C: 1 Occurrences
  - 1.2% Occurrence Factor



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POINT PAPER  
ON  
C/KC-135 AGING AIRCRAFT PDM TOUR

**- Purpose**

- Provide C/KC-135 corrosion/service life history and explain placard data provided to . . . . . Professional Staff Members of the Senate Armed Services Committee (SASC), 10 Oct 03 Tinker AFB tour
- Professional staffers were provided an overview of the -135 depot maintenance process and capabilities at Tinker
- Nine placards (attachment 1) were displayed under an aircraft to show examples of repairs accomplished during the depot maintenance processes

**- Background**

- The -135 aircraft fleet is composed of 581 aircraft with an average age of 42 years and are repaired at four Programmed Depot Maintenance (PDM) repair sites:
  - OC-ALC/MAB Tinker AFB, OK
  - Boeing Aerospace Services Center (BASC) San Antonio, TX
  - PEMCO Aeroplex Birmingham, AL
  - L-3 Communications Greenville, TX
- Aging A/C issues - Complex corrosion/cracking repairs are unpredictable and random; results in growth of structural repairs, PDM hours and repair costs
- The repairs briefed at dockside on 10 Oct were a small portion of the [REDACTED] hours contained in the PDM work package

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**- Discussion**

- Placards displayed dockside were for parts identification/general information
  - Not a representative sample of the major structural repairs (MSRs) being accomplished at all four PDM repair sites
  - OC-ALC placard MSR data reflected only Tinker occurrences from FY00 to mid-FY02
- C/KC-135 corrosion history including MSR and rewire data for the fleet is documented in the *KC-135 Corrosion and Service Life Report* dated Oct 2003 (attachment 3)
  - Information contained in the Oct 03 was assembled by the AF/ILM staff with information/analysis provided by the -135 System Program Office

-1-

\* Names of Professional Staff Members removed.

- The OC-ALC MSR placard data displayed dockside was a subset of the data displayed on page 48 of the Oct 03 report
- Attachment 2 is page 48 of the Oct 03 report displaying the percent of fleet-wide MSRs from FY95 - FY03
- OC-ALC placards discussed during the 10 Oct visit are cross-referenced on the left side of the chart
- For example, the body station 820 bulkhead fitting
  - Tinker occurrence factor from FY00 thru mid FY02 averaged 5% (attachment 1/placard 1)
  - In comparison, fleet-wide (all four PDM sites) occurrence factors vary from FY00 thru FY02 (19%, 4%, 10%) (attachment 2, pg 48 of Oct 03 report)
  - Note the erratic/unpredictable nature of MSR repairs since FY95
- OC-ALC placards #2-9 can be cross-referenced to the Oct 03 report and occurrence factors also vary from year to year
- **Summary/Recommendation**
  - For a comprehensive understanding of corrosion and service life issues on the C/KC-135 fleet, please review the *KC-135 Corrosion and Service Life Report*, attachment 3

**PERCENT OF FLEET-WIDE MAJOR STRUCTURAL REPAIRS  
(FY95 - FY03)**

**Fleet-Wide Percent Aircraft Major Structural Repairs (MSR) (all MDS)**

Category	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03
<b>AVG MSR PER AIRCRAFT</b>	3	3	3	3	2	2	3	2	2*
<b>BULKHEADS</b>									
#1 820 Bulkhead	13%	16%	17%	8%	19%	10%	10%	10%	3%
#2 820 Bulkhead	3%	9%	3%	6%	5%	3%	1%	2%	7%
#2 960 Bulkhead	2%	4%	10%	10%	5%	7%	10%	11%	17%
<b>FLOOR BEAMS</b>									
#3 880 Beam	8%	7%	5%	4%	6%	6%	9%	4%	2%
#4 890 Beam	19%	27%	32%	3%	5%	1%	4%	1%	2%
<b>BODY SKINS</b>									
#5 RH Belly Skin	3%	17%	22%	22%	9%	14%	8%	32%	17%
LH Belly Skin	16%	35%	58%	66%	23%	60%	43%	56%	40%
Other Body Skins	2%	1%	22%	4%	2%	18%	0%	2%	5%
<b>BOTTLE PIN FITTINGS</b>									
#6 Front Spar Terminal Fitting	0%	1%	2%	5%	2%	1%	1%	2%	0%
#7 Rear Spar Terminal Fitting	2%	1%	3%	0%	1%	0%	0%	0%	0%
<b>WING</b>									
Production Break (any)	160%	24%	40%	38%	12%	53%	42%	51%	36%
Wing Skin	8%	21%	7%	10%	3%	3%	3%	6%	15%
Spar Repair/Replace	1%	4%	5%	9%	17%	8%	17%	13%	7%
Beavertail	0%	3%	23%	13%	13%	10%	2%	12%	5%
#8 MLG Trunnion Rib	9%	9%	8%	9%	5%	7%	9%	3%	8%
<b>OTHER</b>									
Uplock Fitting	0%	6%	0%	3%	7%	2%	1%	2%	1%
Window Frame	0%	1%	0%	0%	1%	6%	1%	1%	0%
820 Tension Strap	0%	1%	7%	1%	0%	1%	0%	0%	0%
Nose Wheel Well Skin	0%	0%	2%	19%	9%	11%	12%	15%	23%
#9 Other Major Actions	-	-	-	-	-	2%	5%	0%	0%
Other Bulkheads	-	-	-	-	-	2%	0%	0%	0%

\* FY03 data is based on the first 60 inputs

# Under Secretary of Defense for Acquisition, Technology, and Logistics Comments



THE UNDER SECRETARY OF DEFENSE  
3010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3010

APR 27 2006

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on Tanker Accountability

I have reviewed your draft report on tanker accountability and find it troubling in a number of areas.

As we all know, the Department must shorten acquisition time in order to get the right equipment to the warfighter more quickly. Meeting this demand requires innovation and the improvement of business practices. Flexibility is absolutely necessary if we are ever to be capable of responding appropriately to an immediate requirement for a major end item.

The draft report, however, seems to ignore this imperative, by not acknowledging the expressed congressional approval for the Secretary of the Air Force to consider the lease of commercially configured tanker aircraft. By seeking to identify those officials responsible for "proposing" to lease the aircraft, the draft report implies that the mere consideration of an alternative to standard major systems acquisition practices is somehow wrongful – even if congressionally permitted. That is not the right conclusion, and I worry about the apparent suggestion that the acquisition community should not seek to innovate, improve and change.

In an environment where acquisition innovation is consistently demanded, we must be willing to consider bold alternatives, even if they are ultimately rejected. The robust debate about the lease of these aircraft, for example, ultimately resulted in the rejection of this particular alternative without obligating a single dollar on the lease. While the debate may have been painful, it was also instructive and has probably affected business approaches for years to come. Your devotion to returning to standard practices ignores the fact that even in the midst of the debate, Congress again authorized leasing the aircraft in a 20-80 lease-purchase split. Debate, scrutiny and criticism may well be the price of trying to improve, but that is preferable to the categorical resistance to innovation reflected in the draft report. One possible lesson from this experience, that the draft report ignores completely, is that critics and supporters of leasing never saw the

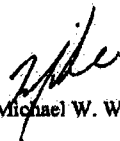


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same risks and benefits to the Air Force. A more constructive recommendation for the future might be that the Department devote more effort in the early stages of an innovative acquisition to ensuring a common appreciation of the transaction.

Finally, as you note in your draft report, I did not become the Acting Under Secretary until after the decision to lease was taken and announced as approved by the Secretary of Defense and the Office of Management and Budget. My role before becoming Acting Under Secretary was limited - I was not, for example, a member of the Leasing Review Panel - and focused principally on efforts to reduce the price that had been negotiated by the Air Force, a fact you correctly report based on the email traffic criticizing those efforts. When I assumed my current position, I sought to foster debate regarding the merits of the proposal, rather than to foreclose a productive exchange of views or attempt to persuade the Secretary to reverse his decision.

The Department would be better served if you were to help us find new approaches to doing business. I trust you will consider these views in finalizing your report.



Michael W. Wynne

# Department of the Air Force Comments



SECRETARY OF THE AIR FORCE  
WASHINGTON

28 APR 2005

MEMORANDUM FOR OFFICE OF THE INSPECTOR GENERAL, DEPT OF DEFENSE

SUBJECT: DoD IG Draft Report, "Management Accountability Review of the Boeing KC-767A Tanker Program," Project Number D2005AE-0092

Thank you for providing the Air Force with the opportunity to review and comment on the draft report, *Management Accountability Review of the Boeing KC-767A Tanker Program*. With one exception, I concur with the recommendations contained in Part III of your report. That exception concerns the recommendation to legislate a requirement to conduct an Analysis of Alternatives. This regulatory requirement is already contained in the Department of Defense 5000 series directives. A statutory requirement would remove the agility the Defense Acquisition System requires in cases where a time imperative exists and the materiel solution is clear.

Your report correctly notes that the pilot tanker lease program did not follow the traditional approach for the acquisition of major systems contained in the Department of Defense 5000 series directives. That was a deliberate decision by the Under Secretary of Defense for Acquisition, Technology and Logistics—encouraged aggressively and supported by key leaders of the US Air Force and the Congress. Those leaders believed the innovative pilot tanker lease program provided an opportunity to accelerate replacement of a critical military capability increasingly in demand for the Global War on Terror. The actions that drew criticism (that no Analysis of Alternatives was conducted, that traditional acquisition practices were not followed, the subsequent disagreements over pricing, etc.) flowed from that first-order decision by the individual charged by law and policy with responsibility for making it.

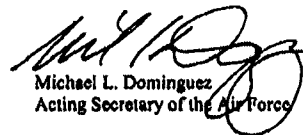
Your report does not distinguish between the roles of those within the Air Force who identified requirements and those who implemented acquisition strategies. These are important distinctions. Most of the concerns expressed have focused on the acquisition strategy. Members of our "requirements community," such as the Air Force Chief of Staff, have neither responsibility for, nor authority over, acquisition strategy decisions.

Your report notes accurately that the basis for the selected acquisition strategy (a commercial item procurement via lease) rested, in part, on the *urgency* for tanker recapitalization. The Air Force did not successfully make the case for urgency, but those who attempted to do so should not be found at fault for the attempt. It is important to remember that, throughout this period, we were sustaining a continuous global air bridge, refueling countless hundreds of combat sorties in the Central Command Area of Operations, and sustaining Air Sovereignty Alert over the 50 States in our union. Operational leaders were—and are—legitimately concerned about the future viability of the entire KC-135 fleet, and understandably

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anxious about a number of age-related problems. It is their job to raise the alarm, and, under different circumstances, one could imagine finding fault with them for NOT raising the alarm.

We have learned much already from this experience. Your report makes a valuable contribution to the body of knowledge we have amassed and will aid us substantially in improving our acquisition policy and practice, as well as the important culture that is our foundation. Please express my sincere appreciation to your staff. Their diligence and professionalism are evident in the completeness and thoroughness of the report.



Michael L. Dominguez  
Acting Secretary of the Air Force



## **Team Members**

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