



Excess Inventory and Contract Pricing Problems Jeopardize the Army Contract With Boeing to Support the Corpus Christi Army Depot

What We Did

We evaluated the Army Aviation and Missile Life Cycle Management Command (AMCOM) material purchases from The Boeing Company (Boeing) supporting the Corpus Christi Army Depot (CCAD) to determine whether the partnership agreement effectively minimized the cost of direct materials to the depot. AMCOM entered into the partnership to address parts availability problems and improve readiness.

What We Found

AMCOM officials did not effectively use \$339.7 million of existing DoD inventory before procuring the same parts from Boeing because DoD had inadequate policies and procedures addressing inventory use. We identified \$242.8 million to \$277.8 million of excess inventory that AMCOM could use to satisfy CCAD contract requirements. (*See Excess Inventory on adjacent page.*)

In addition, AMCOM officials did not effectively negotiate prices for 18 of 24 high-dollar parts reviewed because neither AMCOM officials nor Boeing officials performed adequate cost or price analyses, and Boeing officials submitted cost or pricing data that were not current, complete, and accurate (7 parts). We calculated that Boeing charged the Army about \$13 million or 131.5 percent more (\$23 million versus \$10 million) than fair and reasonable prices for the 18 parts. During the audit, Boeing issued the Army a credit for \$324,616 for one of the defectively priced parts. After we issued the draft report, Boeing provided additional refunds of about \$1.3 million. (*See Pricing Problems on adjacent page.*)

Further, AMCOM officials overstated repair turnaround time improvements because they used inconsistent methodologies for calculating

baseline and actual performance, showing a 46.7 percent improvement instead of an actual improvement of 26.1 percent to 36.9 percent. AMCOM officials overpaid incentives for the repair turnaround time improvements, and Boeing owes the Army a refund of \$6.3 million to \$10.9 million. Boeing also owes the Army an additional refund of \$538,688 because it did not meet requirements in a subsequent contract phase.

Also, AMCOM officials did not use the most cost-effective source of supply for consumable items because DoD had not developed an effective material management strategy. We identified that the Defense Logistics Agency (DLA) had sufficient inventory to satisfy annual contract requirements for 1,635 parts on the follow-on contract, and the Boeing contract price for those items was \$8.0 million, or 51.2 percent, higher than the DLA price.

Recommendations, Management Comments, and Our Response

Among other recommendations, the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics should issue policies and procedures addressing the inventory and pricing issues identified in this report. Also, DoD needs to develop an effective strategy to use on hand and due-in Government inventory before procuring the same parts on partnership agreements. Overall, management comments were responsive, and management is taking action to address inventory and pricing issues. AMCOM is working with DLA to develop an effective strategy to drawdown existing inventory before procuring new parts from Boeing and to effectively procure consumable items. However, some management comments were not fully responsive to the recommendations. Therefore, we request additional comments by June 6, 2011. Please see the recommendations table on page iii.

Excess Inventory

The Army is procuring parts from Boeing instead of using \$242.8 million to \$277.8 million of excess DoD inventory to satisfy CCAD requirements. (Finding A and Tables 2 and 3 of the report provide additional details.)

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

	Fiscal Year					Subtotal	Remaining for Future Requirement	Total
	2010	2011	2012	2013	2014			
CCAD Contract Requirement	\$99.1	\$103.9	\$112.5	\$118.1	\$122.2	\$555.8		
Excess Inventory – 3 year contingency	\$68.7	\$ 49.8	\$ 35.3	\$ 23.9	\$ 21.0	\$198.7	\$79.1	\$277.8
Excess Inventory – 5 year contingency	\$62.8	\$ 42.1	\$ 29.4	\$ 22.0	\$ 18.2	\$174.5	\$68.3	\$242.8

Excess inventory was calculated by removing 3 or 5 years of DoD demand requirements outside CCAD requirements.

Pricing Problems

The Army paid significantly higher prices to Boeing than if it would have procured the same parts from DLA. (Finding B, Tables 9 and 12, and Figures 10 and 12 of the report provide additional details.)

Spur Gear



DLA 2009 Unit Price: \$12.51
 Boeing 2009 Unit Price: \$644.75
 Boeing Refunded: \$556,006

Ramp Gate Roller Assembly



DLA 2009 Unit Price: \$7.71
 Boeing 2009 Unit Price: \$1,678.61
 Boeing Refunded: \$76,849

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Principal Deputy Assistant Secretary of Defense (Logistics and Materiel Readiness)	A.2.a	A.2.b
Director, Defense Procurement and Acquisition Policy	B.3.a	B.3.b, D.1
Commander, Army Materiel Command		A.1
Director, Defense Logistics Agency		A.1
Commander, Army Aviation and Missile Life Cycle Management Command	C.1, D.2.a	A.3, B.2, C.2, D.2.b
Director, Defense Contract Management Agency		B.1

Please provide comments by June 6, 2011.