

United States Senate
WASHINGTON, DC 20510

November 14, 2024

VIA ELECTRONIC TRANSMISSION

Kelly Ortberg
President and Chief Executive Officer
Boeing

Dear Mr. Ortberg:

A recent Department of Defense (DoD) Office of Inspector General (IG) report, titled *Audit of C-17 Spare Parts Pricing*, shows that the Air Force paid Boeing 7,943 percent – about 80 times – more for bathroom soap dispensers in the C-17 military aircraft than what similar commercially available dispensers cost, resulting in an overpayment of \$149,072.¹ The Air Force paid Boeing 10,319 percent more for machine screws and 833 percent more for retaining bands than for commercially available similar products, among other findings.² The IG's audit concluded that the Air Force paid Boeing a fair and reasonable price for 20 percent of the spare parts reviewed but did not pay a reasonable and fair price for 26 percent of the parts, resulting in \$992,856 in overpayments.³ However, the audit's review was limited to 46 spare parts from 2018-2021 that cost \$31.3 million from a pool of at least 6,194 spare parts that cost \$490.7 million, meaning total dollars spent on overpayments are likely much higher.⁴ This unchecked spending leaves the taxpayers to pick up the tab. This is unacceptable and answers are needed. I have a long history of investigating DoD spare parts horror shows.⁵ This is also not my first time investigating problems at Boeing.⁶

¹ Department of Defense Office of Inspector General, *Audit of C-17 Spare Parts Pricing* (October 25, 2024), <https://media.defense.gov/2024/Oct/29/2003572815/-1/-1/1/DODIG-2025-009.PDF> at i, 36, see also Eleanor Watson, *Air Force overpaid nearly \$8,000% for soap dispensers on military aircraft, watchdog report says*, CBS News (October 29, 2024), <https://www.cbsnews.com/news/air-force-overpaid-8000-percent-soap-dispensers-military-aircraft/>; Reuters, *Boeing overcharged Air Force nearly 8,000% for soap dispensers, watchdog alleges*, Reuters (October 29, 2024), <https://www.reuters.com/business/aerospace-defense/boeing-overcharged-air-force-nearly-8000-soap-dispensers-watchdog-alleges-2024-10-29/>.

² Department of Defense Office of Inspector General, *Audit of C-17 Spare Parts Pricing* (October 25, 2024), <https://media.defense.gov/2024/Oct/29/2003572815/-1/-1/1/DODIG-2025-009.PDF> at 10, 19, 37.

³ *Id.* at i, 6, 8 (The IG could not make a determination for 54 percent of the sampled spare parts.), 7.

⁴ *Id.* at 5, 30.

⁵ News Release: *Grassley Continues Pushing DoD For Answers On TransDigm Contracts* (October 7, 2019) <https://www.grassley.senate.gov/news/news-releases/grassley-continues-pushing-dod-answers-transdigm-contracts>, News Release: *Air Force Halts Purchase of \$1,280 Cups Following Grassley Oversight; Grassley Seeks More Information* (October 25, 2018) <https://www.grassley.senate.gov/news/news-releases/air-force-halts-purchase-1280-cups-following-grassley-oversight-grassley-seeks>.

⁶ Letter from Senator Charles Grassley, Ranking Member, Senate Budget Committee, to David Calhoun, President and CEO, Boeing (June 12, 2024), https://www.grassley.senate.gov/imo/media/doc/grassley_to_boeing_737_max.pdf; (C-SPAN Report, *Senator Grassley Statements on TWA Flight 800 Investigation and Boeing's Failure to Provide Fuel Heating Report to NTSB* (November 4, 1999), <https://www.c-span.org/video/?153301-1/airline-safety>; Senate Committee on the Judiciary Subcommittee on Administrative Oversight and the Courts

The C-17 transport aircraft was developed by Boeing 30 years ago and the Air Force currently maintains a fleet of 222 aircraft.⁷ In 2011, the DoD awarded Boeing a sole-source acquisition contract for \$11.8 billion and in 2021 it awarded Boeing an additional \$23.8 billion contract for further sustainment of the C-17.⁸ Under both contracts, Boeing purchased the needed spare parts while the Air Force reimbursed Boeing.⁹ As the report states, “Boeing is responsible for being an effective agent of the Government when purchasing the spare parts, which includes obtaining fair and reasonable prices [and t]he Air Force is responsible for providing surveillance during performance of the contracts to ensure Boeing uses effective cost controls.”¹⁰

After a review of spare parts purchased by Boeing, and delivery orders under both multi-billion dollar contracts, the IG concluded that the Air Force did not pay fair and reasonable prices for 12 out of 46 (26 percent) sampled parts.¹¹ The report discusses problems with the DoD’s internal controls and need for more thorough review of contract development and execution with Boeing to ensure that fair and reasonable prices are always used. As a DoD IG report, its focus is the DoD. But it was Boeing that purchased the parts then charged the Air Force, and ultimately the taxpayers, these inflated prices.

This report suggests that Boeing is not properly incentivized to get the best deal on behalf of the American people as long as Uncle Sam keeps paying whatever they ask for. It should be noted that as massive as these C-17 contracts are, they represent a portion of the hundreds of billions of dollars that the U.S. has paid Boeing over the years.¹²

Furthermore, as noted in the report, the Air Force overpaying for spare parts may reduce the number of spare parts that Boeing can purchase on the contract, which could reduce C-17 readiness, and by extension U.S. military readiness, worldwide.¹³

Finally, the report states that Boeing requested unit price information not appear in the report, and the IG ultimately determined it would redact this information.¹⁴ The report further states that Boeing objected to the IG providing this information in an unredacted (but marked Controlled Unclassified Information (CUI)) report to congressional committees.¹⁵ Boeing objected to the IG issuing information to the public, as well as to the congressional committees,

Hearing, May 10, 1999, *Administrative Oversight of the Investigation of TWA Flight 800*, <https://www.govinfo.gov/content/pkg/CHRG-106shrg65055/html/CHRG-106shrg65055.htm>

⁷ *Id.* at 1.

⁸ *Id.* at 4. (The 2011 Globemaster III Integrated Sustainment Program (GISP) and 2021 Globemaster III Sustainment (G3) contracts are indefinite-delivery indefinite-quantity performance-based logistic (PBL) contracts.)

⁹ *Id.* at 4-5.

¹⁰ *Id.* at 4.

¹¹ *Id.* at 5, 6, 7-8 (For its analysis, the IG considered prices to be fair and reasonable if the cost was within a 25-percent price variance of the prices obtained by the Defense Contract Management Agency (DCMA) Commercial Item Group (CIG) that assisted the IG audit team and obtained supplier quotes and similar parts prices), 15, 18 (The report notes that under Federal Acquisition Regulation (FAR) 31.201-3 a cost is reasonable “if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of a competitive business.”)

¹² USAspending.gov, *The Boeing Company Recipient Profile*, <https://www.usaspending.gov/recipient/419ccd27-d6f4-d363-aeaf-b9e2c3ae6f5d-P/all> (Accessed 10/31/24).

¹³ Department of Defense Office of Inspector General, *Audit of C-17 Spare Parts Pricing* (October 25, 2024), <https://media.defense.gov/2024/Oct/29/2003572815/-1/-1/1/DODIG-2025-009.PDF> at 6.

¹⁴ *Id.* at 1, 28.

¹⁵ *Id.* at 28.

on the basis that the information is confidential, proprietary, or trade secret.¹⁶ These redactions deprive Congress of material facts and impede its oversight mission. I expect Boeing to provide all information – transparency brings accountability.

To better understand the prices that Boeing charges the taxpayers for C-17 spare parts, and to ensure that those prices are fair and reasonable and do not impact our military readiness, provide answers to the following requests by November 29, 2024.

1. Why did Boeing pay over 25 percent more for spare parts than commercially available similar items? Why did Boeing pay 7,943 percent more for a spare part than a commercially available similar item?
2. Fully explain how the price for the spare parts that Boeing orders and subsequently charges the Air Force under its contracts is determined.
3. Does Boeing evaluate the cost and availability of commercially available similar products before it buys spare parts at a particular price? According to the report, the Defense Contract Management Agency (DCMA) Commercial Item Group (CIG) assisted the IG audit team and obtained supplier quotes and similar parts prices to determine whether less expensive alternatives were available on the market.¹⁷ Does Boeing engage in this type of review before purchasing products as well? If so, why did it not purchase the less expensive alternatives in the case of the 12 overcharged items?
4. According to public reporting, a Boeing spokesperson stated, “We are reviewing the report, which appears to be based on an inapt comparison of the prices paid for parts that meet aircraft and contract specifications and designs versus basic commercial items that would not be qualified or approved for use on the C-17.”¹⁸ Is this true for all 12 parts? For each of the 12 parts identified as being overpaid, describe the specific requirements that required Boeing to purchase the much more expensive product. Are the C-17 part requirements so stringent such that only custom made soap dispensers, retaining bands, and machine screws must be used regardless of cost?
5. The report states that the Air Force reimbursed Boeing because the two multi-billion dollar contracts were “cost-reimbursement” contracts.¹⁹ It states further that “[c]ost-reimbursement contracts provide little to no incentive for a contractor to limit costs.”²⁰ Explain the monetary costs and benefits to Boeing under the two Boeing-

¹⁶ *Id.* at 28.

¹⁷ *Id.*, 7-8.

¹⁸ Eleanor Watson, *Air Force overpaid nearly \$8,000% for soap dispensers on military aircraft, watchdog report says*, CBS News (October 29, 2024), <https://www.cbsnews.com/news/air-force-overpaid-8000-percent-soap-dispensers-military-aircraft/>

¹⁹ Department of Defense Office of Inspector General, *Audit of C-17 Spare Parts Pricing* (October 25, 2024), <https://media.defense.gov/2024/Oct/29/2003572815/-1/-1/1/DODIG-2025-009.PDF> at 7-8, 13.

²⁰ *Id.* at 13.

DoD contracts as it relates to whether Boeing buys spare parts at a fair and reasonable price. Does Boeing, in fact, have no incentive to find the lowest spare part cost that satisfies all other requirements?

6. For each of the 12 parts:
 - a. Identify who Boeing bought the parts from and whether Boeing has an interest in the companies they came from, or any other financial incentive, to pay a higher price.
 - b. Did Boeing attempt to negotiate the price with the company they bought the parts from? If so, what were the results? If not, why not?
7. Did Boeing bring any substantial price increases for spare parts to the DoD's attention prior to purchasing them? If so, when and how? If not, why not?
8. Does Boeing intend to refund taxpayers for all overpayments of the 12 spare parts, or others?²¹ If so, provide details. If not, why not?

Thank you for your prompt attention to this matter. Should you have any questions, please contact my Committee staff at (202) 224-0642.

Sincerely,



Charles E. Grassley
Ranking Member
Committee on the Budget

²¹ *Id.* at 20 (The report contemplates a “voluntary refund” action by Boeing.)