

United States Senate  
WASHINGTON, DC 20510

November 14, 2024

**VIA ELECTRONIC TRANSMISSION**

The Honorable Lloyd J. Austin III  
Secretary  
Department of Defense

Dear Secretary Austin:

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.<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup> 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.<sup>4</sup> 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.<sup>5</sup> This is also not my first time investigating problems at Boeing.<sup>6</sup>

---

<sup>1</sup> 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/>.

<sup>2</sup> 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.

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

<sup>4</sup> *Id.* at 5, 30.

<sup>5</sup> 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>.

<sup>6</sup> 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](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.<sup>7</sup> 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.<sup>8</sup> Under both contracts, Boeing purchased the needed spare parts while the Air Force reimbursed Boeing.<sup>9</sup> As the IG 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.”<sup>10</sup>

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.<sup>11</sup> While Boeing purchased parts at these outrageous prices, the DoD let it happen on their watch. According to the IG report, it occurred because the Air Force did not (1) validate the accuracy of the data used for contract negotiation, (2) conduct contract surveillance to identify price increases during contract execution, or (3) review invoices to determine fair and reasonable prices before payment.<sup>12</sup>

On the first point, the report states that Boeing used its forecasting system called Boeing Spares Resource Allocation Model (BSRAM) to generate a bill of materials (BOM) that represented an estimate of the types and quantities of parts that Boeing believed would be required to meet contractual requirements.<sup>13</sup> Air Force contracting officials used the BOM to negotiate the first major Boeing contract; however, they did not ensure that the DoD conducted a review of BSRAM to validate its forecasting accuracy.<sup>14</sup> Additionally, the IG report states that less than half of the spare parts that Boeing actually purchased appeared on the BOM, meaning DoD personnel did not review this data as part of the contracting process.<sup>15</sup> In 2022, Boeing

---

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>

<sup>7</sup> *Id.* at 1.

<sup>8</sup> *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.)

<sup>9</sup> *Id.* at 4-5.

<sup>10</sup> *Id.* at 4.

<sup>11</sup> *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.”)

<sup>12</sup> *Id.* at 6.

<sup>13</sup> *Id.* at 5 (BSRAM used a variety of factors including flight hours, parts, part information lists, inventory, reliability, and new buy/repair costs to generate the BOM, which represent an estimate of the types and quantities of parts that Boeing believes will be required to meet contractual requirements based on stock levels, maintenance schedules, models that predict which parts will need replacement, and parts that will require repair in the next few years.)

<sup>14</sup> *Id.* at 11-13 (Boeing officials also stated that it was an outdated system with accuracy percentages that are redacted in the report).

<sup>15</sup> *Id.* at 11-12 (46.5 percent of the spare parts that Boeing purchased appeared on the BOM while 53.5 did not).

replaced BSRAM with a new forecasting system, Service Parts Management.<sup>16</sup> However, according to the IG, this too has not been reviewed by the DoD for forecasting accuracy.<sup>17</sup>

On the second point, the IG report found that the Boeing contracts were “cost-reimbursement” which provide little to no incentive for a contractor to limit costs, and that regulations require the DoD’s contracting officer to ensure adequate Government surveillance of the contractor during performance to ensure that cost controls are used.<sup>18</sup> However, according to the IG report, the DoD did not review part prices after contract negotiation, review the prices Boeing paid, or request purchase documentation from Boeing during the performance of the contract to identify significant price increases.<sup>19</sup> One Air Force official told the IG that during contract execution, they do not evaluate whether Boeing charges fair and reasonable prices.<sup>20</sup> A contracting officer told the IG that the Air Force does not require Boeing to provide purchase documentation.<sup>21</sup> The IG report also states that Boeing is not required to notify the DoD contracting officer of significant price increases during the execution of the contract.<sup>22</sup>

On the third point, the report states that the DoD contracting officer did not review spare part invoices under either Boeing contract.<sup>23</sup> Contractors like Boeing submit invoices or vouchers for costs incurred, and allowable costs are paid, the report explained.<sup>24</sup> The regulations state that in order for costs to be allowable they must be reasonable, such that they would be incurred by a prudent person in the conduct of a competitive business.<sup>25</sup> The IG found that the DoD did not review spare part prices on these vouchers for reasonableness and that the DoD audits which do occur would likely not catch the types of overcharging found by the IG.<sup>26</sup>

These failures demonstrate a lack of review and diligence at multiple stages. Had a whistleblower tip not alerted the IG to the issue, the DoD would still be handing over big taxpayer-funded checks for these spare parts with no questions asked.<sup>27</sup>

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.<sup>28</sup>

As a result of their audit, the IG made eight recommendations, all of which were agreed with (two partially) by the respective DoD components.<sup>29</sup>

---

<sup>16</sup> *Id.* at 13.

<sup>17</sup> *Id.* at 13.

<sup>18</sup> *Id.* at 4, 7-8, 13.

<sup>19</sup> *Id.* at 14.

<sup>20</sup> *Id.* at 14.

<sup>21</sup> *Id.* at 14.

<sup>22</sup> *Id.* at 14.

<sup>23</sup> *Id.* at 15, 18-19 (The IG found that while the regulations do not explicitly require the DoD contracting officer to review them to determine whether costs are reasonable, they do imply that. It goes on to list other IG reports wherein contracting officers failed to review vouchers or invoices.)

<sup>24</sup> *Id.* at 15.

<sup>25</sup> *Id.* at 15.

<sup>26</sup> *Id.* at 16.

<sup>27</sup> *Id.* at i (The IG initiated the audit in response to an allegation to the DoD Hotline).

<sup>28</sup> *Id.* at 6.

<sup>29</sup> *Id.* at i-ii, 21-27.

To ensure that the DoD spends taxpayer dollars on fair and reasonable costs for C-17 spare parts, and to ensure military readiness of the Air Force's C-17 fleet, provide an update with respect to the steps taken to close all IG recommendations, along with responses to my additional requests, no later than November 29, 2024.

1. For seven of the eight IG recommendations in the report, the IG found that the DoD's response to the IG did not address the specifics of the recommendation.<sup>30</sup> In these cases, the IG requested that the responding DoD component reconsider its position and provide comment within 30 days of the final report.<sup>31</sup> Provide all comments that were provided to the IG in response to these requests.
2. In regards to recommendation 3b and the response provided to the IG by the Principal Director of DPCAP:<sup>32</sup>
  - a. Does the Principal Director of DPCAP believe that:
    - i. the 12 overcharged items identified in the IG report are acceptable?
    - ii. Boeing's vouchers or invoices for spare parts do not need additional, regular, structured review to ensure reasonableness of prices?
    - iii. the fact that contracting offices can request audits of contractor invoices or vouchers has the same cost-saving effectiveness as requiring contracting officers to conduct ongoing reviews to ensure price reasonableness in all invoices?
  - b. Explain how the requirements for prompt payment of contractors is an impediment to conducting thorough invoice or voucher review for price reasonableness.
  - c. As a customer who pays Boeing billions, does the DoD have negotiating leverage to move back the date of payment, once a thorough invoice or voucher review is conducted, if necessary?
3. Has the DoD taken corrective action or otherwise held the employee(s) accountable that allowed Boeing to overcharge for the 12 items, or for other others? If yes, explain, in detail, the actions taken. If not, why not?

---

<sup>30</sup> *Id.* at 21-27.

<sup>31</sup> *Id.* at 21-27.

<sup>32</sup> *Id.* at 26-27, 39-40.

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

Sincerely,

A handwritten signature in blue ink that reads "Chuck Grassley". The signature is written in a cursive, flowing style.

Charles E. Grassley  
Ranking Member  
Committee on the Budget