

“Price Gouging in Military Contracts: New Inspector General Report Exposes Excess Profit Obtained by TransDigm Group House Committee on Oversight and Reform”

10:00 AM, Wednesday, January 19, 2022

Virtual on Zoom Platform

Rep. Gerald E. Connolly (D-VA)

I thank the Chairwoman for continuing the incredible work of former Chairman, my friend, Elijah Cummings, by holding this hearing today to ensure TransDigm is held accountable for repeatedly overpricing products they sold to the Department of Defense (DOD) from 2014 through 2019. Today, I ask that TransDigm officials reform their pricing practices and return excess profits to DOD.

A majority of this nation’s defense budget, the largest national defense budget in the world, is spent on contracts. In Fiscal Year (FY) 2020, DOD spent more money on federal contracts (\$420 billion in current dollars) than all other government agencies combined. When done well, government contracting can be a source of innovation and flexibility for the federal government. When abused, it erodes trust in government and diminishes the value taxpayers get for their tax dollars.

TransDigm is a public corporation and government contractor that manufactures and supplies component parts for several military platforms. TransDigm supplies spare parts for multiple DOD military aircraft, such as the AH-64 Apache, CH-47 Chinook, F-18 Hornet, F-16 Fighting Falcon, F-35 Joint Strike Fighter, and UH-60 Blackhawk helicopter.

According to the DOD Office of the Inspector General (OIG), from October 1, 2014 through April 1, 2019, DOD issued 4,697 contracts valued at \$634.7 million to TransDigm. For two of those years, the DOD OIG determined that “TransDigm earned \$16.1 million in excess profit on 46 parts it sold to Defense Logistics Agency and the Army for \$26.2 million.”

This Committee brought this issue to light with a hearing on TransDigm’s manipulative pricing practices and pressed the company to return excess profits to DOD. Subsequent to that hearing, TransDigm did just that and repaid DOD \$16 million.

The Committee is following up on that important and successful oversight work, because once again the OIG has found that “TransDigm earned excess profit of at least \$20.8 million on 105 spare parts on 150 contracts,” with excess profit percentages ranging from 2.8% to 3,850.6%. The OIG also examined the pricing on parts after TransDigm acquired their respective manufacturers and found that TransDigm immediately increased the prices of parts it sold to DOD in nearly every instance after acquiring manufacturers. Those price gouges were frequently by more than 25% annually and in some cases by more than 200% annually.

At the previous hearing in May 2019, I pressed TransDigm Chief Executive Officer Kevin Stein on whether he required his employees to provide pricing information to DOD acquisition officials when it was requested. After several attempts at obfuscation, Mr. Stein

revealed that his employees did not provide such materials unless they were required by law or regulation.

TransDigm's true expertise is finding ways to circumvent federal price reporting thresholds. This Committee discovered that the corporation purposefully withheld cost data from DOD, fully aware that this data would expose their price inflation. The Truth in Negotiating Act (TINA) requires companies to provide data on how they determine their product costs for contracts worth more than a certain minimum threshold. TransDigm's federal contracts, when aggregated, were large enough to eclipse that threshold. TransDigm, however, worked to restructure contracts to stay below Simple Acquisition Thresholds, circumventing the requirement to provide documentation to justify their product pricing.

In one example, DOD paid TransDigm \$1,443 for a clutch disc used in a transport aircraft that cost TransDigm only \$32 to make -- a more than 4,000 percent profit on this part alone.

Today we need to understand how DOD continued to allow TransDigm to inflate its prices -- and we need to determine how to prevent it in the future. TransDigm was able to exploit DOD because of its near monopoly in the market for certain defense construction parts.

The government relies on contractors to help meet its missions. Private sector contractors seek to profit from these partnerships, which is a healthy symbiotic relationship. Both the government and the contractor benefit.

We cannot have a company intentionally bilking agencies-- and an agency too ill-equipped or negligent to stop them.

We need to know whether TransDigm is providing DOD the information it needs to assess product prices -- whether the law requires that or not. And if TransDigm is providing this information, whether and why price gouging continues.

We must hold contractors accountable to ensure they are good stewards of taxpayer dollars. And we must insist that agencies perform due diligence. Finally, Congress has a role in preventing contractors from excessive process abuses. We must consider what level of profit is appropriate for private sector partners and what is graft.

I look forward to today's hearing and thank the Chairwoman for her continued work on this important issue. I hope to work with her to develop legislative solutions and continue our oversight work to make certain DOD and all agencies are equipped to prevent contractors from abusing the acquisition process.