

Congress of the United States
House of Representatives

COMMITTEE ON OVERSIGHT AND REFORM
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MEMORANDUM

January 13, 2022

To: Members of the Committee on Oversight and Reform

Fr: Committee Staff

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

On **Wednesday, January 19, 2022, at 10:00 a.m. ET**, the Committee on Oversight and Reform will hold a **remote hearing on the Zoom video platform** to examine the results of a review by the Department of Defense (DOD) Office of Inspector General (OIG) of contracts for spare parts supplied by TransDigm Group Inc. (TransDigm) and to explore potential legislative and administrative reforms to increase transparency and accountability in government contracts.

I. BACKGROUND

On May 15, 2019, the Committee held a hearing examining a DOD OIG report that found TransDigm had earned excess profits on numerous contracts with DOD by acquiring companies with sole-source contracts for spare parts and then raising prices dramatically.¹ Senator Charles Grassley has also raised concerns about TransDigm. In a floor speech on May 15, 2019, he stated:

It’s very concerning to me when contracting arrangements—like those between TransDigm and its 100 subsidiaries—are effectively a monopoly. It’s like an octopus with 100 arms putting the squeeze on the Pentagon. The Pentagon is at the mercy of TransDigm—who owns the intellectual property—to buy the spare parts it needs to build the nation’s critical weapons systems. That leaves the American taxpayer on the hook for

¹ Committee on Oversight and Reform, *Hearing on DOD Inspector General Report on Excess Profits by TransDigm Group, Inc.*, 116th Cong. (May 15, 2019) (online at <https://oversight.house.gov/legislation/hearings/dod-inspector-general-report-on-excess-profits-by-transdigm-group-inc>); Office of Inspector General, Department of Defense, *Review of Parts Purchased from TransDigm Group, Inc.* (Feb. 25, 2019) (DODIG-2019-060) (online at <https://media.defense.gov/2019/Feb/27/2002093922/-1/-1/1/DODIG-2019-060.PDF>).

exorbitant price gouging. The IG report found that TransDigm’s chokehold has added up to tens of millions of dollars overcharged to the taxpayer.²

Following the Committee’s 2019 hearing, the Committee asked the OIG to examine TransDigm’s profits on additional DOD contracts.³ Senator Charles Grassley requested that the OIG analyze aspects of TransDigm’s business model.⁴ On December 13, 2021, the OIG released a report in response to both requests.⁵

TransDigm is a public corporation that manufactures aircraft parts used in commercial and military aviation. 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 OIG, from January 2017 through June 2019, DOD issued 5,113 contracts to TransDigm, valued at \$568.6 million.⁶

In response to the Committee’s request, the OIG reviewed the pricing for 153 TransDigm contracts totaling \$38.3 million that were awarded by DOD’s Defense Logistics Agency (DLA). Of the sample of contracts reviewed, the OIG determined 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 the companies that manufacture them, and found that TransDigm immediately increased the prices of parts to DOD in nearly every instance after acquiring manufacturers, frequently by more than 25% annually and in some cases by more than 200% annually.⁷

II. PURPOSE OF HEARING

The hearing will address issues identified in the OIG’s report and recommendations for reform, including whether TransDigm is earning excess profits with taxpayer funds and how TransDigm’s business model contributes to earning excess profits. Because the Oversight Committee is the cCommittee of jurisdiction over federal acquisition policy and management, the hearing will also examine whether federal acquisition laws and regulations adequately equip contracting officers to negotiate fair and reasonable prices for spare parts.

² Statement of Senator Charles E. Grassley, Congressional Record, S2845 (May 15, 2019).

³ Letter from Chairman Elijah E. Cummings et al., Committee on Oversight and Reform, to Principal Deputy Inspector General Glenn A. Fine, Office of Inspector General, Department of Defense (June 6, 2019) (online at <https://oversight.house.gov/sites/democrats.oversight.house.gov/files/2019-06-06.EEC%20Lynch%20Speier%20Khanna%20to%20Fine-DOD%20IG%20re%20Request%20for%20TransDigm%20Review.pdf>).

⁴ Letter from Senator Charles E. Grassley to Principal Deputy Inspector General Glenn A. Fine, Office of Inspector General, Department of Defense (July 29, 2019) (online at www.grassley.senate.gov/imo/media/doc/2019-07-29%20CEG%20Letter%20to%20DoDIG%20re%20Co-request%20TransDigm.pdf).

⁵ Office of Inspector General, Department of Defense, *Audit of the Business Model for TransDigm Group Inc. and Its Impact on Department of Defense Spare Parts Pricing* (Dec. 13, 2021) (DODIG-2022-043) (online at <https://media.defense.gov/2021/Dec/27/2002914678/-1/-1/1/DODIG-2022-043%20508.PDF>).

⁶ *Id.*

⁷ *Id.*

III. WITNESSES

Ms. Theresa S. Hull

Deputy Inspector General
Office of Inspector General, Department of Defense

Mr. Kevin Stein

Chief Executive Officer
TransDigm Group Inc.

Mr. Nicholas Howley

Founder and Executive Chairman
TransDigm Group Inc.

Mr. John Tenaglia

Acting Principal Deputy Assistant Secretary of Defense for Acquisition and Principal
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