



United States Government Accountability Office
Washington, DC 20548

April 1, 2013

Congressional Committees

Subject: *DOD Procurement of Mi-17 Helicopters*

This letter and enclosed briefing slides responds to the Senate Armed Services Committee report 112-173 accompanying the 2013 National Defense Authorization Act, which directed GAO to review the Department of Defense (DOD) procurement of Mi-17 helicopters through Rosoboronexport, a Russian state-owned arms export firm. In response, we reviewed: (1) the reasons for DOD's cancellation of a 2010 competitive solicitation for 21 Mi-17 helicopters; (2) the extent to which DOD evaluated the availability and feasibility of alternative procurement approaches for military or civilian variants of the Mi-17 helicopter; and (3) DOD's assessment of the impact that contracting directly with Rosoboronexport may have had on the risk of access to technical data, aircraft safety, and counterfeiting.

To address our objectives, we reviewed key documents in the Navy and Army Mi-17 contract files, including the solicitation; determination and findings; source selection plan; and cost and price analysis. We reviewed DOD internal memorandums, DOD audit reports, bid protest decisions, related hearing transcripts, and external DOD correspondence. We interviewed officials at DOD's Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics; Army's Non-Standard Rotary Wing Aircraft Project Management Office; Naval Air Systems Command; Combined Security Transition Command—Afghanistan; Army's Aviation Engineering Directorate; and the Department of State. In addition, we interviewed four potential vendors of Mi-17 helicopters, selected based on their interest in past and planned Mi-17 procurements.

We conducted this performance audit from October 2012 through March 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In summary, DOD's Office of the Secretary of Defense directed the Navy to cancel its competitive solicitation for 21 civilian Mi-17s because Russian authorities told DOD in late 2010 that, in accordance with Russian law, they would sell the helicopters only through Rosoboronexport since they were intended for military end use. Specifically, in response to letters written by the U.S. Ambassador to Russia, the Russian Ministry of Foreign Affairs confirmed to DOD that it considered the Mi-17s to be military because they were for use by the Afghan Air Force, and therefore could be sold only through Rosoboronexport, the sole entity responsible for Russian military exports.

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DOD did not assess alternative means for procuring Mi-17s after verifying that Russia would sell the helicopters to the United States only through Rosoboronexport. The Navy's original procurement strategy in 2010 was to purchase civilian Mi-17s and subsequently add weapons to them for use in Afghanistan. However, given the Russian government's determination, DOD officials stated that no alternative approaches to procure the helicopters were available to them as any attempt to procure a new civilian aircraft could be blocked by Rosoboronexport if DOD did not go through them, and purchasing used helicopters posed safety concerns. Although some potential vendors told us that, if awarded a contract, they could provide these aircraft to DOD at a lower cost, an Army analysis determined that the price paid to Rosoboronexport for the Mi-17s was reasonable and fell within the historical range of the unit price paid for similar aircraft.

DOD determined that the Rosoboronexport contract offered the Army greater access to technical information from the original equipment manufacturer and increased assurance of safety compared to previous Mi-17 contracts. However, the risk of counterfeiting may be similar. The 2011 contract with Rosoboronexport provided Army officials with extensive access to the original equipment manufacturer's facilities and allowed for technical discussions on the aircraft's design, testing, and manufacturing processes. This level of insight enabled the Army to determine that the Russians' process was sufficient by U.S. standards to certify airworthiness. However, both Rosoboronexport and other vendors have purchased new Mi-17s that came from the original equipment manufacturer—a practice used to decrease the risk of counterfeiting. Therefore, we found no evidence that shows how Rosoboronexport would decrease the risk of counterfeit parts over other vendors if aircraft were purchased new from the original equipment manufacturer.

We provided a draft of this report to DOD and State for comment. In its written comments, reproduced in Enclosure II, DOD generally agreed with our findings. In addition, DOD provided technical comments that we incorporated, as appropriate. State provided no comments.

We are sending copies of this report to the Secretaries of Defense and State and appropriate congressional committees. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

Should you or your staff have questions concerning this report, please contact me at (202) 512-4841 or courtsm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report are John Neumann, Assistant Director, Leigh Ann Haydon; Ellen Ramachandran; John Krump; Pete Anderson; and Roxanna Sun.



Michael Courts
Director, Acquisition and Sourcing Management

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DOD Procurement of Mi-17 Helicopters

Congressional Briefing

For more information, contact Michael Courts, courtsm@gao.gov.

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Introduction

- To support the Afghan military, the Department of Defense (DOD) has been procuring Russian-made Mi-17 helicopters due to their ability to operate in the high elevations of Afghanistan.
- Prior to 2010, DOD competitively procured a small number of Mi-17 helicopters through U.S. companies, whose subcontractors purchased them new from the original equipment manufacturer in Russia.
- In 2010, the Navy initiated a competitive procurement for 21 Mi-17s in a civilian variant but canceled the solicitation and transferred responsibility for it to the Army at the direction of the Office of the Secretary of Defense.
- In 2011, the Army contracted with a Russian state-owned arms export firm, Rosoboronexport, to purchase 21 Mi-17 military helicopters with the option to buy 12 additional aircraft.
- Members of Congress have criticized the Army contract for its structure and cost, and because of Rosoboronexport's alleged arms sales to Syria.

Objectives, Scope and Methodology

- Senate Report 112-173, accompanying the 2013 National Defense Authorization Act, directed GAO to review the current process for procuring Mi-17 helicopters through Rosoboronexport.
- Specifically, we reviewed:
 1. The reasons for DOD's cancellation of a 2010 competitive solicitation for 21 Mi-17 helicopters;
 2. The extent to which DOD evaluated the availability and feasibility of alternative procurement approaches for military or civilian variants of the Mi-17 helicopter; and
 3. DOD's assessment of the impact that contracting directly with Rosoboronexport may have had on the risk of access to technical data, aircraft safety, and counterfeiting.

Objectives, Scope and Methodology

- We reviewed key documents in Mi-17 contract files, DOD internal memorandums, bid protest decisions, related hearing transcripts, and external DOD correspondence.
- We interviewed officials from DOD's Office of the Secretary of Defense, Army, Navy, and Combined Security Transition Command–Afghanistan, as well as officials from Department of State. We also interviewed potential vendors of Mi-17s, selected based on their interest in past and planned Mi-17 procurements.
- For a complete discussion of our scope and methodology, see slides 28-31.

Summary

- DOD's Office of the Secretary of Defense directed the Navy to cancel its competitive solicitation for 21 civilian Mi-17s because Russian authorities told U.S. government officials in late 2010 that, in accordance with Russian law, they would only sell the helicopters through Rosoboronexport since the aircraft were intended for military end use.
- DOD did not assess alternative means for procuring Mi-17s after verifying that Russia would only sell the helicopters to the United States through Rosoboronexport. Some potential vendors we spoke to told us that, if awarded a contract, they could provide these aircraft at a lower cost; however, an Army analysis determined that the price paid to Rosoboronexport for the Mi-17s was reasonable.
- DOD determined that the Rosoboronexport contract offered it greater access to technical information from the original equipment manufacturer and increased assurance of safety compared to previous Mi-17 contracts. However, the risk of counterfeiting may be similar.

Background: Mi-17 Helicopters

- The Mi-17 is a multi-use transport helicopter that was developed by the former Soviet Union for use in Afghanistan and that is now widely used throughout the world.
- Since 2005, the United States has been procuring Mi-17s to build the capacity of the Afghan military and is working toward a total fleet size of approximately 80 helicopters. The Afghan military had approximately 50 Mi-17s as of 2012, and the Army currently plans to purchase at least 30 additional Mi-17s.
- Mi-17s can be produced in either civilian or military variants. Military variants contain features that differ from civilian variants, such as increased power supply and structural reinforcements to carry external weapons.

Background: Mi-17 Helicopters

- New Mi-17s are produced in Russia by the original equipment manufacturer, Russian Helicopters.
- Another Russian state-owned company, Rosoboronexport, is the sole authorized exporter of military end use products from Russia.
- As a result of multiple violations of U.S. law, Rosoboronexport was subject to U.S. sanctions that were imposed in 2006 and lifted in 2010.

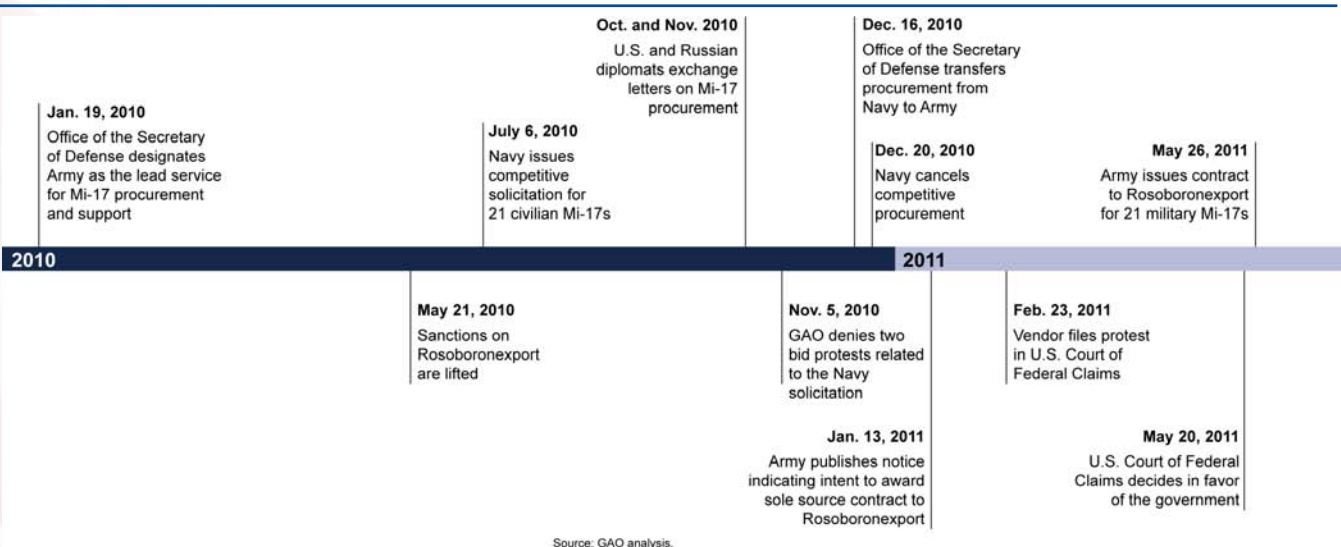
Background: History of DOD Mi-17 Helicopter Procurements

- In 2009, the Navy procured four new civilian Mi-17s from a Huntsville-based firm, Defense Technologies Inc., whose subcontractors purchased the aircraft from the original equipment manufacturer.
- In July 2010, the Navy released a competitive solicitation for 21 new Mi-17s in a civilian variant. At the direction of the Office of the Secretary of Defense, the Navy canceled this solicitation and transferred the requirement to the Army in December 2010.

Background: History of DOD Mi-17 Helicopter Procurements

- In January 2011, the Army issued a solicitation for military Mi-17s with plans to award the contract to Rosoboronexport. DOD justified the need for Mi-17s from Rosoboronexport based on the public interest exception to the Federal Acquisition Regulation requirement to provide for full and open competition. Several U.S. firms filed bid protests related to the procurement of 21 Mi-17s, but all protests were denied or dismissed.
- The May 2011 contract with Rosoboronexport contained options for DOD to purchase an additional 12 military aircraft. DOD exercised these options in 2012.
- In November 2012, the Army issued a request for information to identify potential sources from industry to purchase an additional 30 military Mi-17s.

Background: DOD Procurement of 21 Mi-17 Helicopters



Source: GAO analysis.

DOD Canceled Mi-17 Solicitation after Learning That Russia Would Sell Them Only through Rosoboronexport

- DOD's Office of the Secretary of Defense directed the Navy to cancel its competitive solicitation for 21 civilian Mi-17s because Russian authorities told U.S. government officials in late 2010 that, in accordance with Russian law, they would only sell the helicopters through Rosoboronexport since the aircraft were intended for military end use.
- DOD confirmed Russia's position after the U.S. Ambassador to Russia wrote two letters to the Russian Ministry of Foreign Affairs in October and November 2010 to obtain the Russian government's official position on the procurement.
- One letter from the U.S. Ambassador cited DOD's understanding based on previous purchases that the Mi-17s were determined to be civilian by the Russian Ministry of Defense and thus were not controlled by Rosoboronexport.
- In response, the Russian Ministry of Foreign Affairs clarified that it considered the Mi-17s to be for military use because they were to be used by the Afghan Air Force. These officials stated that the procurement had to occur through a direct contract with Rosoboronexport, the sole entity responsible for Russian military exports.

DOD Canceled Mi-17 Solicitation after Learning That Russia Would Sell Them Only through Rosoboronexport

- Representatives from three out of the four potential Mi-17 vendors we spoke with told us there is disagreement on who the appropriate authority is to make that decision. The fourth vendor did not raise this as an issue.
- One vendor's analysis of Russian law stated that only the Russian Ministry of Defense can certify an export as civilian or military. This vendor received letters from the Russian Ministry of Defense in January and September 2010 indicating that the Ministry saw no barriers to exporting the aircraft in the proposed civilian configuration.
- State Department and Army officials told us that the Russian Ministry of Defense is not currently responsible for making this determination.

DOD Canceled Mi-17 Solicitation after Learning That Russia Would Sell Them Only through Rosoboronexport

- In ruling on a bid protest challenging the Navy's cancellation, the Federal Court of Claims found that DOD's actions to clarify the law through diplomatic channels via the U.S. Embassy in Russia served as a reasonable basis for canceling the solicitation.
- While the Navy solicitation was ongoing, DOD was in the process of establishing the Army's Non-Standard Rotary Wing Aircraft Project Management Office to centralize its management of Mi-17s and other non-standard rotary aircraft.
- DOD's Office of the Secretary of Defense transferred the requirement to procure Mi-17s to this new office shortly before canceling the Navy solicitation.

DOD Did Not Assess Alternative Approaches, but an Army Analysis Determined Price Paid for Mi-17 Was Reasonable

- DOD did not assess alternative means for procuring Mi-17s after verifying that Russia would only sell them through Rosoboronexport.
- The Navy's original strategy in 2010 was to purchase civilian Mi-17s and subsequently add weapons to them for use in Afghanistan. The Russian government's determination that these 21 Mi-17s were considered military exports differed from previous procurements. DOD officials told us that the Russian government ignored DOD's military end use of the civilian helicopters during the time that Rosoboronexport was subject to sanctions.
- Senior DOD officials stated that any attempt to procure a civilian aircraft for military end use could be blocked by Rosoboronexport if DOD did not go through them.

DOD Did Not Assess Alternative Approaches, but an Army Analysis Determined Price Paid for Mi-17 Was Reasonable

- When the procurement was transferred from the Navy to the Army, the Army changed the requirement from civilian to military Mi-17s. An Army official told us that the military configuration had always been more desirable, so the Army pursued this option once the sanctions against Rosoboronexport were lifted.
- DOD officials stated that purchasing used Mi-17s on the open market was not a viable option because they had experienced safety and maintenance problems impacting cost and schedule with these aircraft in the past.

DOD Did Not Assess Alternative Approaches, but an Army Analysis Determined Price Paid for Mi-17 Was Reasonable

- Representatives from two vendors we spoke with stated that the Army's solicitation of military Mi-17s limits competition to only Rosoboronexport.
- These representatives told us that other civilian Mi-17s have the same operational capabilities as the military variant sought by the Army and believe that it would not require a contract with Rosoboronexport. DOD officials disagreed with these statements.
- Further, representatives from one vendor said it was currently in communication with Russian Helicopters, which indicated that it could modify a civilian Mi-17 to a military configuration at the original equipment manufacturer with assurance of airworthiness. DOD officials stated that this option would still require DOD to take additional steps to ensure airworthiness. They also stated that it does not address the current Russian determination that Mi-17s must be sold to DOD through Rosoboronexport.

DOD Did Not Assess Alternative Approaches, but an Army Analysis Determined Price Paid for Mi-17 Was Reasonable

- In response to congressional interest, DOD released a request for information in November 2012 seeking alternative procurement approaches for 30 additional Mi-17 military helicopters.
- An official from the Office of the Secretary of Defense stated that DOD was not aware of alternatives to contracting with Rosoboronexport at this time, but will reassess once they evaluate responses from the request for information.

DOD Did Not Assess Alternative Approaches, but an Army Analysis Determined Price Paid for Mi-17 Was Reasonable

- Although the Army requested it, Rosoboronexport did not provide certified cost and pricing data, stating that it was prohibited from doing so under Russian law. The Army performed an analysis based on historical prices paid by U.S. and foreign buyers, as authorized by the Federal Acquisition Regulation.
- The aircraft used for purposes of comparison all had different configurations. For example, one aircraft used for a point of comparison was a military variant that contained no armament, whereas another aircraft was a civilian variant.
- Despite the differences in configuration among these aircraft, Army officials were able to determine that the unit price paid to Rosoboronexport—\$17.15 million—fell within the historical range and was therefore reasonable.

DOD Did Not Assess Alternative Approaches, but an Army Analysis Determined Price Paid for Mi-17 Was Reasonable

- Beyond the analysis conducted required by the Federal Acquisition Regulation, Army officials conducted another analysis comparing the costs of the Rosoboronexport contract with the estimated costs of procuring the same aircraft through a U.S. vendor, provided they were not blocked by Rosoboronexport.
- Based on this estimate, Army officials told us that buying military aircraft directly from Rosoboronexport was less costly than buying a civilian aircraft from a U.S. vendor and then modifying it to a military configuration.
- Additionally, a DOD Independent Review Team, including members from the Defense Contract Audit Agency and Defense Contract Management Agency, reviewed the Army's contract with Rosoboronexport and did not take exception to the Army's conclusion that the negotiated price was fair and reasonable.

DOD Did Not Assess Alternative Approaches, but an Army Analysis Determined Price Paid for Mi-17 Was Reasonable

- We did not compare the cost-effectiveness of the procurement approaches taken by the Army and the Navy because the aircraft obtained were not the same configuration.
 - Two potential vendors we spoke with stated that if awarded a contract, they could modify the aircraft to a military configuration at a significantly lower cost than Rosoboronexport. However, the Army maintained that the price paid in 2011 was reasonable given the extensive modifications.
 - Although these vendors said it was possible for them to modify an Mi-17, the Army said that this option raised airworthiness issues. Neither vendor has ever completed these military modifications.
-



Although DOD Determined Rosoboronexport Contract Offers Greater Access to Manufacturer and Increased Assurance of Safety, the Risk of Counterfeiting May Be Similar

- Prior to the 2011 contract with Rosoboronexport, the Army did not have the design knowledge and technical data necessary to certify airworthiness, which is a certification that an aircraft is mechanically safe for flight.
- Moreover, according to an Army report, Army engineers were not able to verify the process used by Russia to certify airworthiness of civilian aircraft, in part because stringent U.S. trade sanctions prevented the Army and DOD from directly engaging with relevant Russian entities prior to 2011.
- As such, the Army faced substantial risk in fielding the Mi-17 helicopters prior to the 2011 Army procurements from Rosoboronexport.



Although DOD Determined Rosoboronexport Contract Offers Greater Access to Manufacturer and Increased Assurance of Safety, the Risk of Counterfeiting May Be Similar

- The Army took multiple steps to mitigate this risk. For example, for some aircraft in the Afghan fleet, it imposed costly reductions in the operating time of aircraft components. These reductions were necessary because the Army could not determine their life expectancy.
- Once the Army gained access to the original equipment manufacturer through the 2011 contract with Rosoboronexport, Army officials reported millions of dollars in cost avoidance by eliminating these reductions.



Although DOD Determined Rosoboronexport Contract Offers Greater Access to Manufacturer and Increased Assurance of Safety, the Risk of Counterfeiting May Be Similar

- The 2011 contract with Rosoboronexport provided DOD officials with extensive access to the original equipment manufacturer's facilities and allowed for technical discussions on the aircraft's design, testing, and manufacturing processes. DOD officials stated that this level of access was unprecedented and they would not have received this access under another contract.
- Although DOD did not obtain the technical data for the 21 Mi-17s, the level of insight that the Army gained into the Russian process for assessing safety and airworthiness enabled the Army to issue a memorandum that determined that the Russians' process was sufficient by U.S. standards to certify airworthiness.
- Army officials also emphasized the benefits of having the original equipment manufacturer add weapons to Mi-17 aircraft rather than having the modifications done later by a third party on civilian aircraft. They said the benefit of this approach is that it ensures that militarization is aligned with airworthiness.



Although DOD Determined Rosoboronexport Contract Offers Greater Access to Manufacturer and Increased Assurance of Safety, the Risk of Counterfeiting May Be Similar

- Army officials stated that in the past DOD had operated used Mi-17s, and in maintaining those aircraft, they had identified numerous instances of counterfeit parts that affected safety and airworthiness.
- For example, in a recent overhaul of a refurbished, civilian Mi-17, Army engineering officials identified 35 parts that were either not authentic or suspect counterfeit parts.
- Due to the prevalence of Mi-17s on the world market, counterfeit or substandard parts have been a long-standing problem with the helicopter.



Although DOD Determined Rosoboronexport Contract Offers Greater Access to Manufacturer and Increased Assurance of Safety, the Risk of Counterfeiting May Be Similar

- An Army official told us that obtaining new aircraft through the original equipment manufacturer decreases the risk of counterfeit parts because this manufacturer has greater knowledge of its supply chain.
- A 2010 report by the U.S. Department of Commerce found that it is a best practice to obtain parts directly from an original equipment manufacturer, reducing the potential for procuring counterfeit parts.
- The Army's contract with Rosoboronexport provided it a direct relationship with the original equipment manufacturer, which increased the Army's confidence that it was receiving authentic parts.

Although DOD Determined Rosoboronexport Contract Offers Greater Access to Manufacturer and Increased Assurance of Safety, the Risk of Counterfeiting May Be Similar

- Both Rosoboronexport and two previous vendors purchased new Mi-17s that came from the original equipment manufacturer and Army officials said no known issues with counterfeit parts have been identified to date.
- As such, we found no evidence that shows how Rosoboronexport would decrease the risk of counterfeit parts over other vendors.

Detailed Scope and Methodology

- To determine why DOD canceled its 2010 competitive solicitation for 21 Mi-17s:
 - We reviewed key documents in Navy and Army Mi-17 contract files, including the solicitation; determination and findings; source selection plan; and cost and price analysis.
 - We reviewed DOD internal memorandums, bid protest decisions, related hearing transcripts, and external DOD correspondence.
 - We also interviewed officials from DOD's Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, Naval Air Systems Command, Combined Security Transition Command–Afghanistan, and the Department of State.

Detailed Scope and Methodology

- To assess the extent to which DOD evaluated alternative procurement approaches:
 - We reviewed Mi-17 contract files, DOD internal memorandums, bid protest decisions, related hearing transcripts, and external DOD correspondence.
 - We interviewed officials from the Army's Non-Standard Rotary Wing Aircraft Project Management Office; Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics; Naval Air Systems Command; and Combined Security Transition Command–Afghanistan.
 - In addition to DOD officials, we interviewed four potential vendors of Mi-17 helicopters, which were selected based on their interest in past and planned Mi-17 procurements.
 - To compare the costs of buying civilian versus military variants of the Mi-17, we reviewed Army cost and pricing analysis, Mi-17 contract files, and DOD audits.

Detailed Scope and Methodology

- To assess the impact of contracting directly with Rosoboronexport on technical data, safety, and counterfeiting:
 - We reviewed Army airworthiness standards, an Army audit report, and best practices for ensuring authentic parts.
 - We analyzed documentation provided by the Army to determine the prevalence of these issues in prior procurements.
 - To determine how these issues affected DOD procurement decisions, we interviewed officials from Army's Non-Standard Rotary Wing Aircraft Project Management Office; Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics; and the Army's Aviation Engineering Directorate.

Detailed Scope and Methodology

- We conducted this performance audit from October 2012 through March 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Enclosure II: Agency Comments



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MAR 29 2013

Mr. Michael Courts
Director
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Washington, DC 20548

Dear Mr. Courts:

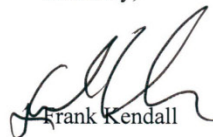
This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report, GAO-13-319R, "DoD Procurement of Mi-17 Helicopters," dated March x, xxxx.

I find the audit summary and body of the report generally consistent with DoD's rationale for cancellation of the 2010 Navy solicitation and decision to contract with Rosoboronexport, but it was a significant matter that the Department of State lifted the sanctions against Rosoboronexport just prior to the Navy's solicitation. That event and the ensuing diplomatic exchange of notes required a new path for the Department to address the needs for military end-use aircraft in theater.

The clear and validated statements from the Russian government indicated that there was no alternative source to Rosoboronexport for military end-use aircraft and resulted in the acquisition as executed. It is worth re-emphasizing that the Navy's decision to cancel the solicitation and the Army's contract with Rosoboronexport were fully reviewed by GAO's bid protest group and the United States Court of Federal Claims and found to be legally supportable. Finally, regarding the risk of counterfeit parts, I agree that a commercial or military aircraft purchased from an Original Equipment Manufacturer (OEM) has essentially the same risk for counterfeit parts. However, ensuring low risk for counterfeit parts was only one of the considerations of contracting with Rosoboronexport. The requirement was for a military end-use aircraft, so contracting with Rosoboronexport as required, vice another vendor, also included access to engineering data and an OEM airworthiness certification for the military end-use aircraft.

We appreciate the opportunity to comment on the draft report. Technical comments were provided separately for your consideration. Should you have any questions, please contact Mr. David Ahern, Deputy Assistant Secretary of Defense for Strategic and Tactical Systems, at David.Ahern@osd.mil or 703-697-9386.

Sincerely,



Frank Kendall

(121096)

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