



**Background:** In March, the President issued a directive to OMB to formulate specific reforms to the federal contracting process, with a set of his own proposals. The directives are due in September. The forum on June 18 provided a speaker/panel/question and answer session where watchdog groups and contracting groups (Lockheed, Northrop, CBC) and their lobbyists faced off a bit in how far these new rules should go. Speakers included VPs from many major industries and firms, as well as a sprinkling of watchdog or public interest groups, and a couple of lawmakers.

Thank you to OMB for assembling this meeting to address the critical intervention needed into the world of federal contracting.

U.S. Public Interest Research Group, as our name indicates represents the public interest: consumers and taxpayers – a constituency that now, perhaps more than ever, will watch very closely how their money is spent by the government. We also represent state level organizations and campaigners all over the country. We have the ability to keep citizens engaged in their government. Our comments reflect this responsibility.

**On the most basic level**, awarding lucrative contracts to companies and individuals who break the law or simply fail to get the job done – over and over again – fails the American taxpayers. The American people understand this about their own lives. If an individual was hired to deliver packages, and the packages never arrived at their destination or when they did, they were damaged, the worker should not expect to get the next job. If an individual applies for a job with a large private consulting firm, and hadn't paid her taxes, her file would be flagged. The American taxpayer doesn't expect the government to reward failure, fraud, abuse and tax evasion. It would be great to change the headlines we've been reading for years that have chronicled outrageous waste and mismanagement of contracts from Afghanistan to New Orleans.

What we've seen suggests that past performance and compliance with the law may not have been given a high priority when determining awards. U.S. PIRG issued its "Forgiving Fraud and Failure Report – available at P I R G.org. I'd like to share some findings from this report:

- **In February of 2005, a backup tape that contained over 1.2 million records of federal employees, including US Senators, went missing from Bank of America headquarters.** The tapes were not encrypted. Three months later, in May of 2005, a laptop was stolen from Bank of America which contained 18,000 records of California consumers that was not properly encrypted. In September of that same year, there was yet another security breach. The result? Despite this record, the government rewarded them with millions of dollars in additional contracts, including data processing for several different government agencies.
- **A House Government Oversight Committee** investigation revealed that Blackwater avoided paying \$50 million in federal taxes by improperly classifying its security guards in Iraq and Afghanistan as “independent contractors” so that the firm could claim it was a “small business” – edging out the actual small businesses bidding for the contract.
- **General Electric sold** the U.S. military defective helicopter and airplane engine blades. The government launched a criminal investigation and GE settled the case in July of 2006. At the same time GE was defending this defective product that could have endangered the lives of our military personnel, the government awarded GE the majority of a \$2.4 billion contract to develop its engine for Joint Strike Fighter aircraft. In fact 46 percent of GE’s contracts that year were not competitively bid.
- **Since 2000, Kellogg Brown and Root**, which was a Halliburton subsidiary, has repeatedly been accused of defrauding the federal government. The Defense Contract Audit Agency identified approximately \$279 million in “unsupported and questionable” expenses. Shortly after negotiating the outcome for those charges, the Army contracted with Halliburton and KBR for another \$5 billion to provide logistic support. Last year, it was discovered that KBR failed to pay nearly \$100 million in payroll taxes by alleging that many Americans contracted in Iraq were based in a tax haven in the Caribbean.

- **A House Committee report on Hurricane Katrina contracting** revealed that \$8.75 in contracts were plagued by waste, mismanagement and an extreme lack of oversight. It also revealed that 70 percent of the contracts were awarded without open competition and subcontractors did much of the work.

The examples are endless, detailed in hundreds of reports, yet have been largely ignored and unchecked. We are hopeful that this Administration will take serious actions to change this disturbing pattern.

There needs to be a renewed focus on vigorously enforcing the mechanisms - some of which are already in place -- to promote competition, question the exceptions, and enforce best practices. But all of the guidance in the world will be meaningless unless those who have been charged with implementing them – such as the “Competition Advocates” – diligently do their job with strong support from executive leadership. This has to be a priority for leadership in every agency. We applaud the Administration’s interest in correcting these egregious practices and look forward to continuing the dialogue.

Bottom line: Contractors who fail to meet basic responsibilities should not be considered for more work. A lack of competition and a shortage of consideration of competence needlessly puts taxpayers and their money at risk. The Administration needs to demonstrate clear leadership, provide metrics on its actions and use oversight staff to conduct actual oversight.

Thank you for letting me share our comments, and we look forward to submitting formal comments and continuing this conversation.

Thanks again –

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