

## **BACKGROUND**

In this country, we have a \$14 trillion national debt, and we are consistently running deficits of over \$1 trillion. We cannot get this under control without looking at the Department of Defense. Since 1997, our defense budget, including the wars in Iraq and Afghanistan has tripled from \$254 billion to over \$700 billion. Much of this money is unfortunately contracted out to companies with a well-documented history of fraud. If we are to get our defense budget under control, the Defense Department has got to start taking the problem of contractor fraud more seriously.

In the past, I have examined this problem by looking at the behavior of the three largest defense contractors, Lockheed Martin, Boeing, and Northrop Grumman.

A. **Lockheed Martin.** According to non-profit watchdog groups, the largest contractor, Lockheed Martin, has engaged in 12 instances of government contract fraud since 1995, paying fines and settlements totaling, at the very least, \$68.4 million. We can't be sure of the total amount because some of Lockheed's settlements are confidential, but to give just a few examples:

- In 2008, Lockheed Martin's Space Systems Company paid \$10.5 million to settle charges that it defrauded the government by submitting false invoices for payment on a multi-billion dollar contract connected to the Titan IV space launch vehicle program.
- In 2003, Lockheed Martin paid \$38 million to resolve allegations that it fraudulently inflated the cost of performing several Air Force contracts for the purchase and navigation and targeting pods for military jets.
- And in 2001, Lockheed Martin paid \$8.5 million to settle *criminal* charges that it lied about its costs when negotiating contracts for the repair and restoration of radar pedestals installed in U.S. warships, costing the Navy millions of dollars, also according to the Department of Justice

Lockheed Martin received \$234 billion in contracts from FY01-FY10.

B. **Boeing.** This behavior is not unique to Lockheed Martin. Boeing, the world's leading aerospace company and the largest manufacturer of commercial jetliners and military aircrafts, has paid \$88.9 million since 1995 in fines and settlements for government contract fraud.

- In 2000, for example, according to the Department of Justice, Boeing agreed to pay \$54 million to settle charges that it defrauded the Army by selling it more than one hundred and forty helicopters containing defective gears. These defective gears resulted in the death of at least five servicemen.

Boeing received \$196 billion in contracts from FY01-FY10.

C. **Northrop Grumman.** Perhaps the worst offender is the third largest contractor, Northrop Grumman, which paid \$519.8 million since 1995 to settle government contract fraud charges.

- In 2003, Northrop Grumman paid \$111.2 million to settle charges that a subsidiary overcharged the United States on government contracts. According to the Department of Justice, the Northrop Grumman subsidiary engaged in five separate schemes that increased the costs the government paid for space projects.
- Also in 2003, Northrop Grumman paid the United States \$80 million to settle charges that it overcharged the government and knowingly installed substandard parts in target drones designed for the Navy.

Northrop Grumman nonetheless received \$147 billion in government contracts from FY01-FY10.

### **Summary of the Report on Contracting Fraud**

In the Explanatory Statement accompanying the Department of Defense Appropriations Act for Fiscal Year 2010, Congress directed the Department of Defense (“DOD”) to “assess the total value of DOD contracts entered into with contractors that have been indicted for, settled charges of, been fined by any Federal department or agency for, or been convicted of fraud in connection with any contract or other transaction entered into with the Federal Government over the past ten years.” On February 1, 2011, the DOD released a preliminary assessment of the dollar value of such contracts only using data since 2007.<sup>1</sup> This preliminary assessment is a very small slice of the total report, as it only includes situations where, since 2007, a company has both committed fraud and been awarded a contract. Furthermore, it only includes situations where the fraud was in connection with a DOD contract rather than a contract with another Federal agency. We therefore anticipate that the final numbers, covering the ten year period, will be much larger.

### **The Numbers from Today’s Report**

- Over the three year period from 2007 to 2009, 30 DOD contractors were convicted of criminal fraud. Despite these criminal convictions, these contractors were awarded \$682,141,708 in contracts during the same three year period.
- Over the three year period from 2007 to 2009, 91 DOD contractors incurred fraud judgments of more than \$1 million, and 120 DOD contractors settled charges of fraud for over \$1 million. Nonetheless, these same contractors were awarded \$280,016,281,524 in contracts during the same three year period.
- Over the three year period from 2007 to 2009, 43 DOD contractors were suspended from contracting with DOD because of fraud-related activities. During that period, these

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<sup>1</sup> For purposes of this assessment, the DOD defined fraud as “any intentional deception designed to deprive the United States unlawfully of something of value or to secure from the United States a benefit, privilege, allowance, or consideration to which he or she is not entitled.”

contractors were awarded \$992,479,647 in contracts. They were even awarded \$3,872,614 during the period when they should have been suspended.

- Over the three year period from 2007 to 2009, 164 DOD contractors were debarred from contracting with DOD because of fraud-related activities. During that period, these contractors were awarded \$3,957,864,959 in contracts. They were even awarded \$15,276,569 after they were debarred.
- This leaves us with a shocking takeaway: **Over the three year period from 2007 to 2009, hundreds of contractors were found to have committed fraud in connection with a DOD contract. This apparently did not affect DOD's contracting behavior, however. During that same three year period, DOD awarded \$285 BILLION in contracts to the same companies!**

### **The Inadequacy of DOD's Response**

- Despite these findings, DOD stated in the report that it "believes that existing remedies with respect to contractor wrongdoing are sufficient." Given the prevalence of repeat fraud, this is hard to believe.
- It has been said that insanity is doing the same thing over and over and expecting different results. It is clear that DOD's current approach is not working, and we need a much more vigorous approach to dealing with contractor fraud.