

Summary of the Final Report on Contracting Fraud

U.S. Senator Bernie Sanders (I-Vt.)
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Background

In this country, our national debt is almost \$15 trillion, and we are consistently running deficits of over \$1 trillion. Our Republican friends want to solve this problem by cutting programs that the most vulnerable in our society rely on, like Medicaid, Medicare, and Social Security. The fact of the matter, however, is that we will never get our debt 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.

We've seen time and time again that much of this money is handed out to contractors that do not spend it efficiently and, in some cases, steal it. Why?

- Part of the reason is that DOD awards more contracts than it has the capacity to oversee, and, as a result, it is unable to effectively manage its contractors.
- The other part of the reason is that DOD is not careful about which companies it awards contracts to begin with.

The overall number from today's report: \$1.1 trillion

As to the second point, I had DOD look at the amount of money it awards to contractors with a well-documented history of fraud. Specifically, I had DOD report on the amount it awards to companies that have been convicted, found liable of, or settled charges of fraud against DOD at some point in the last ten years.

Since 2001, DOD has awarded almost \$1.1 trillion billion to these companies and their affiliates. To me, this is shocking. Once a company has ripped off DOD, and been caught for it, why would DOD then go back to that company with more taxpayer money?

Breakdown of the numbers

Over the past ten years, DOD awarded \$254,564,581 to companies that were convicted of a crime in connection with a DOD contract during that same period of time. To make matters worse, DOD awarded \$33,079,743 of that to convicted companies *after* they had been convicted.

Over the past ten years, DOD awarded \$573,693,095,938 to companies that were found liable or settle charges of a civil wrong in connection with a DOD contract during that same period of time. To make matters worse, DOD awarded \$398,081,775,397 of that to those companies *after* they settled the charges or were found liable.

The numbers become increasingly shocking if you look at company affiliations. Over the past ten years, DOD awarded \$1,104,423,438,564.10 to entities affiliated with companies that have a history of fraud.

Examples: The report references many examples of fraud, but here are some examples involving the largest contractors.

Lockheed Martin Corp., the largest defense contractor, paid *at least* the following amounts for defrauding the Pentagon over the last ten years

- \$4.25 million in 2000
- \$6.2 million in 2002
- **\$37.9 million** in 2003 (to resolve allegations that it fraudulently inflated the cost of performing several Air Force contracts)
- \$12.6 million in 2006

This is a total of \$60.95 million in fraud judgments and settlements.

Despite this, we continued to work with Lockheed Martin and awarded the company more than \$200 billion in taxpayer funded contracts in the last decade.

In 2008, Lockheed Martin 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. But this didn't seem to sour any relationship between Lockheed and the Defense Department. The next fiscal year, in FY09, Lockheed received \$30.2 billion in DOD contracts—more than it had ever received before.

The Boeing Company, the next largest contractor, paid *at least* the following amounts for defrauding the Pentagon over the last ten years

- **\$54 million** in 2000 (to settle charges that it placed defective gears in more than one hundred and forty Army helicopters)
- \$651,663 in 2003
- **\$565 million** in 2006
- \$25 million in 2009

This is a total of \$644.65 million in fraud judgments and settlements.

Despite this, we continued to work with Boeing and awarded the company more than \$21 billion in taxpayer funded contracts in the last decade.

In 2000, the Boeing Company agreed to pay \$54 million to settle charges that it placed defective gears in more than one hundred and forty CH-47D "Chinook" helicopters and then sold these defective helicopters to the United States Army. When one of the gears failed in flight, it caused a helicopter to crash and burn while on a mission in Honduras, and five servicemen aboard were killed. Again, this fraud and the resulting tragedy do not seem to have affected Boeing's ability

to secure DOD contracts. In FY01, the following year, Boeing received \$13.7 billion in DOD contracts, up 27% from the year before.

Northrop Grumman Corp., the third largest defense contractor, paid *at least* the following amounts for defrauding the Pentagon over the last ten years

- \$5.3 million in 2000
- \$17.8 million in 2003
- **\$62 million** in 2005
- **\$325 million** in 2009

This is a total of \$410 million in fraud judgments and settlements.

Despite this, we continued to work with Northrop Grumman and awarded the company more than \$9 billion in taxpayer funded contracts in the last decade.

In 2005, Northrop Grumman paid \$62 million to settle charges that it “engaged in a fraud scheme by routinely submitting false contract proposals,” and “concealed basic problems in its handling of inventory, scrap and attrition.” Despite the serious charges of pervasive and repeated fraud, Northrop Grumman received \$12.7 billion in contracts the next year, a 16% increase over the year before.

DOD’s response

DOD was also required to report on how it would improve the situation. The Pentagon said that although sanctions already are in place, “it is not clear . . . that these remedies are sufficient . . . to deter and punish fraud when it is detected.” That tone was different than what the Pentagon said in a preliminary report last January, which declared that ‘the department believes that existing remedies with respect to contractor wrongdoing are sufficient.’”