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Fact Sheet

Contracting Abuses Under the Bush Administration

The history of the Bush Administration's handling of federal contracts is one of persistent and costly mismanagement. Waste, fraud, and abuse have plagued the contracts for the reconstruction of Iraq, as well as a number of homeland security contracts. Having made a down payment of over \$62 billion in emergency funding for Hurricane Katrina recovery, Congress must hold the Administration accountable for hurricane relief and reconstruction funds.

Iraq Contracts

From the beginning, the Administration adopted a flawed contracting approach in Iraq. Instead of maximizing competition, the Administration opted to award no-bid, cost-plus contracts to politically connected contractors. Halliburton's secret \$7 billion contract to restore Iraq's oil infrastructure is the prime example. Under this no-bid, cost-plus contract, Halliburton was reimbursed for its costs and then received an additional fee, which was a percentage of its costs. This created an incentive for Halliburton to run up its costs in order to increase its potential profit.

Even after the Administration claimed it was awarding Iraq contracts competitively in early 2004, real price competition was missing. Iraq was divided geographically and by economic sector into a handful of fiefdoms. Individual contractors were then awarded monopoly contracts for all of the work within given fiefdoms. Because these monopoly contracts were awarded before specific projects were identified, there was no actual price competition for more than 2,000 projects.

In the absence of price competition, rigorous government oversight becomes essential for accountability. Yet the Administration turned much of the contract oversight work over to private companies with blatant conflicts of interest. Oversight contractors oversaw their business partners and, in some cases, were placed in a position to assist their own construction work under separate monopoly construction contracts.¹

The results of this unsound contracting approach were as costly as they were predictable:

Halliburton

Under Halliburton's two largest Iraq contracts, Pentagon auditors found \$1 billion in "questioned" costs and over \$400 million in "unsupported" costs.² Former Halliburton employees testified that the company charged \$45 for cases of soda, billed \$100 to clean 15-pound bags of laundry, and insisted on housing its staff as the five-star Kempinski hotel in Kuwait.³ Halliburton truck drivers testified that the company "torched" brand new \$85,000 trucks rather than perform relatively minor repairs and regular maintenance.⁴ Halliburton procurement officials described the company's informal motto in Iraq as "Don't worry about price. It's cost-plus."⁵ A Halliburton manager was indicted for "major fraud against the United States" for allegedly billing more than \$5.5 billion for work that should have cost only \$685,000 in exchange for a \$1 million kickback from a Kuwaiti subcontractor.⁶

Custer Battles

The Air Force found that another U.S. government contractor, Custer Battles, set up shell subcontractors to inflate prices.⁷ Those overcharges were passed along to the U.S. government under the company's cost-plus contract to provide security for Baghdad International Airport. In one case, the company allegedly took Iraqi-owned forklifts, re-painted them, and leased them to the U.S. government.

Lack of Progress

Despite the spending of billions of taxpayer dollars, U.S. reconstruction efforts in key sectors of the Iraqi economy are failing. Over two years after the U.S.-led invasion of Iraq, oil and electricity production has fallen below pre-war levels.⁸ The Administration has failed to even measure how many Iraqis lack access to drinkable water.⁹

Domestic Contracts

The Administration's domestic contracting record is no better. Waste, fraud, and abuse appear to be the rule rather than the exception:

Hiring Airport Screeners

A Transportation Security Administration (TSA) cost-plus contract with NCS Pearson, Inc., to hire federal airport screeners was plagued by poor management and egregious waste. Pentagon auditors challenged \$303 million (over 40%) of the \$741 million spent by Pearson under the contract.¹⁰ The auditors detailed numerous concerns with the charges of Pearson and its subcontractors, such as "\$20-an-hour temporary workers billed to the government at \$48 per hour, subcontractors who signed out \$5,000 in cash at a time with no supporting documents, \$377,273.75 in unsubstantiated long distance phone calls, \$514,201 to rent tents that flooded in a rainstorm, [and] \$4.4 million in 'no show' fees for job candidates who did not appear for tests."¹¹ A Pearson employee who supervised Pearson's hiring efforts at 43 sites in the U.S. described the contract as "a waste a taxpayer's money."¹² The CEO of one Pearson subcontractor paid herself \$5.4 million for nine months work and provided herself with a \$270,000 pension.¹³

Border Cameras and Sensors

The Administration is spending \$239 million on the Integrated Surveillance and Intelligence System, a no-bid contract to provide thousands of cameras and sensors to monitor activity on the Mexican and Canadian borders. Auditors found that the contractor, International Microwave Corp., billed for work it never did and charged for equipment it never provided, “creat[ing] a potential for overpayments of almost \$13 million.”¹⁴ Moreover, the border monitoring system reportedly does not work.¹⁵

Port Protection

After spending more than \$4.5 billion on screening equipment for the nation’s entry points, the Department of Homeland Security is now “moving to replace or alter much of” it because “it is ineffective, unreliable or too expensive to operate.”¹⁶ For example, radiation monitors at ports and borders reportedly could not “differentiate between radiation emitted by a nuclear bomb and naturally occurring radiation from everyday material like cat litter or ceramic tile.”¹⁷

Baggage Screening

The TSA awarded Boeing a cost-plus contract to install over 1,000 explosive detection systems for airline passenger luggage. After installation, the machines “began to register false alarms” and “[s]creeners were forced to open and hand-check bags.”¹⁸ To reduce the number of false alarms, the sensitivity of the machines was lowered, which reduced the effectiveness of the detectors. Despite these serious problems, Boeing received an \$82 million profit that the Inspector General determined to be “excessive.”¹⁹

Virtual Case File

The FBI spent \$170 million on a “Virtual Case File” system that does not operate as required.²⁰ After three years of work under a cost-plus contract failed to produce a functional system, the FBI scrapped the program and began work on the new “Sentinel” Case File System earlier this year.²¹

Lavish Spending

The Department of Homeland Security Inspector General found that taxpayer dollars were being lavished on perks for agency officials. One IG report found that TSA spent over \$400,000 on its first leader’s executive office suite.²² Another found that TSA spent \$350,000 on a gold-plated gym.²³

Conclusion

The Administration's track record on contracts in Iraq and at home is riddled with egregious waste, inadequate oversight, and poor management. Yet there are warning signs that the same mistakes could be repeated. The Administration signed two \$100 million contracts with the Shaw Group, a client of former FEMA Director Joe Allbaugh, to assist in recovery efforts.²⁴ Halliburton has already received contracts for repair work at three Navy facilities in Mississippi.²⁵ And the emergency relief bill passed by Congress allows federal officials to make purchases worth up to \$250,000 per transaction on government-issued credit cards.²⁶

Changes to federal contracting rules and procedures are necessary to protect the interests of the taxpayer and to ensure that hurricane relief and reconstruction funds actually reach the victims of Hurricane Katrina.

¹ Minority Staff, House Committee on Government Reform, *Contractors Overseeing Contractors: Conflicts of Interest Undermine Accountability in Iraq* (May 18, 2004).

² Minority Staff, House Committee on Government Reform, *Halliburton's Questioned and Unsupported Costs in Iraq Exceed \$1.4 Billion* (June 27, 2005).

³ House Committee on Government Reform, Statement of Marie DeYoung (June 6, 2004).

⁴ House Committee on Government Reform, Statement of David Wilson (June 15, 2004); House Committee on Government Reform, Statement of James Warren (June 13, 2004).

⁵ House Committee on Government Reform, Statement of Henry Bunting (June 6, 2004);

⁶ U.S. Department of Justice, *Press Release: Former KBR Employee and Subcontractor Charged with \$3.5 Million Government Contract Fraud in Kuwait* (Mar. 17, 2005). *See also, Ex-Halliburton Man Charged with Defrauding the U.S. of \$3.5 Million*, New York Times (Mar. 18, 2005).

⁷ Department of the Air Force, *Memorandum in Support of the Suspension of Custer Battles LLC, et al.* (Sept. 20, 2004).

⁸ Government Accountability Office, *Rebuilding Iraq: Status of Funding and Reconstruction Issues* (July 28, 2005).

⁹ *Id.*

¹⁰ *The High Cost of a Rush to Security*, Washington Post (June 30, 2005).

¹¹ *Id.*

¹² *Id.*

¹³ *Id.*

¹⁴ *Probe Faults System for Monitoring U.S. Borders*, Washington Post (Apr. 11, 2005).

¹⁵ *Id.*

¹⁶ *U.S. to Spend Billions More to Alter Security Systems*, New York Times (May 8, 2005).

¹⁷ *Id.*

¹⁸ *Contracting Rush for Security Led to Waste, Abuse*, Washington Post (May 22, 2005).

¹⁹ *Id.*

²⁰ *New FBI Software May Be Unusable*, Los Angeles Times (Jan. 13, 2005).

²¹ Briefing by Federal Bureau of Investigation (May 16, 2005).

²² *Probe Finds Overspending for TSA Center*, Washington Post (Apr. 20, 2005).

²³ *Id.*

²⁴ *Shaw Awarded Contracts from U.S. Army Corps of Engineers for Hurricane Recovery and Rebuilding*, Businesswire (Sep. 8, 2005).

²⁵ *No-Bid Contracts With Katrina Work*, Wall Street Journal (Sept. 12, 2005).

²⁶ Letter from Rep. Henry A. Waxman to Rep. Jerry Lewis (Sept. 8, 2005).