



United States Senate
Committee on Homeland Security and Governmental Affairs
Senator Susan M. Collins, Chairman

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Contact: Elissa Davidson
202-224-4751

Opening Statement

Senator Susan M. Collins

Permanent Subcommittee on Investigations

“Civilian Contractors Who Cheat on Their Taxes and What Should Be Done About It”

June 16, 2005

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Thank you, Mr. Chairman. I am pleased to join you today for the second hearing on government contractors who cheat on their taxes. Federal contractors have an obligation to operate according to the highest ethical standards. That is not just my opinion – it is the law. Under federal law, contracts are only supposed to be awarded to “responsible” contractors. The Subcommittee’s investigation, however, reveals a shocking lack of standards in this regard.

At our first hearing last year, we learned that civilian contractors doing business with the Department of Defense owed an estimated \$3 billion in back taxes at the end of the 2002 fiscal year. At that time, the Government Accountability Office (GAO) advised us that this problem of extreme tax delinquency may not be confined to DoD. And, indeed, it is not. The estimated tax delinquency of contractors doing business with other government agencies, from the departments of the Treasury and Homeland Security to NASA, may well be in excess of \$3.3 billion.

Among the 50 civilian agency contractors investigated by the GAO for the report we will discuss today, all were found to have engaged in abusive or potentially criminal activity. These tax delinquencies are not the result of legitimate hardship. They are the result of these contractors willfully deciding that the laws of our country do not apply to them. Rather than pay their fair share of taxes on income derived from the taxes of others, they chose instead to inflate their own salaries, to purchase multi-million-dollar properties, and – in one case – to divert payroll taxes withheld from employees to an offshore bank to finance a luxury home overseas. This is outrageous.

The case studies described in the GAO report do not merely tell a story of how a business, from time to time, can pull a fast one. In far too many cases, businesses pull fast ones repeatedly, chronically, and apparently without meaningful penalty. One example stands out: the owner of a business that provides temporary workers currently owes \$900,000 in delinquent taxes. Through its investigation, GAO discovered that this contractor has a nearly 20-year history of closing businesses with tax debts, opening new ones, and incurring new tax debts. In other cases, GAO found that some contractors with unpaid federal taxes had been convicted of crimes, such as

embezzlement and money laundering, yet they were awarded those contracts. A system that permits participation by such contractors is a system in failure.

We need to focus not just on levying payments to those contractors that owe taxes but also improving our efforts on the front end by ensuring that such firms and individuals never receive federal contracts in the first place.

I very much look forward to exploring this matter in depth with our witnesses today. I would especially like to welcome Greg Kutz, in his first appearance before the Subcommittee as the head of GAO's new Forensic Audit and Special Investigations Unit. Early this year, Senator Lieberman and I asked Comptroller General Walker to enhance the integration of GAO's investigative, auditing, and analytic strengths so that we could better focus on agency and financial management high-risk areas. I believe this new unit will greatly improve our oversight abilities, and I know that Mr. Kutz is an excellent choice to lead it.

Thank you, again, Mr. Chairman, for your attention and commitment to a matter of such importance.

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