

**Remarks of Rep. Henry A. Waxman
Chairman, House Committee on Oversight and Government Reform
Delivered to the Professional Services Council (PSC)
September 10, 2007**

Thank you for inviting me today. I appreciate this opportunity to speak to key representatives of the contracting community and to hear your ideas and concerns. And I thank Stan Soloway and the Professional Services Council for inviting me.

As government contractors, you know something that few members of Congress — and even fewer members of the public — fully understand: the operations of the federal government and private contractors are growing increasingly intertwined.

This is a great deal for government and the taxpayer when the private sector brings innovation, efficiency, and cost savings to government.

And it's a costly mistake when poor contract design, inadequate oversight, or corruption leads to wasteful spending and defective products or services.

Too often, federal procurement policy is regarded as arcane and boring. Attention drifts when the discussion turns to GWACs (government-wide acquisition contracts) and IDIQs (indefinite-delivery, indefinite-quantity contracts). But with hundreds of billions of taxpayer dollars at stake, the details of federal procurement policy have a disproportionate impact on the federal budget and the effectiveness of government.

There are different ways to approach procurement issues. Some approach the issue ideologically: there is a theory that the more government services are privatized, the better, because the private sector is inherently more capable than the public sector.

Some approach the issue as a jobs issue: there is a theory that federal contracts are inherently objectionable because they threaten the jobs of federal employees, especially those who belong to federal unions.

And some view procurement as a spoils system: they see procurement decisions as a way to steer federal dollars to friends, favored companies, or regions of the country.

I try to approach procurement issues from a different standpoint: my focus is on what is good for the taxpayer. If a private contractor can do the work better and cheaper than the government, I think the contractor should do the work.

But if involving the private sector drives up costs and reduces accountability, the government should provide the goods or services.

For the last four years, one of my top priorities — and one of the top priorities for my staff on the House Oversight Committee — has been oversight of the federal procurement system.

Let me be blunt: I have been incredibly discouraged by what I have learned.

Over the last six years, the proportion of the federal budget devoted to federal contracts has soared, but oversight has declined, and waste, fraud, and abuse have undermined key federal initiatives, including the reconstruction of Iraq, the response to Hurricane Katrina, and domestic homeland security.

A key role of the Oversight Committee is to ferret out waste, fraud, and abuse, so I understand that we tend to focus on the worst contracts. I also understand that there are many federal contractors who want to do the right thing. But too often, it seems like the hallmarks of federal procurement have become neglectful management and squandered resources.

Last year, I released a report entitled *Dollars, Not Sense: Government Contracting under the Bush Administration*. This report, which is based on a review of over 500 government audits, was the first comprehensive assessment of federal contracting under the Bush Administration.

The report documents procurement spending that has grown rapidly over the last six years, nearly twice as fast as the rest of the federal budget. The federal government is now spending nearly 40 cents of every discretionary dollar on contracts with private companies, a record level. The largest private contractor, Lockheed Martin, receives more federal funds than the Departments of Commerce and Interior and Congress combined.

My staff updated this report with 2006 data in June. We found that many of the worrisome trends identified last year have only gotten worse. For the first time annual federal procurement spending crossed the \$400 billion threshold and more than half of this spending — over \$200 billion in new contracts — was awarded without full and open competition.

This updated report was based on a review of over 700 audit reports by DCAA, GAO, and the Inspectors General. In the report, we identified 187 contracts that federal auditors have found to be plagued by wasteful spending or mismanagement.

The cumulative value of these problem contracts is now over one trillion dollars. That's an enormous sum.

One reason that we have seen increasing levels of waste in the federal contracting process is a lack of oversight. Without appropriate oversight, accountability is lost and more mistakes are made. Indeed, the Oversight Committee has seen these mistakes in virtually every step of the contracting process: from pre-contract planning ... through contract award ... to the recovery of contract overcharges.

Another problem has been the lack of competition. Spending on no-bid contracts has more than doubled over the last six years, from \$46 billion in 2000 to over \$100 billion last year. Other forms of less than fully competitive contracts have also soared in value.

While cost-based contracts are appropriate in certain situations, they expose taxpayers to increased risk because the government pays for all contract expenditures. Yet their use has increased by over 75% under the Bush Administration.

And I am concerned that in some instances, procurement reforms instituted in the 1980s and 1990s have expanded beyond recognition. The authority to buy “commercial items” without competitive bidding has been used to purchase military aircraft. Interagency contracts for information technology have become vehicles for hiring interrogators at Abu Ghraib. Travel and purchase cards have been used by wayward officials to buy luxury cruises, stereo equipment, and services at strip clubs.

The cumulative result is some major government initiatives of critical importance to the United States have been undermined by wasteful spending. These include the rebuilding of Iraq, the response to Hurricane Katrina, and homeland security.

These abuses not only harm the government and taxpayers, they also harm the vast majority of companies that follow the rules by putting them at a competitive disadvantage to those companies that do abuse the system. When one company is allowed to cut corners, it gains an advantage over companies that want to play by the rules.

Given this record, I think the time has come to consider procurement reform legislation. The goal should be rules that are simple and clear and provide the taxpayer with good value for the dollar.

The 110th Congress is off to a good start. In the Oversight Committee — and in other committees across Congress — members from both parties are starting to ask what went wrong and to insist on accountability.

The “Accountability in Contracting Act” (H.R. 1362) passed the House on March 15, 2007, by a vote of 347 to 73. The bill would require federal agencies to reduce the use of sole-source contracts; limit the length of sole-source contracts awarded in emergency situations; and curb reliance on expensive cost-plus contracts. The legislation would also promote transparency in the acquisition process by mandating the prompt reporting of overcharges and other procurement abuses to Congress.

The House also passed the “Small Business Fairness in Contracting Act” (H.R. 1873). A key provision in this legislation — which was added to the bill by the Oversight Committee — begins the process of reforming the use of Alaska Native Corporations in federal procurement. The special access to sole-source contracts enjoyed by Alaska Native Corporations was established in the 1980s with the best of intentions. But over the last six years, the ANC preference has been transformed into a major procurement loophole.

These efforts are not partisan. Tom Davis of Virginia, the former Chairman and now the Ranking Member of the Oversight Committee, has worked closely with me in crafting procurement reform.

Going forward, I plan to introduce further procurement reforms. A year ago, I introduced a Clean Contracting Act that contained a number of major procurement reforms. I have asked my staff to revisit this legislation and develop a new reform package that I hope to introduce later this fall.

A key part of this process will be gathering input from affected parties, including the companies represented here. My goal is not to introduce “message legislation.” I want sound reforms that have broad support and can be enacted into law. And I will welcome your involvement in the process.

Oversight and legislation should be complementary processes. Oversight helps identify the problems. Legislation helps to fix them. Our Committee will continue its oversight role. But I want to focus increasing attention on how to improve the system. Your involvement needs to be an important part of this process.

Wise oversight and carefully crafted legislation can help curb waste, fraud, and abuse in government contracting. But these efforts will amount to nothing unless there are enough well-trained and knowledgeable contract managers and government auditors to oversee the burgeoning procurement budget. A significant and recurring problem in contract management over the last five years has been insufficient, inexperienced and sometimes inept contract oversight.

To address this pressing need, I have proposed that 1% of federal procurement spending be set aside for enhanced contract management and oversight. Procurement experts can debate whether that is the right percentage. But the need for more resources should not be in dispute: If we can find a way to boost federal spending on contract management, the pay-off for the taxpayer will be immense.

What I am looking for is a win-win approach to procurement reform. Done right, procurement reform will protect the taxpayer by ensuring the government gets the best value for the dollar. But it should also benefit the contractor community by establishing simple rules that level the playing field and maximize the potential for competition.

This won't be an easy balance to achieve. But I look forward to your involvement in the process and thank you for your attention and inviting me to speak before you.

Thank you, and I look forward to your questions.