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United States Senate

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March 4, 2015

The Honorable Ashton B. Carter
Secretary of Defense
1000 Defense Pentagon
Washington, DC 20301-1000

Dear Secretary Carter:

I want to wish you the best in your new job and I was happy to support your nomination. I wanted to take this opportunity to raise an important concern that I hope you will pay close attention to as you lead the Pentagon during this critical time.

I support a strong defense for our country and a robust National Guard and Reserve that can meet our domestic and foreign challenges. But I have been very concerned with the level of waste, fraud, and inefficient spending that has plagued the Pentagon for decades. At a time when our national debt is over \$18 trillion and there are so many unmet needs in this country, we have got to take a serious look at this issue. This situation has only been exacerbated by two unpaid for wars in Iraq and Afghanistan, which sparked a huge increase in spending at the Pentagon, while vital investments for our nation's seniors, children, and working families have been consistently underfunded.

Recently, I've been asked to support an expansion of the Pentagon budget above and beyond the levels set by the Budget Control Act four years ago. Before we even have that conversation, we must have assurances from you that serious and effective measures are in place to curb the excessive, duplicative and wasteful practices that have marred the Department of Defense for so many years.

Among some of the recent lowlights:

- Lockheed Martin, the largest defense contractor in the United States, has paid \$679 million in fines or settlements for fraud and misconduct since 1995.
- Northrop Grumman, another large defense contractor has paid over \$850 million in fines or settlements for misconduct since 1995.
- United Technologies' (UTC) subsidiary Pratt & Whitney defrauded the Pentagon some \$754 million, yet Pratt & Whitney today is still making jet engines for the F-35.

There are dozens of other examples and I have attached a list to this letter for your review.

At my request several years ago, the Department of Defense issued a report detailing the breadth of fraud that exists within the Pentagon. The report showed that the Pentagon paid over \$573 billion during a 10-year period to more than 300 contractors involved in civil fraud cases that resulted in judgments of more than \$1 million -- \$398 billion of which was awarded after settlement or judgment for fraud. When awards to parent companies are counted, the Pentagon paid more than \$1.1 trillion during the past 10 years just to the 37 top companies engaged in fraud. The bottom line is that almost every major defense contractor in this country has in one way or another been involved in fraudulent dealings with the taxpayers of this country and the Department of Defense.

This situation has become so absurd that the Pentagon is unable to even account for how it spends its money. Time and time again the Government Accountability Office has reported that it simply cannot audit the Pentagon. In fact, the GAO has said that it has been unable to conduct a review of the Pentagon's financial records due to "serious financial management problems at the Department of Defense that made its financial statements unauditible."

The Pentagon's acquisition budget suffers from chronic cost overruns and operational delays. Out of a \$1.5 trillion acquisition portfolio, around \$448 billion is due to cost growth above the original cost estimates.

I would like to request a meeting in the near future with you or someone on your team to have a conversation about chronic waste in the Pentagon and what new steps you are taking or are prepared to take to reduce wasteful spending at the Pentagon and to protect taxpayer dollars.

Thank you for your attention and again I wish you the best in your new position.

Sincerely,



Bernard Sanders
Ranking Member
U.S. Senate Budget Committee

Recent Examples of Contractor Fraud and Misconduct

Lee Dynamics: The chairman of Lee Dynamics, George H. Lee, Jr., pleaded guilty to bribery charges relating to fraud and graft during the Iraq war. Lee bribed at least five high ranking Army officers in exchange for steering \$20 million in contracts to his company. One of the Army officers committed suicide in 2006. Another officer was sentenced to 17 ½ years in prison. Lee's son pleaded guilty to similar charges in 2011, but Lee fled to Thailand after spending several years in Kuwait, which does not have an extradition treaty with the United States. [*Philadelphia Inquirer* 2/20/15](#)

Glenn Defense Marine Asia: Leonard Glenn Francis, CEO of his own contracting company, along with four Navy personnel, pleaded guilty to a decade-long scheme in which Navy officials steered vessels to ports where Francis provided services, such as resupplying and dockside services, at inflated costs. Francis bribed Navy officials with prostitutes, Cuban cigars, ceremonial swords, suckling pigs, Lady Gaga concert tickets, and other gifts in exchange for information about Navy vessel deployments. From 2009-2011, ship crews and contracting officials warned the Navy about these inflated service charges, but the Navy still awarded Francis **\$200 million** in contracts over that time period. Francis faces up to **25 years in prison** and up to **\$35 million** in restitution. Additional Navy officials may be indicted. [*New York Times* 1/25/14](#)

Halliburton and KBR: The U.S. Supreme Court will allow three lawsuits to proceed against Halliburton and KBR for 1) electrocuting soldiers that used faulty shower facilities in Iraq; 2) exposing troops to toxic smoke via faulty waste incineration practices, namely open-air burn pits; and 3) exposure of British soldiers to dangerous chemicals while protecting KBR contractors in Iraq. The last case has already resulted in an **\$81 million judgment**, which KBR is appealing. [*Reuters* 1/20/15](#)

Lockheed Martin: Paid **\$19.5 million** to settle a securities fraud class action lawsuit that alleged that Lockheed Martin misled investors by overstating its 2009 financial projections. The suit was brought by the public employees' pension fund in Pontiac, Michigan. [*Reuters* 2/20/13](#)

Lockheed Martin: A jury awarded a small technology firm Command Technology, Inc., **\$24.8 million** after it alleged that Lockheed Martin engaged in unfair business practices and "tortuously interfered" in the firm's economic relationships. Command Technology developed maintenance manuals for the Lockheed-manufactured F-16. When Command Technology competed for a contract to provide the maintenance manual, Lockheed Martin unfairly rejected the firm, but then worked with a separate software developer to produce a rival maintenance manual using Command's proprietary information. [*Reuters* 11/26/13](#)

Lockheed Martin: Lockheed Martin Integrated Systems (LMIS) paid **\$27.5 million** to settle allegations brought by the Justice Department under the False Claims Act alleging that LMIS overbilled the Pentagon for work performed by employees who lacked proper job qualifications. LMIS nonetheless billed the government as though its workers were in fact qualified for the contracts awarded. [*Government Executive* 12/22/14](#)

Boeing: In 2007, a Boeing-manufactured F-15C broke apart midair. A subsequent classified investigation determined that Boeing had provided defective, non-conforming parts in violation of its contract. Specifically, a small part used to attach the aircraft skin was less than .1 inch thick, which was the parameter set by the contract. This caused the F-15C aircraft to break apart mid-flight. As a result, Boeing agreed to provide **\$1 million** in corrected parts. [Bloomberg 1/9/13](#)

Northrup Grumman: Paid **\$11.4 million** to settle charges that it improperly included certain costs for deferred compensation in its federal contracts in violation of a 2002 settlement in which the contractor promised to limit inclusion of deferred compensation. These practices violated both Federal Acquisition Regulations as well as the False Claims Act. [Bloomberg 12/9/13](#)

SAIC: Paid **\$12 million** to settle charges under the False Claims Act that it submitted inflated bills under federal grants to train anti-terrorism first responders. These grants were provided to SAIC through the New Mexico Institute of Mining and Technology from 2002-2012. [Department of Justice 6/13/13](#)

SAIC: Former SAIC executive, Gerard Denault, was convicted of receiving at least **\$5 million in kickbacks** while serving as project manager on an IT project in New York City. In return, Denault steered \$450 million in contracts to an SAIC subcontractor, Technodyne, LLC. **SAIC reimbursed New York City \$2.47 million, Denault was sentenced to 20 years in prison, and ordered to forfeit \$9.5 million.** Two other contractors were also convicted in the case. The project, called CityTime, was originally budgeted to cost \$63 million, but ballooned to \$700 million, mostly due to fraud. [New York Times 4/28/14](#)

United Technologies Corporation (UTC): UTC subsidiary Sikorsky Aircraft paid **\$3.5 million** to settle charges that it overbilled the Army for Blackhawk helicopter parts. This was in violation of both the False Claims Act and the Truth In Negotiations Act. [Department of Justice 3/31/14](#)

Triple Canopy: The U.S. Court of Appeals for the 4th Circuit will allow a lawsuit to proceed against Triple Canopy, which is accused of providing the U.S. government with hundreds of Ugandan guards who lacked proficient marksmanship qualifications. This fraud costs U.S. taxpayers at least **\$10 million**. Founded in 2003, Triple Canopy has received more than **\$2.2 billion in government contracts**. [Washington Post 1/15/15](#)

SAIC: In July, 2013, SAIC agreed to pay **\$5.75 million** to settle False Claims Act allegations that it submitted claims under a contract with the General Services Administration (GSA) that it knew had been awarded in violation of federal procurement regulations. SAIC tricked the GSA into awarding a \$200 million contract for engineering and consulting services at MacDill and Nellis Air Force Bases and other government installations. In 2012, SAIC settled with New York City for **\$500 million** for contract fraud. SAIC has split into two companies, but remains one of the largest defense contractors in the United States. It has received billions of dollars worth of contracts over the years. [Washington Post 7/3/13](#)

Louis Berger Group: The CEO of international construction and engineering firm Louis Berger Group, Derish Wolff, recently pleaded guilty to defrauding USAID on construction contracts. He faces a maximum of 10 years in prison and a fine of at least \$250,000. The government is seeking

a fine of **\$4.5 million**. From 1990 to 2009, he defrauded USAID of tens of millions of dollars. In November 2010, two other company executives pleaded guilty, and the company paid the government more than **\$69 million** in fines. Incredibly, despite being tipped off by a whistleblower in 2006, USAID continued to do business with Louis Berger awarding billions in contracts. [Bloomberg 12/12/14](#)

BAE Systems, MK Battery, East Penn Manufacturing, and NPC Robotics: The Justice Department recovered **\$5.5 million** from contractors for providing batteries for military vehicles that did not meet contract specifications. [Department of Justice 9/16/14](#)

Boeing: Paid **\$23 million** to settle allegations it submitted false labor charges on C-17 Globemaster maintenance and repair contracts. [Department of Justice 9/16/14](#)

Computer Sciences Corporation: Paid **\$1.1 million** to resolve allegations it submitted false resumes on an Army IT contract in order for its employees to receive higher paying positions. This also allowed the contractor to charge the government higher labor costs. In 2000, the contractor paid **\$6.4 million** to settle allegations it committed fraud with respect to student loans. In 2005, the contractor reimbursed the government **\$1.3 million** after discovering a former employee fraudulently billed NASA. In 2008, the same contractor provided **\$1.4 million** to settle allegations regarding kickback and bribery schemes in government information technology. [Department of Justice 4/15/14](#)

L-3 Communications' MPRI: Paid **\$3.2 million** to settle charges that it submitted false labor charges on a contract in support of the Army in Afghanistan. The contractor billed the government for employees who were on leave outside of Afghanistan. [Department of Justice 2/12/14](#)

Maersk Line, Limited: Paid **\$8.7 million** to settle charges that it submitted falsified documents on contracts for supplying troops in Afghanistan. The government found 277 instances in which receipts of shipment were submitted with forged signatures. In January 2012, Maersk paid almost **\$32 million** to settle similar charges that it fraudulently submitted invoices for shipment of thousands of containers to troops in Afghanistan. So far, Maersk has paid a total of **\$52.9 million** in fines and settlements. At the same time, over the last five years, Maersk has received more than **\$3.7 billion** in federal contracts. [Department of Justice 11/5/14](#) [Project On Government Oversight 11/10/14](#)

United Technologies Corporation: In 2006, UTC subsidiary Pratt & Whitney paid **\$283 million** to settle charges that it overbilled the federal government on aircraft contracts from 1984 to 2002. In 1996, the Pentagon demanded that Pratt & Whitney reimburse the government for **\$260 million** resulting from improper accounting practices. This figure climbed to **\$754.7 million** in 2003 as these accounting practices continued. However, in 2006, the government settled for a lower amount. [Project On Government Oversight 6/10/14](#)

Boeing: Boeing was forced to pay **\$47 million** in back pay, benefits, and interest to 484 current and former employees of Palmdale and Edwards Air Force Base because the contractor wrongly denied them union representation. [BusinessWire 4/18/14](#)

Lockheed Martin: Keith Johnson was employed by a Lockheed subsidiary, PAE Government Systems, in Afghanistan, working as a program manager for maintenance contracting. He and his wife set up a shell company based in Tennessee so that he could steer more than \$10 million in contracts to himself and his wife, who used her maiden name to conceal their relationship. Johnson also conspired with two other men to steer contracts to their company in return for kickbacks. Johnson and his wife both pleaded guilty to wire fraud, were **sentenced to federal prison**, and ordered to forfeit over **\$2 million**. [*Federal Times 2/17/14*](#)