

Center for American Progress



SPECIAL PRESENTATION

“A RETURN TO COMPETITIVE CONTRACTING”

KEYNOTE SPEAKER:

REPRESENTATIVE HENRY WAXMAN, (D-CA)

MODERATED BY:

**SCOTT LILLY, SENIOR FELLOW,
CENTER FOR AMERICAN PROGRESS**

FEATURED PANELISTS:

**ANGELA STYLES, FORMER ADMINISTRATOR FOR FEDERAL
PROCUREMENT POLICY, OFFICE OF MANAGEMENT AND
BUDGET**

**MARGARET DAUM, COUNSEL, HOUSE OVERSIGHT AND
GOVERNMENT REFORM COMMITTEE**

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**10:00 AM – 12:00 PM
MONDAY, MAY 14, 2007**

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MR. JOHN PODESTA: Good to go? Okay. Good morning, everyone. I'm John Podesta. I'm the president of the Center for American Progress. I want to welcome you to the Center for this morning's session on the federal procurement process and government contracting. We're so pleased to be joined by Congressman Henry Waxman this morning to kick things off. He's going to speak and then take a few questions, and then we're going to turn things over to our panel.

Since our inception in 2003, CAP has consistently argued for improving congressional oversight and encouraging greater transparency in all aspects of government. There's probably no greater area ripe for congressional oversight than government procurement, an area that constitutes nearly 40 percent of all discretionary spending and totals about \$400 billion a year. And as our speakers will lay out, not only has contracting out services expanding substantially under this administration, but contracts not subject to full and open competition have more than doubled. So procurement is not only a larger share of our budget, but is also an increasingly problematic one as fraud, waste, and abuse have risen substantially in recent years.

From no-bid contracts in Iraq to post-Katrina waste to industry written health and environmental policies, this administration has built a government that's not working for the majority of the American people. Instead they've built a government that seems to work only for themselves. Sometimes I reflect on this and I have to give the president a little bit of grudging credit. For 50 years, conservatives have told that the government is the problem, and I think it's fair to say that for the past six and a half years George Bush has worked hard to make that claim a reality.

Well, given recent developments, CAP's pleased to release a report this morning, "A Return to Competitive Contracting," and we're equally pleased to feature a true leader in congressional oversight. Let me first thank our senior fellow Scott Lilly who's up front and chair the panel this morning for his work in putting this report together and for his ongoing research on governance and federal budgeting. Let me also welcome our panelists, Angela Styles, Margaret Daum and Danielle Brian, who will speak in more depth about these issues at the conclusion of congressman's talk.

I'm sure Congressman Henry Waxman needs little introduction to the people in this room. Representative Waxman has represented California's 30th congressional district since 1975. He's currently the chairman of the Committee on Oversight and Government Reform, the principal investigative committee in the House of Representatives. From this position, Representative Waxman has been at the forefront of investigations into a wide range of topics from the high cost of prescription drugs to the censorship of government scientists to waste, fraud, and abuse in government contracting.

I think it's safe to say that no one has been as vocal and as effective in restoring Congress' appropriate constitutional role in oversight as Congressman Waxman. I teach

a course on congressional oversight – I spent the weekend reading my papers from that course – with a Republican, now a federal judge, named Dick Leon who I first met when he was deposing me in one of the investigations that I don't need to remind Congressman Waxman about. Although we come from different parties and we have different attitudes about things, I think the one thing we agree on is that Henry Waxman constitutes the gold standard of what it means to do oversight and investigations correct and right and in the interests of our taxpayers.

So please join me in welcoming a true advocate for honest and ethical government and for taxpayers' interests, Congressman Henry Waxman.

(Applause.)

REP. HENRY WAXMAN (D-CA): Thank you, John, for that very kind introduction. I'm delighted to be here today, and I want to congratulate the Center for American Progress for putting on this conference. I want to thank Scott Lilly particularly for inviting me today.

I'm pleased that you're holding this conference. We've had many high profile hearings in our committee since I've become chairman, and even before the time I was chairman, but I must say that when we go into the subject of contracting out government services, procurement contracts – there are very few cameras. Eyes glaze over. People get a little bored when they hear acronyms like GWACs, which are government-wide acquisition contracts, or IDIQs, the indefinite delivery indefinite quantity contracts. You don't see the kind of press attention to some of those hearings. But let me tell you that contracting out government services has affected every American's life. Federal procurement decisions affect all of us because this has become a shadow government, an enormous workforce of hundreds of thousands of people who perform a vast array of government's functions. Lockheed Martin – Lockheed Martin is the largest federal contractor and they receive more federal dollars than the Commerce Department, the Interior Department, and Congress combined.

So the government really has contracted out in a major way, particularly within the last six years. But this isn't brand new: the government has long relied on private contractors to provide goods and services. But today you can find private contractors in every agency performing nearly every function that you can think of, even the contractors become the contract managers, and that's now done by these private contractors.

Well, in June, 2006, I released a report entitled "Dollars, Not Sense: Government Contracting Under the Bush Administration." This report was a review of 500 government audits of the contracts that the government had put out, and it was the first comprehensive assessment of federal contracting under the Bush administration.

As the report documents, procurement spending has grown rapidly in the last six years, nearly twice as fast as the rest of the federal budget. The result is, as John said, 40 cents of every discretionary federal dollar now goes to private contractors, which is a

record level. This surge in contract spending has enriched private contractors, but it has come at a steep price for the taxpayers through rising waste, fraud, abuse and mismanagement.

Procurement reforms instituted in the 1980s and 1990s have been expanded and distorted by the Bush administration, sometimes beyond recognition. The authority to buy, quote, “commercial items” without competitive bidding has been used to purchase military aircraft. Interagency contracts for information technology has become a vehicle for hiring people to do the interrogations at Abu Ghraib. Travel and purchase cards have been used for wayward officials to buy luxury cruises, stereo equipment, and services even at strip clubs.

To promote economic development in Alaska and on tribal lands, the Alaskan Native Corporation and economically disadvantaged Indian tribes can be awarded federal contracts of any size without competition. This special privilege was established in the 1980s with the best of intentions, but over the last six years, the ANC – that’s the Alaska Native Corporation – their preference has been transformed into a major procurement loophole. In 2000, the Alaska Native Corporation received only \$265 million in federal contracts. By 2005, spending on these contracts had ballooned to over \$1 billion per year. Now, the original purpose of the ANC preference was to encourage opportunities for Alaska natives living in Alaska, but agencies have used ANC contracts to manage commercial properties in Virginia, renovate buildings in Brazil, and train security guards in Iraq and much of the work has been done by non-native companies working as subcontractors. So here we have a Native-American corporation from Alaska with the idea we’re going to give them – disadvantaged people – the opportunity to get contracts without any limit on the size of those contracts where they don’t have to face competition. Sounds like a worthy goal, but it became a huge loophole.

We have a large and recurring problem in contract management over the last five years, and that’s been the insufficient and inept contract oversight. GAO has designated contract management at the Department of Defense, the Department of Energy, and NASA as, quote, “high-risk areas due to primarily the lack of oversight.” The inspector general at the Department of Homeland Security has found the lack of oversight has left the department vulnerable to procurement waste, fraud and abuse.

At a hearing of the Oversight Committee in February, we examined two enormous contracts awarded by the Department of Homeland Security: the Coast Guard’s \$24 billion Deepwater contract, which has produced a series of lemons that have cost the taxpayers hundreds of millions of dollars, and the department’s \$30 billion SBInet contract with Boeing to design and build a comprehensive border security plan.

Deepwater and SBInet are at completely different stages of the procurement process, but they are both using the same disastrous strategy. Virtually every detail is being outsourced from the government to private contractors, including the oversight of the contract. They contracted out the ideas for them to review and think up as to what

government needed to be let out. Then they contracted out the private work to be done. Then they contracted out the oversight of the work that was done.

My staff examined how the department is overseeing this multibillion dollar contract with Boeing to secure our borders, and what we learned is that more than half of the staff overseeing the contract are private contractors themselves. Some of these contractors even work for companies that are business partners of Boeing. Imagine how a business partner of Boeing is going to oversee the contract of Boeing knowing that they might have a conflict of interest, knowing that they may have some other relationship elsewhere that may influence what they're supposed to be doing.

At the hearing, members asked a simple question: how many contractors are working at the Department of Homeland Security? A reasonable question. Since so much is being contracted out, we wanted to know how many contractors there are. The department had no idea. As a result, the Oversight Committee's launched an investigation to examine how many contractors are working for the department and what they are doing. Let me assure you: we are not going to contract out this inquiry. (Laughter.)

The lack of accountability in oversight is an invitation to abuse. The last six years have seen an explosion of corruption in federal procurement. Darlene Druyun, the former chief acquisition official for the Air Force, negotiated a lucrative deal to lease aircraft from Boeing in exchange for future employment. Former representative Randy Duke Cunningham is not is now in prison for accepting bribes in exchange for earmarking contracts.

While government contractors are getting rich, the taxpayers are getting soaked. Billions of dollars are being squandered while our nation's most pressing needs have gone unmet. Major contract initiatives, border and homeland security, the reconstruction in Iraq, the recovery efforts after Hurricane Katrina – they've been undermined by wasteful spending on federal contracts. The sums involved are staggering. In total, contracts collectively worth over \$762 billion have experienced significant overcharges, contract abuse, or mismanagement under the Bush administration.

While the battle to eliminate waste, fraud and abuse in federal contracting won't be easy, it will require persistent oversight by Congress, and it will require fundamental reforms in the contracting process. This Congress has already begun their oversight hearings in our Oversight Committee and in other committees. Across Congress, members are starting to ask what went wrong and they're insisting on accountability. Since February, the Oversight Committee has held five hearings on waste, fraud and abuse in government contracting. These hearings have addressed the reconstruction and the use of private security companies in Iraq, contracting of the Department of Homeland Security, and cronyism and political influence at the General Services Administration. And this is just the beginning. We plan to hold regular hearings on waste, fraud and abuse through the end of year and beyond.

The Oversight Committee and the House of Representatives are also processing legislation to address many of the abuses in federal contracting. We didn't want to just hold the hearings. We saw enough information, even during the time the Committee was chaired by Congressman Tom Davis who worked closely with us on some of these very issues, and together we came up with legislation called the Accountability in Contracting Act H. R. 1362. We brought that bill out of committee, we brought it to the House floor – by the way, it was passed out of committee last year as well, but the Republican leadership wouldn't even give it time on the House floor for consideration, even though it passed, I think, unanimously out of the committee – so did a number of bills but the Republican leadership didn't want to take them up. But we were able to get this bill up on the House floor and on March 15th by a vote of 347 to 73 the bill passed.

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, curb reliance on expensive cost plus contracts. The legislation would also promote transparency in the acquisition process by the prompt reporting of overcharges and other procurement abuses to the Congress. Last week, the House passed another bill, the Small Business Fairness in Contracting Act, H. R. 1873. This bill came out of the Small Business Committee. It was also referred to our committee, and a key provision in this legislation which was added by the Oversight Committee begins the process of reforming the use of that Alaska Native Corporation in federal procurement.

Well, these efforts, as I've indicated have not been partisan. Tom Davis, the ranking member of the Oversight Committee, has worked closely with us in crafting procurement reform and we've worked together over the years on oversight efforts. While I'm proud of what the Oversight Committee has done, but it's not enough: procurement reform is bugged-down in the Senate, the administration is resisting key provisions. Moreover, the best written laws will do little to curb waste, fraud and abuse unless there are enough contract managers and government auditors to oversee the burgeoning procurement budget. We need government employees to oversee these private contracts, but we don't have sufficient workforce to do that. So we proposed that 1 percent of federal procurement spending be set aside for contract management and oversight. Procurement experts can debate whether that's the right percentage or not, but we need more resources, and that should not be in dispute. If we can find a way to boost federal spending on contract management, the payoff for the taxpayers will certainly be immense.

Well, there's a great deal we need to do to restore transparency, accountability, and efficiency to government contracting. Oversight efforts in Congress and forums like this one and the report that CAP is going to be producing help draw attention to the crisis in federal procurement and they help lay the foundation for reform. I think we need to look at this issue in a way we've never done before. For a very long period of time for the last six years, people were not aware of this growth in government contracting. It has mushroomed, and most people have not been aware of it, and the amounts of dollars that have been affected are beyond what anybody ever imagined. Even our report last year may well have underestimated the number of dollars affected. We don't know the

amount of waste, fraud and abuse. It's hard to pinpoint. We do know that hundreds of billions of dollars have gone out in contracting. How much of those hundreds of billions of dollars have gone to waste, fraud, and abuse is unclear because we don't have government watching out for that taxpayers to be sure that money is being used as intended.

But I've highlighted a number of very high profile cases where we've seen the problems, we've seen the waste, we've even seen the fraud. This came to light when we looked at the Iraq reconstruction contracts. When I first asked the question: why did Halliburton get a special contract with no competition on a cost-plus basis in Iraq before the war started when they'd already had a history of overcharging the government on these cost-plus contracts? That started us down the road to asking the questions. We've learned a lot, but there's a lot more yet to be learned. And I'm pleased that those of you here today are interested in learning the facts with us and trying to do something about the waste of taxpayers' dollars.

Thank you very much and I'd be pleased to answer questions.

(Applause.)

(End of excerpt.)