

Waste, Fraud, and Abuse Identified by Oversight Committee Investigations

The House Committee on Oversight and Government Reform has held dozens of hearings and conducted numerous investigations into waste, fraud, and abuse in federal spending. This work has identified billions in misspent or mismanaged funds.

Contracting Investigations

Waste Identified in Contracting Database: \$1.1 trillion. A database maintained by the Committee identifies 199 contracts worth \$1.1 trillion that have experienced significant waste, fraud, abuse, or mismanagement.¹ The questionable contracts are found across the government.

Unaccountable U.S. Spending In Iraq: \$15 billion. According to a Department of Defense Inspector General report released at a Committee hearing in May 2008, an estimated \$7.8 billion out of \$8.2 billion of U.S. funds used to pay American and Iraqi contractors failed to comply with federal statutes and regulations. The Inspector General found that \$1.4 billion of these payments were missing critically important documentation to support the paying, including voucher certifications, invoices, and receiving reports. The report also found that \$1.8 billion in seized and vested Iraqi assets were given away by the Pentagon with virtually no accountability, and that \$135 million from the Commander's Emergency Response Fund was transferred to foreign governments with no record of how the money used. At the same hearing, officials from the Defense Department Inspector General's office testified about critical deficiencies in the Department's management of \$5.2 billion in U.S. funds used to purchase weapons and equipment to support the Iraq Security Forces.²

Wasteful Spending by Halliburton and KBR in Iraq: \$2.7 billion. Investigations by the Committee have documented wasteful spending by KBR, the former Halliburton subsidiary, under the contract to support the troops (LOGCAP) and the contract to Restore Iraqi Oil (RIO). During a February 2007 hearing, the Committee learned that the Defense Contract Audit Agency identified over \$10 billion in questioned and unsupported costs in Iraq, with \$2.7 billion from the two KBR contracts alone.³ Earlier Committee investigations found specific examples of unchecked spending by KBR, such as billing taxpayers \$45 for a case of soda and \$100 to wash a bag of laundry, inflating costs for gasoline delivery, and abandoning new trucks that had broken down instead of maintaining them.⁴

Parsons Contracts: Parsons has contracts worth over \$2.2 billion for the reconstruction of Iraq's infrastructure, including contracts to build and renovate public buildings such as government offices, hospitals, and housing, and a contract to repair and operate the oil infrastructure in the northern part of Iraq. According to the Special Inspector General for Iraq Reconstruction, 13 of the 14 major Parsons projects his office visited failed to meet acceptable standards.⁵ A police academy was so poorly built sewage leaked from the light fixtures.

Defense Base Act Insurance Overcharges: \$585 million. Contractors in Iraq and Afghanistan are required to purchase workers' compensation insurance, known as Defense Base Act insurance. Spending on DBA insurance has increased more than twenty-fold since the beginning of the wars in Iraq and Afghanistan. Under these arrangements, the Committee found that insurance companies retained \$585 million in excess underwriting profits. On one contract alone — KBR's LOGCAP contract — Pentagon auditors reported that taxpayers paid as much as \$292 million and injured contractors received only \$73 million in benefits.⁶

Mismanagement of Construction of the U.S. Embassy in Iraq: \$144 million. The new U.S. Embassy complex in Iraq is the State Department's largest construction project, budgeted at \$592 million. The Committee held a hearing in July 2007 that reviewed reports of mismanagement and substandard work by the project's prime contractor, First Kuwaiti General Trading & Contracting Company. During the hearing, State Department officials assured Committee members that the project was on time and on budget, and met all quality standards. Yet additional Committee investigation revealed that the project was at least \$144 million over budget and far behind schedule. Portions of the Embassy complex failed fire tests and the sprinkler pipes are substandard.⁷

Mismanagement of AEY Contract: \$66 million. In 2007, AEY, Inc. received a \$300 million contract to provide ammunition to the Afghan Security Forces. AEY received this contract even though it had a record of contract terminations for cause, its CEO was only 22 years old and inexperienced, and the company and its CEO were listed as suspicious parties on the State Department's watch list. AEY illegally provided ammunition that originated from China, and much of the product delivered to Afghanistan was rusted and useless. The Army cancelled the contract after paying \$66 million to AEY; it must now rebid the contract.⁸

Blackwater Overcharges and Tax Evasion: \$50 million. Blackwater is one of the largest private military contractors, receiving \$1.25 billion in federal contracts since 2000. An Oversight Committee investigation has revealed that Blackwater has avoided paying \$50 million in federal taxes by improperly classifying its security guards in Iraq and Afghanistan as "independent contractors." By doing so, Blackwater was designated as a "small business" and avoided fair competition for contracts against other qualified bidders.⁹ In addition, a State Department Inspector General audit released by the Committee found that Blackwater had overbilled the government by double-billing for the same personnel and by adding a profit margin to other profit.¹⁰

Iraq War Mismanagement

Missing Cash in Iraq: \$8.8 billion. The U.S. failure to help secure and protect Iraqi assets has slowed reconstruction efforts and the waste has cost U.S. taxpayers billions of dollars. In 2003 and 2004, the Bush Administration shipped to Iraq nearly \$12 billion of Iraqi money held in the United States. The Coalition Provisional Authority, run by the U.S., had the responsibility under international law to ensure that the money was used transparently. The Special Inspector General for Iraq Reconstruction testified before the Committee in February 2007 that when he tried to track what happened to the money,

he found that \$8.8 billion was unaccounted-for and had effectively disappeared. According to the Inspector General, these funds were disbursed to the Iraqi ministries without any assurance that they were used to pay worker salaries, administrative expenses, or to help restart the operations of the ministries.¹¹

Corruption in Iraqi Ministries: \$18 billion. The top anticorruption official in Iraq, Judge Radhi Hamza al-Radhi, testified before the Committee in October 2007 that corruption has “infected virtually every agency and ministry, including some of the most powerful officials in Iraq.” According to Judge Radhi, the corruption has cost as much as \$18 billion since 2004. The Committee’s investigation showed that U.S. Embassy programs to help prevent Iraqi corruption have been poorly managed and understaffed.¹²

Iraqi Budget Surplus: \$67 billion. The Government Accountability Office reported in August 2008 that the Iraqi government has spent less than \$1 billion of its own money for stabilization and reconstruction programs since the start of the war, and by the end of 2008, Iraq will have generated a budget surplus of \$67 to \$79 billion, largely from oil sales to American companies. Since the start of the war, Iraqis have sold \$70 to \$74 billion in Iraqi oil to the U.S., while the U.S. government provided \$48 billion to finance Iraqi reconstruction. In an August 2008 letter to Secretary Rice, Chairman Waxman questioned U.S. spending on Iraqi reconstruction when the Iraqis have been unable or unwilling to spend their own money.¹³

Health Investigations

Waste from Medicare Part D Switch to Private Insurers: \$75 billion. Unlike traditional Medicare, which is run directly by the government, the new Medicare Part D prescription drug program depends on private insurers to provide drug coverage to Medicare beneficiaries. A report released by the Committee in October 2007 found that the use of private insurers to deliver Medicare drug coverage is driving up costs and producing only limited savings on drug prices. The report found that taxpayers and Medicare Part D beneficiaries could have saved almost \$15 billion in 2007 — and could save more than \$75 billion over the next five years — by reducing administrative expenses and drug prices.¹⁴

Drug Expenses for Dual Eligible Beneficiaries: \$3.7 billion. With the advent of Medicare Part D, individuals who are dual eligible for both Medicare and Medicaid began to receive prescription drugs under the Medicare Part D drug program rather than Medicaid. A report released by the Committee in July 2008 shows that the switch produced a windfall of \$3.7 billion dollars to drug manufacturers for the first two years of the Medicare Part D program.¹⁵

Failure to Implement of Hospital Best Practices: \$1 billion. The Committee issued a report in September 2008 on hospital-associated infections. Committee investigators analyzed responses from state hospital associations to ascertain which of them have implemented simple proven practices to prevent central-line-associated bloodstream infections, one of the most prevalent causes of hospital-associated infections. Only 14 states have agreed to these best practices. If the remaining states were to adopt the practices, more than 15,000 lives and \$1 billion could be saved annually.¹⁶

Environmental Investigations

Waste and Mismanagement of Katrina Contracts: \$8.75 billion. In the aftermath of Hurricane Katrina, the federal government awarded over \$10.6 billion to private contractors for Gulf Coast recovery and reconstruction. In August 2006, the Committee issued a report identifying 19 Katrina contracts collectively worth \$8.75 billion that have been plagued by waste, fraud, abuse, and mismanagement. These included contracts for debris removal, roof repair, and portable classrooms. The report also revealed that 70% of the contracts were awarded without open competition; the contracts were poorly planned and subject to little oversight; and contractors excessively relied on subcontractors to do the work.¹⁷

Purchase of Unsafe Trailers for Hurricane Evacuees: \$2.7 billion. A July 2008 Oversight Committee hearing continued to examine mismanagement of Katrina contracts. Following the Gulf Coast hurricanes of 2005, the Federal Emergency Management Agency spent \$2.7 billion on travel trailers and mobile homes for victims of the storms to use as temporary housing. The Committee found that many of the trailers and mobile homes had dangerously high levels of formaldehyde, that FEMA had been aware of the problem, and that it had purposely delayed conducting proper tests of the trailers. Following the hearing, the Centers for Disease Control and Prevention tested the trailers and mobile homes and confirmed that they were unsafe.¹⁸

Department of Homeland Security Contracts

Wasteful Homeland Security Contracts: \$81 billion. Procurement spending at Department of Homeland Security has surged rapidly since the creation of the Department in 2003. This growth has been accompanied by pervasive mismanagement, including a lack of adequate planning and competition. Federal auditors and investigators have found significant waste, fraud, abuse, or mismanagement in contracts valued at more than \$81 billion. Wasteful contract spending at DHS includes \$127.4 million in questioned and unsupported costs paid to private security firms for passenger and baggage screening; \$429 million for non-functional border surveillance equipment; \$49 million in excessive award fees paid to Boeing to install baggage screening machines; and \$1.2 million in interest on late payments to contract guards in the National Capital Region.¹⁹ The Committee also learned, during a February 2007 hearing, that DHS failed to exercise sufficient oversight over contractors and relied on additional contractors to manage and oversee its large contracts.²⁰

Waste from the Coast Guard's Deepwater Contract: \$100 million. In 2002, the Coast Guard began a \$24 billion acquisition program to replace and modernize its fleet of deep water ships. In November 2006, the Coast Guard announced that eight boats renovated under Deepwater at a cost of \$100 million had problems so severe that they could not be used.²¹ The Committee learned at a February 2007 hearing that contract mismanagement has significantly increased the costs of the National Security Cutters acquired under the contract. The Committee also learned that these boats have

design deficiencies so serious that the boats will not meet the contract's performance requirements.²²

Other Investigations

Excessive Crop Insurance Subsidies: \$11 billion. Under the federal crop insurance program, the federal government pays subsidies to private insurers to offer reduced-cost insurance to farmers and ranchers. The Government Accountability Office reported to the Committee that between 1996 and 2006, the program was authorized to deliver \$15 billion to farmers, but the final taxpayer cost was \$26 billion.²³ The \$11 billion excess was essentially lost through excess payments to crop insurers, excess subsidies to cover the cost of the program, and other waste and abuse.²⁴

Census Mismanagement: \$3 billion. The Committee learned in an April 2008 hearing that contract mismanagement has forced the Census Bureau to abandon the use of handheld computers for key functions and revert to a paper census, increasing costs to the taxpayer for the 2010 Census from \$11.5 billion to \$14.5 billion.²⁵

Problems with DOD Weapons Acquisition: \$300 billion. The Government Accountability Office has issued six annual assessments of the progress made in 95 defense acquisition programs. The Committee held a hearing in April 2008 that examined the most recent report's findings. The Committee learned that Defense Department's weapons programs are nearly \$300 billion over budget and approximately 21 months behind schedule. GAO testified before the Committee that not a single weapons program followed the "best practices" recommended by both GAO and the Defense Department.²⁶

Mismanagement of the Development of the Marine Corps Expeditionary Fighting Vehicle: \$1.2 billion. In 2001, the Marine Corps awarded a cost-plus contract to General Dynamics to lead the Expeditionary Fighting Vehicle, an amphibious tank, through the development and demonstration phase. An Oversight Committee report revealed that the \$1.2 billion contract was so poorly managed by Marine Corps officials and General Dynamics that the Defense Department announced in June 2007 that the entire vehicle development and demonstration phase must be repeated, delaying the scheduled completion date in 2003 to 2011.²⁷

Problems with Construction of the K-Town Mall: \$70 million. The Kaiserslautern Military Community Center (K-Town Mall), which is being built on Ramstein Air Base in Germany, is the Pentagon's largest single facility construction project in the world. GAO investigators told the Committee in June 2007 that the project faces major problems, including "construction flaws, vandalism of property, repeated work stoppages and slowdowns by contractors, and ongoing criminal investigations." The Air Force Audit Agency identified at least 35 critical deficiencies in the project. The net cost of this waste is estimated to be as much as \$70 million.²⁸

Improper Grantmaking by the OJJDP: \$4.4 million. In June 2008, the Committee investigated the Justice Department's Office of Juvenile Justice and Delinquency Prevention (OJJDP)'s grant procedures. OJJDP controls a fund of \$8.6 million awarded to applicants that meet certain criteria. Career staff at OJJDP evaluate and rank order the applications. In 2007, OJJDP's administrator ignored the advice of his staff and provided 55% of the money, or approximately \$4.4 million, to applicants deemed "not recommended." Among the awardees were a program to fund abstinence-only education run by the wife of a former Reagan cabinet member and a golf foundation that had a pre-existing relationship with the OJJDP administrator.²⁹

¹ Majority Staff, House Committee on Oversight and Government Reform, *More Dollars, Less Sense: Worsening Contracting Trends Under the Bush Administration* (June 2007); House Committee on Oversight and Government Reform, *Database of Problem Contracts* (online at www.oversight.house.gov/features/moredollars/contractsearch.asp).

² House Committee on Oversight and Government Reform, *Hearing on Accountability Lapses in Multiple Funds for Iraq* (May 22, 2008).

³ House Committee on Oversight and Government Reform, Majority Staff, *Memorandum to Committee Members* (Feb. 15, 2007).

⁴ Letter from Henry A. Waxman, Ranking Minority Member, to Tom Davis, Chairman, House Government Reform Committee (June 14, 2004).

⁵ House Committee on Government Reform, Testimony of Stuart W. Bowen, Special Inspector General for Iraq Reconstruction, *Hearing on the Reconstruction Contracting in Iraq* (Sept. 28, 2006).

⁶ House Committee on Oversight and Government Reform, *Hearing on Defense Base Act Insurance: Are Taxpayers Paying Too Much* (May 15, 2008).

⁷ House Committee on Oversight and Government Reform, *Hearing on Allegations of Waste, Fraud, and Abuse at the new U.S. Embassy in Iraq*; Letter from Henry A. Waxman, Chairman, House Committee on Oversight and Government Reform, to Condoleezza Rice, U.S. Secretary of State (Oct. 9, 2007).

⁸ Staff analysis from House Committee on Oversight and Government Reform, Majority Staff, *The AEY Investigation* (June 24, 2008).

⁹ Letter from Henry A. Waxman, Chairman, House Committee on Oversight and Government Reform, to Erik Prince, Chairman, The Prince Group (Oct. 22, 2007).

¹⁰ Department of State, Office of Inspector General, *Agreed-Upon Procedures Review of Daily Direct Labor, Aerial Support Equipment and Indirect Expense Rates Proposed by Blackwater Security Consultants*, Report No. AUD/IQO-05-13 (Jan. 31, 2005).

¹¹ House Committee on Oversight and Government Reform, *Hearing on Iraq Reconstruction* (Feb. 6, 2007).

¹² House Committee on Oversight and Government Reform, *Hearing on Assessing the State of Iraqi Corruption* (Oct. 4, 2007).

¹³ Letter from Henry A. Waxman, Chairman, House Committee on Oversight and Government Reform, to Condoleezza Rice, U.S. Secretary of State (Aug. 8, 2008).

¹⁴ House Committee on Oversight and Government Reform, *Private Medicare Drug Plans: High Expenses and Low Rebates Increase the Costs of Medicare Drug Coverage* (Oct. 2007).

¹⁵ House Committee on Oversight and Government Reform, *Medicare Part D: Drug Pricing and Manufacturer Windfalls* (July 2008).

¹⁶ House Committee on Oversight and Government Reform, *Survey of State Hospital Associations: Practices to Prevent Hospital-Associated Bloodstream Infections* (Sept. 2008).

¹⁷ House Government Reform Committee, Minority Staff, Special Investigations Division, *Waste, Fraud, and Abuse in Hurricane Katrina Contracts* (Aug. 2006).

¹⁸ House Committee on Oversight and Government Reform, *Hearing on FEMA's Toxic Trailers* (July 19, 2007); Memorandum from Majority Staff to Members of the House Committee on Oversight and Government Reform, *FEMA Documents* (July 19, 2007).

¹⁹ House Committee on Oversight and Government Reform, *Database of Problem Contracts* (online at www.oversight.house.gov/features/moredollars/contractsearch.asp).

²⁰ House Committee on Oversight and Government Reform, *Hearing on Management of Massive Homeland Security Contracts: Deepwater and SBInet* (Feb. 8, 2007).

²¹ *Coast Guard to Idle 8 Cutters After \$100 Million Renovation*, New York Times (Nov. 30, 2006).

²² House Committee on Oversight and Government Reform, *Hearing on Management of Massive Homeland Security Contracts: Deepwater and SBInet* (Feb. 8, 2007).

²³ U.S. Government Accountability Office, *Crop Insurance: Continuing Efforts Are Needed to Improve Program Integrity and Ensure Program Costs Are Reasonable*, Testimony before the House Committee on Oversight and Government Reform (GAO-07-819T) (May 2, 2007).

²⁴ Majority Staff, House Committee on Oversight and Government Reform, *Memorandum: Full Committee Hearing on Waste, Fraud, and Abuse in the Federal Crop Insurance Program* (May 2, 2007).

²⁵ House Committee on Oversight and Government Reform and Subcommittee on Information Policy, Census, and National Archives, *Hearing on 2010 Census, Progress on the Development of the Field Data Collection Automation (FDCA) Program and the Decennial Response Integration System (DRIS)*, 110th Cong. (Apr. 9, 2008).

²⁶ House Committee on Oversight and Government Reform, *Hearing on the Oversight of Defense Department Acquisitions* (Apr. 29, 2008).

²⁷ House Committee on Oversight and Government Reform, *Hearing on the Oversight of Defense Department Acquisitions* (Apr. 29, 2008).

²⁸ House Committee on Oversight and Government Reform, *Hearing on Waste, Fraud, and Abuse at K-Town* (June 28, 2007); Air Force Audit Agency, *Military Construction Project — Kaiserslautern Military Community Center (KMCC)* (F2007-0065-FDE000) (June 22, 2007).

²⁹ House Committee on Oversight and Government Reform, *Hearing on Examining Grantmaking Practices at the Department of Justice* (June 19, 2008); Memorandum from Majority Staff to Members of the House Committee on Oversight and Government Reform, *Supplemental Information for Full Committee hearing on Department of Justice Grantmaking* (Jun. 19, 2008).