

Castle: Egregious Defense Contracting Practices Must Stop Now -- May 11, 2006

Castle amendment would bring end to multi-million dollar bonuses despite cost increases, late deliveries, performance shortfalls

Washington, D.C. -- Outraged at the egregious practices concerning Defense contracts which have resulted in cost increases, late deliveries, and significant performance shortfalls, Delaware Congressman Mike Castle today successfully amended the Fiscal Year 2007 Defense Authorization Bill to require DOD to develop a strategy for linking incentives to specific outcomes, such as meeting cost, schedule and capability goals.

Castle's amendment comes on the heels of a report by the Government Accountability Office which found that DOD has paid out billions of dollars in awards and incentive fees for defense contracts, regardless of whether the acquisition outcomes met the Department's expectations. Castle served for eight years on the House Intelligence Committee where he first became concerned about these practices, especially contracts in the intelligence community which are classified and have even less transparency.

Some Examples Include:

- Comanche Reconnaissance Attack Helicopter: \$202.5 million award paid despite 41.2% or \$3.7 billion cost increase over original baseline and 33 months time increases.
- F/A-22 Raptor tactical fighter aircraft: \$963.7 million award paid despite 47.3 percent or \$10.2 billion cost increase over original baseline and 27 months time increase.
- Joint Strike Fighter: \$529.8 million award paid despite 30.1 percent or \$10.1 billion cost increase over original baseline and 11 months time increase.
- Space-based infrared system: \$160.4 million award paid despite 99.5 percent or \$3.7 billion cost increase over original baseline and 12 months time increase.

"We need to end these egregious practices, which frankly have become common place. In the defense community, bonuses are expected, not earned. They are no longer considered incentives to efficiently complete the work, rather they have become assumed financial compensation. For years I have seriously questioned what I consider to be a bad relationship among DOD, defense contractors and the intelligence community.

"Currently, DOD spends over \$200 billion annually to acquire products and services from defense contractors - including everything from spare parts to major weapon systems. In an effort to encourage contractors to perform at the highest level possible, the Department often gives its contractors the opportunity to collectively earn billions of dollars through monetary incentives known as award and incentive fees. Unfortunately, while there is no doubt that U.S. weapon programs continue to be the best in the world, the Department's acquisition process has at times run into problems such as dramatic cost increases, late deliveries, and significant performance shortfalls - wasting billions of dollars in critical funding.

"Cost increases and business management weaknesses damage our government's ability to provide our men and women in the military with the resources and weapons that keep us safe. While we obviously have a lot of work ahead of us to improve the efficiency and effectiveness of military spending, I believe this amendment is a simple way to work with the Department to make certain that award and incentive fees are being used to maximize its return on investment and provide soldiers with needed capabilities at the best value for the taxpayer."

Specifically, Castle's amendment would:

- Ensure Congress has appropriate oversight regarding the implementation of changes to the award and incentive fee process.
- Require DOD to develop a strategy for linking incentives to specific outcomes, such as meeting cost, schedule, and capability goals.
- Establish guidance for improving the effectiveness of award and incentive fees and ensure that appropriate approving officials oversee these decisions.
- Require DOD to report to Congress on the status and effectiveness of its progress in advancing these new standards.