

## Defense Contracting Practices Must be Changed -- May 2006

By: Delaware Congressman Mike Castle

As our brave soldiers continue efforts to bring peace and stability around the globe, it is essential that we ensure the Department of Defense is making the best, most efficient use of the resources and funding provided by the American taxpayers. Currently, the Pentagon spends over \$200 billion annually to acquire products and services from defense contractors - including everything from spare parts to major weapon systems, like the new F/A-22 Raptor fighter jet.

In an effort to encourage contractors to perform at the highest level possible, the Department often gives its contractors the opportunity to earn bonuses for exceptional work. Unfortunately, while there is no doubt that U.S. weapon programs continue to be the best in the world, these programs have repeatedly run into problems such as dramatic cost increases, late deliveries, and significant performance shortfalls - wasting billions of dollars in critical funding.

In response to these unacceptable setbacks, Congress recently asked the Government Accountability Office (GAO) to study the Department's use of these bonuses, known as award and incentive fees, and the role they play in military contracting. What GAO discovered is that the Pentagon constantly gives contractors second, third, and fourth chances to earn these bonuses, despite the fact that contractors rarely meet deadlines or perform exceptionally. As a result, GAO noted that, over the years, the Pentagon has wasted billions of dollars in award and incentive fees for defense contracts, regardless of whether acquisition outcomes met the Department's expectations.

We need to end these egregious practices, which frankly have become commonplace. In the defense community, bonuses are expected, not earned. They are no longer considered incentives to efficiently complete the work, but 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.

Here are some of the most egregious examples:

- 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.

I recently authored an amendment that was attached to the FY 07 Department of Defense Authorization Bill, which would ensure that the Pentagon actually follows through in implementing GAO's recommendations. My amendment would

require the Department to develop a strategy for linking contractor incentives to specific outcomes, such as meeting cost, schedule, and capability goals. It would also establish guidance for improving the usefulness of defense bonuses and ensure that appropriate approving officials are overseeing these decisions.

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