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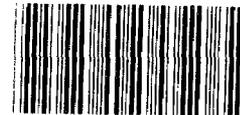
Testimony

For Release on  
Delivery  
Expected at  
10:00 a.m. EDST  
July 13, 1988

Procurement Irregularities at the  
U.S. Army Missile Command and the  
U.S. Army Strategic Defense Command,  
Huntsville, Alabama

Statement of  
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Before the  
Subcommittee on Legislation  
and National Security  
Committee on Government Operations  
House of Representatives



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Mr. Chairman, at your request, in 1987 we investigated three procurement irregularities at the Redstone Arsenal in Huntsville, Alabama. Two of our inquiries involved procurements by the U.S. Army Missile Command, which deals with billions of dollars of procurements annually. Between fiscal years 1983 and 1986, the Command's annual procurements increased by \$1.9 billion, or by 55 percent. Our third inquiry involved a procurement that was part of a multi-billion dollar research program of the U.S. Army Strategic Defense Command. Today, I will discuss the results of these investigations.

During our first investigation, we looked into the manner in which contracts were awarded to small businesses at the Missile Command. We discovered criminal activity within the system, which is under investigation by the Army Criminal Investigation Command, known as the Army CID, and the Federal Bureau of Investigation. Additionally, we found weaknesses, which I will now describe.

We found that the procurement system permitted the technical expert who prepared the contract specifications also to evaluate bidders. This practice would permit a single corrupt employee to customize specifications, then steer the bid to a select contractor. The Missile Command's Inspector General also found this weakness in the system and recommended corrective action.

Another of our findings concerned the Missile Command's time- and material-type contracts. The Command provides the government's cost estimates to its contract officers, who then examine proposed bids submitted by firms for these contracts.

A 1987 Missile Command study focused on 263 time-and-material contract actions. In 45 percent of the actions reviewed, contractors' bid proposals were within 1 percent of the government's cost estimates, suggesting that there might have been unauthorized releases of government estimates, or that contractors themselves prepared the government's cost estimates. Either practice compromises the government's ability to ensure a fair and reasonable price.

After the discovery of these problems within the procurement system, the Commander of the Missile Command initiated corrective action. He issued a regulation prohibiting the same employee from preparing contract specifications and then evaluating bids for it. The Commander also required the government employee who prepares the government estimates to certify that the preparation was done independently.

Our second investigation focused on a five-year contract for base support activities, including maintenance, food service, and equipment repair. We coordinated our investigation with the

Army CID. The contract, now valued at more than \$250 million, was won by a joint venture between two firms, the Holmes and Narver Corporation and the Morrison-Knudsen Corporation. Previously, the base support activities were performed by government employees.

This investigation revealed evidence of a pattern of abuse by the contractor and its subcontractors, including illegal activities, currently being investigated by the Army CID.

- According to witnesses, in some instances labor hours were substantially overstated by falsifying time sheets, resulting in excessive charges to the government. For example, a 45-minute job was inflated to reflect 23 hours of work. In another instance, a crew of eight workers watched idly as two individuals painted stripes on a parking lot. Frequently idle workers were instructed by contractor management officials to hide from government inspectors.
  
- Witnesses told us that to cover for falsified labor charges, materials had to be expended, and building supplies were given away to contract workers and government employees. Materials such as paint were discarded in dumpsters and, at other times, thrown into the Tennessee River.

- We sampled labor charges for the maintenance of the government's fleet of vehicles. Focusing only on excessive costs for oil changes and chassis lubrication, we determined that, based on standard maintenance manuals, the government was overcharged by 262 percent, or 5,000 hours, each year. This type of charge attempted to justify the excessive costs for that year, and created an inflated cost history for future projected increases in the contract. In fact, the five-year contract has increased over its original bid by more than \$100 million.
  
- According to our review of records and interviews of both subcontractor and government employees, we found that one subcontractor charged the government wages for no-show employees. These no-show employees not only did not work at Redstone Arsenal, but did not work anywhere in the state of Alabama. This firm also charged the government approximately \$86,000 for nonexistent repair parts. Furthermore, the firm counterfeited and later submitted to the government bills for nonexistent vehicle leases from a fictitious car-leasing firm.
  
- Another subcontractor grossly inflated labor costs for communications equipment repair, according to the employees and on-site management of the firm. It also charged for nonexistent equipment and parts for radio repairs, as well

as maintenance that was never performed. While charging the government for expensive parts, the firm substituted less expensive parts.

- The contract of a third subcontractor was modified and increased by more than \$4 million annually. The firm's proposal stated that \$1.6 million of the \$4 million would be subcontracted to service providers. Instead, according to information we developed in interviews of company management, the firm performed the work itself, which resulted in a significant savings. The firm also hired a number of apprentices rather than journeymen, as they had represented in their proposal to the government. The firm realized a \$1.5 million profit on this \$4 million contract increase. The government was not informed that the firm did not follow the proposal, and failed to verify the actual costs. As a result, the firm was allowed to keep this entire savings, and its project manager was given a \$200,000 bonus. His entire annual salary only amounted to \$40,000.

In addition, witnesses told us of a very close association between a subcontract manager and a government official who had oversight responsibility for the subcontract. Several people knew of the government official receiving gratuities, such as free drinks. A former manager of a nightclub frequented by the government official estimated the free drinks provided to the

official amounted to hundreds or even thousands of dollars. One person witnessed the government official providing sensitive procurement data to this subcontract manager that concerned a proposal between the government and the subcontractor.

Our investigation also identified an unusual provision in contracts between the joint venture and two of its subcontractors. This provision called for the subcontractors to split proceeds of labor-cost savings with the prime contractor. This would appear to encourage overestimates of costs to the government, and, if implemented, could be a violation of the Anti-Kickback Act. When we inquired about this clause, the contractor immediately removed the provision from its subcontracts in a written notice.

We also interviewed a former official of the joint venture, who stated that the contractor kept two sets of accounting books. The official advised that one set was maintained for government review, and the other to reflect the actual profits. The accounting books maintained for government review overstated the costs of labor and material. The official observed the dual set of books and discussed them with the finance manager, who was also troubled by this practice.

Our third investigation, also coordinated with the Army CID, revealed evidence of apparent favoritism in two contract awards by Lieutenant General John Wall, Commander of the Strategic Defense Command. Specifically, we discovered that General Wall showed favoritism toward an engineering consulting firm, BDM International, Inc.

In July 1986, General Wall directed that BDM be made the interim contractor for a major new research initiative, pending the award of a permanent contract. The Command knew that BDM intended to compete for this new contract.

Our investigation disclosed that on December 19, 1986, at General Wall's direction, a meeting was held to plan the acquisition strategy for this contract. At General Wall's invitation, a senior executive of BDM was present, and was the only contractor at the meeting. This gave BDM insight into this procurement and provided them with an apparent advantage over other potential contractors. Individuals at the meeting have stated that they felt the presence of a BDM executive was inappropriate and gave the meeting a bad appearance.

In our review of this procurement, we determined that in April 1987, 74 requests for bids were distributed to various potential bidders, but only one proposal, BDM's, was submitted.

BDM was awarded the seven-year, \$108 million contract on September 14, 1987.

Also in April 1987, the Strategic Defense Command offered a \$500 million contract for management and technical support. BDM competed for this contract, but lost to Teledyne Brown Engineering. Following this selection, General Wall directed that 240,000 hours of support effort be shifted from the Teledyne Brown contract to the research initiative, subsequently awarded to BDM. This could result in an expected increase in cost of approximately \$3.6 million, since BDM charges \$15 per hour more than Teledyne Brown for these services.

As I stated earlier, we jointly investigated the General Wall matter with the U.S. Army Criminal Investigation Command. CID found that the Commander violated the ethical standards of Army Regulation 600-50, "Standard of Conduct for the Department of the Army Personnel." In May 1988, the Vice Chief of Staff of the Army issued a written reprimand to General Wall. The following month, General Wall retired from active duty.

Mr. Chairman, this concludes my statement. We will be pleased to respond to any questions at this time.