

PETER DeFAZIO

Fourth District, Oregon

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HARKIN AND DEFAZIO RELEASE LIST OF FRAUD CASES AMONG TOP 100 PENTAGON CONTRACTORS

June 7, 2000

Press Release | Contact: Kristie Greco (202) 225-6416

WASHINGTON, DC— U.S. Senator Tom Harkin (D-IA) and U.S. Representative Peter DeFazio (D-OR) today released a list of procurement fraud cases among the top 100 Defense contractors from January 1995 to September 1999. The list was compiled by the General Accounting Office (GAO), the investigative arm of Congress, at Harkin's and DeFazio's request.

"Unfortunately, there is a continuing pattern of fraud and abuse at some of our nation's largest military contractors," Harkin said. "This report documents repeated cases of procurement fraud, kickbacks, and misuse of taxpayer funds. Yet, the Pentagon continues to carry on business as usual with the offending companies."

"The military-industrial complex will likely come up with dozens of excuses why the problem of criminal contractors is not widespread," said DeFazio. "But, multiple cases and multimillion dollar penalties defy such pathetic excuses. Congress has cracked down on individual criminals who commit multiple crimes, it's time to consider a 'three strikes and you're out' law for repeat criminal Pentagon contractors as well."

The GAO fraudulent contractor list includes:

- Eight criminal cases in which companies pled guilty and paid fines totaling \$66 million,
- 95 civil cases, including 94 settlements and one judgement, in which awards totaled \$368 million.
- Charges include procurement fraud, defective pricing, cost/labor mischarging, substitution/nonconforming product, undelivered product, contractor/subcontractor kickbacks, misuse/diversion of government furnished materials, and others.
- The companies include many of the largest defense contractors, including Lockheed Martin, McDonnell Douglas (now part of Boeing), Raytheon, and General Dynamics.

Not one of the companies in the list is currently debarred from federal contracts because of the fraud. As a key tool to punish and prevent fraud, federal procurement officers can debar or suspend companies (or pieces of companies) that commit fraud from future government contracts. Companies that are debarred are added to a list that is maintained by the U.S. General Services Administration and is available on the Internet at <http://epls.arnet.gov>. Some individuals involved with these cases have been debarred, but none of the companies or their divisions have been debarred.

The list is a follow-up to a list in a previous GAO report (NSIAD-95-166, Defense Contracting: Contractor Claims for Legal Costs Associated with Stockholder Lawsuits), which ran from October 1988 through December 1994 and which included 30 criminal cases with fines and restitution totaling \$414 million and 42 civil cases with awards totaling \$616

Scholarship Program million. Many of the same companies are on both lists (sometimes with multiple cases)

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DeFazio is offering an amendment to the FY 2001 Department of Defense Appropriations Bill, today in the House. The amendment would prohibit the DOD from entering into a contract with companies that violate the law more than three times.

The list of fraud cases among the top 100 Pentagon contractors is available upon request.

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Criminal and Civil Procurement Fraud Cases Involving Top 100 DOD Contractors, January 1995 Through September 1999

Table I: Criminal Procurement Fraud Dispositions

Case number	Contractor	Case type	Case disposition	Date of conviction	Criminal fine*	Restitution*
1	Beech Aircraft Corporation	Cost/labor mischarging	Pled guilty	5/12/95	\$200,125	\$417,500
2	Hughes Trailer Manufacturing Corporation	Defective pricing	Pled guilty	1/26/96	100,200	7,400,000
3	Liton Applied Technologies Division	Procurement fraud	Pled guilty	6/30/99	8,881,900	None
4	Liton Systems Canada Limited	Procurement fraud	Pled guilty	6/30/99	8,882,700	None
5	Lockheed Aeronautical Systems Company International Sales	Procurement fraud	Pled guilty	1/27/95	21,900,200	3,000,000
6	Phillips Electronics North America	Substitution/non-conforming product	Pled guilty	6/5/95	9,003,600	None
7	Sequa Corporation, Kollsman	Procurement fraud	Pled guilty	3/19/96	50,125	350,000
8	Stewart & Stevenson Services, Incorporated	Defective pricing	Pled guilty	12/19/97	5,000,400	1,250,000
Total					\$53,919,250	\$12,417,500

*All figures shown in then year dollars.

Source: Data obtained from the DOD Inspector General and the Department of Justice.

Criminal and Civil Procurement Fraud Cases Involving Top 100 DOD Contractors, January 1995 Through September 1999

Table II: Civil Procurement Fraud Settlements

Case number	Contractor	Case type	Case disposition	Date of settlement	Award to the government*
1	Alliant Techsystems Incorporated	Procurement fraud	Settlement	8/23/99	3500,000
2	Alliant Techsystems Incorporated	Cost/labor mischarging	Settlement	1/21/99	350,000
3	Alliant Techsystems Incorporated	Defective pricing	Settlement	9/29/97	228,750
4	Alliant Techsystems Incorporated, Aerospace Division	Cost/labor mischarging	Settlement	3/30/98	4,500,000
5	Alliant Techsystems Incorporated	Procurement fraud	Settlement	6/28/95	12,000,000
6	Allied Signal Incorporated	Procurement fraud	Settlement	6/22/99	200,000
7	Allied Signal Incorporated	Procurement fraud	Settlement	12/10/98	89,430
8	Allied Signal Incorporated/Science Application International	Procurement fraud	Settlement	9/20/97	125,000
9	Atlantic Research Corporation	Cost/labor mischarging	Settlement	7/31/95	150,000
10	BDM International Incorporated, BDM Corporation	Cost/labor mischarging	Settlement	3/1/96	375,000
11	Bell Helicopter Textron Incorporated	Procurement fraud	Settlement	12/31/98	450,000
12	Bell Helicopter Textron Incorporated	Defective pricing	Settlement	10/8/97	40,000
13	Brown & Root	Procurement fraud	Settlement	5/1/95	566,899
14	Ceridian Corporation	Defective pricing	Settlement	2/12/98	118,000
15	Ceridian Corporation, Computing Devices International	Cost/labor mischarging	Settlement	11/20/97	625,000
16	Coastal Corporation	Procurement fraud	Settlement	8/1/99	1,000,000
17	DynCorp	Procurement fraud	Settlement	1/4/95	250,000
18	Eaton Corporation	Procurement fraud	Settlement	4/7/95	292,963
19	E-Systems, Incorporated	Cost/labor mischarging	Settlement	12/8/98	350,000
20	FMC Corporation	Procurement fraud	Judgment	12/24/98	87,139,005
21	FMC Corporation/United Defense	Procurement fraud	Settlement	9/30/95	13,000,000
22	General Dynamics Corporation	Procurement fraud	Settlement	2/9/95	1,800,000
23	General Electric Company Incorporated	Substitution/non-conforming product	Settlement	9/25/98	3,500,000
24	General Electric Aircraft Engines	Misuse/diversion of Government furnished materials	Settlement	12/3/98	250,000
25	General Electric Aircraft Engines	Procurement fraud	Settlement	1/10/97	950,000

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Criminal and Civil Procurement Fraud Cases Involving Top 100 DOD Contractors, January 1995 Through September 1999

Case number	Contractor	Case type	Case disposition	Date of settlement	Award to the government
26	General Electric Aircraft Engines	Substitution/non-conforming product	Settlement	8/31/95	7,181,140
27	GTE Corporation, Government Systems Division	Substitution/non-conforming product	Settlement	7/5/95	10,300,000
28	Harris Corporation	Defective pricing	Settlement	4/30/95	1,500,000
29	Harris Corporation	Undelivered product	Settlement	6/25/97	529,627
30	Hensel Phelps Construction Company	Progress payment claim	Settlement	6/10/97	35,596
31	Honeywell Information Systems	Cost/labor mischarging	Settlement	4/4/96	592,779
32	Hughes Aircraft Company	Substitution/non-conforming product	Settlement	7/27/99	2,113,000
33	Hughes Aircraft Company	Substitution/non-conforming product	Settlement	8/5/97	500,000
34	Hughes Aircraft Company	Substitution/non-conforming product	Settlement	9/6/96	4,050,000
35	Hughes Electronic Technologies Incorporated	Procurement fraud	Settlement	12/8/97	5,000,000
36	Hunt Building Corporation	Undelivered product	Settlement	2/3/99	8,000,000
37	Ingalls Shipbuilding Incorporated	Cost/labor mischarging	Settlement	11/30/98	2,250,000
38	Israel Aircraft Industries, Limited	Defective pricing	Settlement	7/17/95	8,500,000
39	ITT Barton	Voluntary disclosure Substitution/non-conforming product	Settlement	12/12/96	262,500
40	ITT Corporation, ITT Defense, Incorporated, Electro-Optical	Voluntary disclosure Defective pricing	Settlement	4/25/96	843,633
41	Jacobs Engineering Group, Incorporated	Procurement fraud	Settlement	3/30/95	260,000
42	Lear Astronics Corporation, Developmental Science Corporation	Voluntary disclosure Procurement fraud	Settlement	12/19/97	1,000,000
43	Lockheed Aeronautical Systems Company	Cost/labor mischarging	Settlement	7/14/97	202,500
44	Lockheed Aeronautical Systems Company	Contractor/sub-contractor kickbacks	Settlement	11/21/95	146,000
45	Lockheed Martin Control Systems Division	Defective pricing	Settlement	1/12/98	7,870,177
46	Lockheed Martin Federal Systems	Substitution/non-conforming product	Settlement	7/1/97	200,000
47	Loral Electronics Systems	Defective pricing	Settlement	1/10/95	1,550,000
48	Loral Federal Systems Company	Cost/labor mischarging	Settlement	9/18/96	17,272
49	Marin Marietta Corporation	Procurement fraud	Settlement	12/20/96	2,252,501

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Criminal and Civil Procurement Fraud Cases Involving Top 100 DOD Contractors, January 1995 Through September 1999

Case number	Contractor	Case type	Case disposition	Date of settlement	Award to the government*
50	Marin Marietta Electronic Systems MMES	Defective pricing	Settlement	4/9/96	1,172,062
51	McDonnell Douglas Corporation	Defective pricing	Settlement	8/13/98	1,860,000
52	McDonnell Douglas Corporation	Procurement fraud	Settlement	12/1/97	2,000,000
53	McDonnell Douglas Aircraft Company	Cost/labor mischarging	Settlement	11/19/97	2,000,000
54	Motorola Incorporated	Cost/labor mischarging	Settlement	10/8/98	448,817
55	Motorola Incorporated	Procurement fraud	Settlement	3/17/97	217,295
56	Motorola Incorporated, Codex	Voluntary disclosure Buy America Act	Settlement	6/7/95	294,385
57	National Steel and Shipbuilding Company	Cost/labor mischarging	Settlement	7/16/98	320,000
58	Northrop Grumman Aerospace Corporation	Cost/labor mischarging	Settlement	6/30/99	145,250
59	Northrop Hawthorne Division	Defective pricing	Settlement	11/26/96	1,500,000
60	Northrop Corporation	Procurement fraud	Settlement	4/23/96	100,000
61	Northrop Aircraft Division	Procurement fraud	Settlement	6/23/95	4,000,000
62	Olin Corporation	Voluntary disclosure Substitution/non-conforming product	Settlement	9/11/96	8,000,000
63	Olin Corporation, Chemicals Group	Defective pricing	Settlement	11/15/98	200,000
64	Philip Holzmann GmbH	Procurement fraud	Settlement	10/31/95	1,644,737
65	Philips Components, Discrete Products Division	Substitution/non-conforming product	Settlement	2/25/96	49,641,143
66	Philips Electronics North America	Substitution/non-conforming product	Settlement	2/26/96	6,050,857
67	Pratt & Whitney, United Technology, Aircraft Division	Procurement fraud	Settlement	5/20/97	14,800,000
68	PRC Incorporated	Cost/labor mischarging	Settlement	12/1/97	200,000
69	Randtron Systems Incorporated	Defective pricing	Settlement	10/18/96	500,000
70	Raytheon Company	Contractor/sub-contractor kickbacks	Settlement	6/30/96	115,370
71	Raytheon Company	Defective pricing	Settlement	11/30/97	2,099,042
72	Raytheon Company	Substitution/non-conforming product	Settlement	2/13/96	82,000
73	Raytheon Company, Electronics Component Division	Substitution/non-conforming product	Settlement	8/31/95	95,000
74	Raytheon Company, Missile Systems Division	Cost/labor mischarging	Settlement	4/9/96	2,700,000
75	Rockwell International	Progress payment claim	Settlement	7/31/95	23,852,000
76	Rockwell International Auto Systems Division	Defective pricing	Settlement	6/12/95	260,000

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Criminal and Civil Procurement Fraud Cases Involving Top 100 DOD Contractors, January 1995 Through September 1999

Case number	Contractor	Case type	Case disposition	Date of settlement	Award to the government
77	Science Applications International Corporation	Substitution/non-conforming product	Settlement	12/18/95	2,500,000
78	Science Applications International Corporation, Health Care Technology	Voluntary disclosure Cost/labor mischarging	Settlement	2/15/98	1,124,850
79	Semcar Incorporated	Cost/labor mischarging	Settlement	5/15/98	2,800,000
80	Teledyne Electronic Systems Incorporated	Procurement fraud	Settlement	8/21/95	794,718
81	Teledyne Electronic Systems Incorporated	Cost/labor mischarging	Settlement	10/22/97	13,950,000
82	Teledyne Electronic Systems Incorporated	Substitution/non-conforming product	Settlement	11/7/95	2,000,000
83	Teledyne Incorporated	Defective pricing	Settlement	1/18/99	1,957,760
84	Teledyne Neosho	Cost/labor mischarging	Settlement	12/10/96	3,918,750
85	Teledyne Thermatics	Substitution/non-conforming product	Settlement	12/20/96	6,750,000
86	Texas Instruments Incorporated	Voluntary disclosure Substitution/non-conforming product	Settlement	7/31/95	36,784
87	Textron Incorporated, Aerostructures	Defective pricing	Settlement	11/9/98	8,800,000
88	Textron Incorporated	Procurement fraud	Settlement	5/12/95	100,000
89	Unisys Corporation	Voluntary disclosure Substitution/non-conforming product	Settlement	12/31/98	2,250,000
90	Unisys Corporation	Cost/labor mischarging	Settlement	3/10/95	165,592
91	United Technologies Corporation	Defective pricing	Settlement	5/7/99	304,729
92	United Technologies Optical Systems	Cost/labor mischarging	Settlement	11/18/97	150,000
93	Vitro Corporation	Cost/labor mischarging	Settlement	3/31/97	139,566
94	Westinghouse Electric Corporation	Cost/labor mischarging	Settlement	1/13/95	1,803,188
95	Westinghouse Electric Corporation	Cost/labor mischarging	Settlement	1/29/99	450,000
Total					\$368,388,623

Dollars shown in then year dollars.

Source: Data obtained from the DOD Inspector General and the Department of Justice.