

October 25, 2012

Chairman Carl Levin Ranking Member John McCain Senate Armed Services Committee SR-228 Russell Senate Office Building Washington, DC 20510 Chairman Buck McKeon Ranking Member Adam Smith House Armed Services Committee 2120 Rayburn House Office Building Washington, DC 20515

Dear Chairmen and Ranking Members:

We understand your staff members are currently engaged in conversations about how to reconcile the House and Senate versions of the National Defense Authorization Act for Fiscal Year 2013 (NDAA, H.R. 4310 and S. 3254) in advance of the upcoming lame duck legislative session. To help inform your discussions, we have identified specific provisions we hope you will include in the final bill that reaches the President's desk for signature.

Founded in 1981, the Project On Government Oversight is a nonpartisan independent watchdog that champions good government reforms. POGO's investigations into corruption, misconduct, and conflicts of interest achieve a more effective, accountable, open, and ethical federal government. For many years, POGO has closely examined Pentagon and national security spending and proposed reforms to reduce wasteful spending that doesn't meet national security needs and to increase accountability to taxpayers. For example, this year we identified more than \$600 billion in savings with Taxpayers for Common Sense in our *Spending Even Less*, *Spending Even Smarter* recommendations. Last year, our *Bad Business* report revealed the government is wasting billions of dollars by outsourcing services to contractors, who charge taxpayers, on average, more than two times what comparable services cost in the rest of the private sector.

Naturally, several of the measures we urge you to include in the NDAA will increase government accountability to taxpayers. These range from strengthening protections for whistleblowers to increasing contractor accountability to improving information about how the Pentagon spends taxpayer dollars. Our recommendations also detail big savings, including cuts to wasteful spending in the Pentagon budget and costly, unnecessary nuclear weapons programs. Cancelling or delaying these programs can not only be done without putting U.S. security at risk but would, in fact, strengthen our national security by making the programs more efficient, effective, and accountable. Our national security ultimately depends upon our economic security, and reshaping the Pentagon budget is necessary to getting our fiscal house in order.

We appreciate that the Senate version hews more closely to requests for funding made by military leaders and spends around \$4 billion less than the House proposes, but we urge you to do even more to rein in runaway spending by the Pentagon. Most agree the looming sequester from the budget deal isn't the ideal way to do this, but as you sort out another alternative, you must not protect the largess of Pentagon spending. The Pentagon budget must remain significantly and substantially on the table.

While we write to focus your attention on the sections of the two versions of NDAA we support, we also flag some critical reforms that are not yet adequately addressed in either bill. These are issues that require your attention due to significant events or information that has emerged since you last took action on the NDAA.

Furthermore, we urge you to promote a robust legislative process that ensures the strongest, most accountable national defense budget. POGO was pleased that the House Armed Services Committee (HASC) held open debate and votes on their version of the NDAA, and even webcast the markup. Though not every amendment we supported was allowed a vote when the House took up the bill on the Floor, they did debate and vote on some 141 amendments offered by dozens of members before passing the NDAA on May 18. On the other hand, most Senators have not yet had an opportunity to debate and vote on the bill that was marked up and passed almost entirely behind closed doors by the Senate Armed Services Committee (SASC). A bill of this importance with such far-ranging policies and proposed spending of \$634-\$637 billion taxpayer dollars deserves the most open and meaningful debate possible.

To that end, we urge Senate leadership to allow adequate time for debate and amendments to the NDAA on the Senate Floor. We hope the House and Senate versions of the bill will then be reconciled by a conference committee that meets openly with the proceedings webcast so that all Americans can witness how these critical decisions that greatly impact our national security and economy are made.

For your consideration, the following are our picks for the best reforms from the House and Senate versions of the NDAA:

Whistleblower Protections

Enhance Whistleblower Protections for Contractor Employees: Support Section 844 of S. 3254

POGO has long advocated for better protections for federal contractor whistleblowers who tell the truth about waste, fraud, abuse, and illegality. Encouraging contractor whistleblowers to come forward is a critical way to rein in wasteful spending, particularly given the amount of spending on defense contractors. There is a real public interest in providing a safe avenue for *all* employees of entities that receive federal funds to make disclosures without fear of retaliation or reprisal. But the existing patchwork of laws contains gaping accountability loopholes, protecting only some contractors and federal-fund recipient employees who blow the whistle, and only under very limited circumstances.

In April, the Senate Homeland Security and Governmental Affairs Committee (HSGAC) passed Senator Claire McCaskill's (D-MO) Non-Federal Employee Whistleblower Protection Act of 2011 (S. 241), cosponsored by Jim Webb (D-VA) and Jon Tester (D-MT). In September, Representatives Jackie Speier (D-CA) and Todd Platts (R-PA) introduced the bipartisan House companion bill (H.R. 6406).

While we continue to support passage of this legislation to increase accountability for all federal funds, we applaud SASC for approving a similar provision in the NDAA to strengthen whistleblower protections for employees of DoD fund recipients (Sec. 844 of S. 3254). We urge you to ensure this section is in the final version of the NDAA.

Wasteful Spending in the Pentagon Budget

More Accountability on the Littoral Combat Ship: Support Sections 128 and 129 of H.R. 4310, and Sections 127 and 251 of S. 3254

As you know, the Navy plans to procure 55 littoral combat ships (LCS) to engage in mine sweeping, counter submarine warfare, and surface warfare. There are two variants of the LCS: one built by a team led by General Dynamics (GD) and Austal USA, which costs \$345.8 million per ship; and the other built by a team led by Lockheed Martin, which costs \$12 million more per ship, coming in at \$357.5 million each. However, according to the DoD's testing office's FY 2011 Annual Report, both variants are "not expected to be survivable in a hostile combat environment." In addition, a POGO investigation found that the Lockheed Martin variant has been beset by cracks, corrosion, and equipment (including engine) failures.

The *Armed Forces Journal* has noted that, "With dozens of different systems on each design, sailors qualified to serve on one LCS or the other are no more qualified to serve on the other LCS class than an amphibious sailor." This will ultimately increase personnel costs and decrease military readiness. If the 31 LCS scheduled to be purchased from FY 2013 to FY 2022 were bought from GD/Austal, taxpayers could save \$187.2 million in procurement costs, and untold more in operating and support costs. Senator Tom Coburn (R-OK) recently blasted the decision to build two very different versions of this ship, and noted that "From the four ships being constructed this year, the waste may amount to at least \$148 million." Additionally Senator Coburn pointed out that cost isn't the only problem, as "having two separate lines will likely undermine the Navy's strategic flexibility."

Although POGO will continue to call for cancellation of the Lockheed variant after the initial 20-ship buy, we support the studies required in both versions of the NDAA. During the House markup of H.R. 4310, HASC passed an amendment (see Sec. 128 and 129) requiring the Government Accountability Office (GAO) to conduct a review of the LCS program. The amendment, offered by Representative Speier, requires GAO to investigate cracks, equipment failures, engine breakdowns, weld quality, and other matters related to the ships' performance and cost.

Similarly, Section 127 of S. 3254 requires the Secretary of Defense to submit a report, with respect to development and production of each variant, setting forth cost schedule and performance information to congressional defense committees. Section 251 requires the Secretary of the Navy to produce an LCS mission modules report with a plan for demonstrating survivability and lethality of the LCS sufficiently early in the development phase. These are common-sense measures that should be included in the final version of the NDAA.

Government Contracting Accountability

Support Anti-Trafficking in Government Contracting Provision: Support Sections 1701-1709 of H.R. 4310

POGO applauds the House for passing Representatives James Lankford (R-OK) and Gerry Connolly's (D-VA) important bipartisan amendment to the NDAA that would help stop contractors from using U.S. taxpayer dollars to fund human trafficking (see Sec. 1701-1709 of H.R. 4310). Thousands of third country nationals have ended up in U.S. war zones because they have fallen victim to human traffickers and often owe excessive recruiting fees. Under the aegis of the U.S. government, modern-day slavers have been providing support for U.S. troops and missions abroad.

Last year, the Commission on Wartime Contracting issued a report saying it had uncovered evidence of the recurrent problem of human trafficking in Iraq and Afghanistan by labor brokers and subcontractors. Commissioner Dov Zakheim later told a Senate panel that the Commission had only scratched the "tip of the iceberg." Because existing prohibitions on trafficking have failed to suppress it, the Commission recommended strengthening enforcement tools.

The amendment to the NDAA was based on Representative Lankford's bill, the End Trafficking in Government Contracting Act of 2012, which included POGO's recommendations for ending human trafficking in U.S. war zones. Senator Richard Blumenthal (D-CT) and a number of cosponsors introduced the companion bill in the Senate. The Lankford-Connolly anti-human trafficking amendment would close loopholes in existing regulation and increase enforcement capabilities. It would require companies to closely monitor and report the activities of their subcontractors down the supply chain. It would also expand the definition of "fraudulent recruiting" to apply to laborers who work on U.S. government contracts outside the U.S., mandating responsible labor recruitment practices, including the prohibition on charging recruited employees "exorbitant placement fees."

On September 25, President Obama signed an Executive Order, Strengthening Protections Against Trafficking in Persons in Federal Contracts, significantly expanding the scope of existing anti-trafficking policies and regulations. However, Congress must put these policies into statute with the "teeth" of enforcement and criminal penalties found in Sections 1701-1709 of H.R. 4310. We hope that the outpouring of support from the House, Senate, and current Administration will encourage you to ensure that this measure is included in the NDAA.

Limit Contractor Employee Compensation Caps: Support Section 842 of S. 3254

An amendment by Senator Joe Manchin (D-WV), which was approved by the SASC, builds on legislation—the Commonsense Contractor Compensation Act of 2012 (S. 2198), introduced by Senators Barbara Boxer (D-CA) and Charles Grassley (R-IA), and the Stop Excessive Payments to Government Contractors Act of 2011 (H.R. 2980), introduced by Representative Paul Tonko (D-NY)—to reduce taxpayer reimbursement of lavish compensation paid to defense contractor employees. Currently taxpayer dollars can be used to compensate contractor employees at more than three times what the President is paid.

The SASC's Subcommittee on Military Readiness approved a measure to reduce the cap on defense contractor compensation, which was then further reduced when the full Committee passed Section 842 of the NDAA (S. 3254). POGO applauds SASC for moving to reduce the compensation cap from more than \$763,000 to \$230,700. Unfortunately, the House was not allowed to debate or to vote on Representatives Tonko and Speier's proposed companion amendment. However, there has long been bipartisan, bicameral support for reform on this issue. Last year, Congress expanded the cap to apply to more employees.

Contractors should not be able to bill taxpayers more than the President's salary for the compensation of their employees. Additionally, over the past dozen years, the increase in allowable government compensation to contractors has outpaced inflation by 53 percent. A reduction of the cap does not limit how much contractors may pay their employees working for the DoD—it only reduces the amount the government will reimburse them. The ever-expanding compensation benchmark needs a correction, especially considering the efforts to reduce spending by freezing the salaries of federal employees.

We hope the final version of the NDAA will include the Senate's crucial provision, thereby reducing taxpayer-funded contractor employee compensation. It would go a long way toward reining in the costs of the growing shadow government.

Don't Allow Commercial Misnomer to Bilk Taxpayers: Support Section 841 of S. 3254

For over ten years, POGO has highlighted concerns about the use and proliferation of so-called commercial item procurements. Since the mid-1990s, the government has been buying "commercial" goods and services that are not actually sold in the commercial market. Making matters worse, these purchases are often made without any oversight of the cost data that leads to the final price the contractors are proposing.

After numerous studies and findings of abuse, the DoD offered an important legislative proposal to better define so-called commercial items, a proposal that would save billions of dollars. Unfortunately, the House did not have an opportunity to vote on the NDAA amendment Representative Leonard Boswell (D-IA) offered, which was based on the DoD proposal. SASC, however, included a provision in S. 3254 that would authorize DoD to request additional contractor cost or pricing data where necessary to evaluate the price reasonableness of commercial items (Sec. 841). A change is required in order to save money and better protect taxpayer dollars. We support this provision as a logical reform, but also urge your support of DoD's stronger proposal in order to get a handle on commercial item spending.

Increase Accountability in Wartime Contracting: Support Sections 822, 861-865, 881-883, and 1245 of S. 3254

The Senate version of the NDAA contains a series of wartime contracting provisions drawn from the Comprehensive Contingency Contracting Reform Act of 2012 (S. 3286, formerly S. 2139), a bill that would greatly enhance transparency, sustainability, and accountability in overseas contingency operations (OCO) contracting by DoD. Senators McCaskill and Webb introduced the bill in response to the recommendations of the Commission on Wartime Contracting. These provisions in Sections 822, 861-865, 881-883, and 1245 include better reporting, risk assessment, and responsibilities regarding wartime contractors.

Specifically, Section 861 of S. 3254 requires the Secretary of Defense to delineate the chain of responsibility within DoD for policy, planning, and execution of contract support for OCO. According to the SASC report language, "The provision recommended by the committee would require the Department to institutionalize these changes and ensure that the DoD's management structure provides clear authority and responsibility for the planning of contract support; the establishment and validation of contract requirements; the identification of resources and prioritization of funding needs; the award and execution of contracts; and the oversight and management of contractors in the field." Requiring the clear-cut designation of the party responsible for contract support oversight in contingency operations is good policy.

Also worth highlighting, Section 864 of S. 3254 requires DoD to perform a comprehensive risk assessment and develop a risk mitigation plan for risks associated with contractor performance of critical functions in support of OCO. POGO believes that requiring DoD to consider the long-term risks associated with using contractors to support contingency missions, a role traditionally filled by the U.S. military and government workers, and come up with a way to mitigate those risks is a common-sense measure. We urge you to include Sections 822, 861-865, 881-883, and 1245—provisions which reflect the Commission on Wartime Contracting's balanced recommendations for enhanced oversight in wartime contracting—in the final version of the NDAA.

Wasteful Spending on Nuclear Weapons Programs

Stop Rollbacks of Oversight at Nuclear Weapons Labs: Support the Approach in S. 3254 and Oppose Sections 3114, 3115, and 3202 of H.R. 4310

After an 82-year-old nun broke into the so-called "Fort Knox" of uranium this summer, there is no question that there is a tremendous lack of oversight of the Department of Energy's semiautonomous National Nuclear Security Administration (NNSA) laboratory system. POGO is deeply concerned by HASC's attempt to roll back public health, safety, security, and financial oversight at these troubled nuclear weapons labs.

Sections 3114 and 3115 of H.R. 4310 eliminate Department of Energy oversight of the nuclear laboratory complex and establish an NNSA Council composed of national security labs and nuclear weapons production facilities directors. Under these provisions, NNSA will, in effect, be overseeing its own compliance with the law. Section 3115 also lowers health and safety standards.

Section 3202 dangerously weakens oversight by the Defense Nuclear Facilities Safety Board (DNFSB), a Department of Energy advisory body. The DNFSB's recommendations to the Secretary of Energy play a vital role in ensuring the safety and security of nuclear workers and the American public, and its ability to make independent recommendations must not be compromised.

Unfortunately, the House was not allowed to vote on an amendment to the NDAA proposed by Representatives George Miller (D-CA), Peter Visclosky (D-IN), and Loretta Sanchez (D-CA to remove these sections and prevent this dangerous rollback. We were glad to see that SASC did not include the same rollbacks of lab oversight in S. 3254. It is imperative that the provisions approved in the House not be included in the final version of the NDAA.

Critical Issues Requiring Your Attention

Should the Senate properly consider the NDAA, and allow all Senators an opportunity to offer amendments on the Floor, it's difficult to say what amendments we might specifically support or oppose. However, there are several issues we think are important to consider as you reconcile the bills and discuss potential amendments or revisions. These are issues that require attention due to significant events or information that has emerged since you last took action on the NDAA. We urge you to address the following issues in the NDAA:

Freeze the Pentagon Budget

In July, the House passed an important bipartisan amendment offered by Representatives Mick Mulvaney (R-SC) and Barney Frank (D-MA) to the Defense Appropriations Act for Fiscal Year 2013. The Mulvaney-Frank amendment freezes Pentagon spending at the FY 2012 level of \$518 billion (excluding spending on military personnel, the Defense Health Program, and the overseas contingency operations from the freeze). It is a modest \$1.1 billion reduction of HASC's currently proposed defense budget and it would still authorize more than the Pentagon's requested amount. However, it begins to rein in runaway spending by the Pentagon. Nearly 300 Republicans and Democrats in the House voted for the freeze, which also has broad support from several groups with diverse interests and ideologies representing hundreds of thousands of supporters and members. The final version of the NDAA that reaches the President's desk for signature should include a similar Pentagon spending freeze—or better yet, should include even deeper cuts.

Restore Whistleblower and Merit System Protections for Employees Labeled "Sensitive"

We urge you to reestablish federal workers' long-standing congressionally mandated rights under the Civil Service Reform Act of 1978, which were recently thrown out in *Berry v. Conyers and Northover*. Rhonda Conyers was a GS-7 accounting technician with the Defense Finance and Accounting Service, and Devon Northover was a GS-7 management specialist for the Defense Commissary Agency. When their positions were labeled as "sensitive"—not because they had access to classified information or needed a security clearance, but because the position might at some point require a security clearance—they were deemed ineligible for those positions. Conyers was fired and Northover was demoted. Both appealed to the Merit Systems Protection Board (MSPB), and in 2010 the Board decided it could indeed review the cases on the grounds that neither job required access to classified information. The Federal Circuit has now overturned that ruling in a decision that could have grave implications for whistleblowers throughout the federal government.

In the words of dissenting Judge Timothy Dyk, the majority held that whenever "an employee's position is designated as a national security position, the Board lacks jurisdiction to review the underlying merits of any removal, suspension, demotion, or other adverse employment action covered by 5 U.S.C. § 7512." So, for any employee removed from a "sensitive" position, "national security procedures will replace civil service appeals and merit system rights." Agencies now have a free hand to willy-nilly label workers and then engage in adverse employment actions with little or no oversight or recourse for these workers.

This ruling severely limits federal employees' access to recourse through the merit system, and it could have disastrous consequences for hundreds of thousands of federal workers (at least 500,000 at DoD alone). The Federal Circuit Court's decision in *Conyers* could have especially severe repercussions for federal workers fighting discrimination or retaliation for whistleblowing. POGO hopes you will take action in the NDAA to reaffirm congressionally mandated merit system protections for employees no matter how an agency might label them.

Eliminate Unrequested Funding for the M1 Tank

In 2011, the House appropriated \$272 million beyond the DoD's request for the Abrams M1 A2 SEP (System Enhancement Package) tank line. Now for FY 2013, Congress is again attempting to procure more tanks than the Army says it needs. The tanks—33 in total—will cost taxpayers approximately \$230 million. As CNN recently reported, the Army has 2,000 of these tanks just sitting in a field in California. Importantly, the Army's own Chief of Staff, General Raymond T. Odierno, says the Army has more than enough tanks. Congress has a long history of forcing on the military more than it wants or needs to serve interests other than national security. Interest in putting an end to this example of force-feeding the military is growing. Recently, Representative Jack Kingston (R-GA) argued for stopping production of the Abrams tanks. Kingston told *Stars and Stripes* that, "The tank has had a good run," but, "It's time to pull the plug." We hope you will support cutting funding for the M1 tank in the NDAA.

Review and Upgrade Pentagon Service Contract Spending

Over the past decade, spending on service contracts has eclipsed spending on goods. Unfortunately, the over \$300 billion spent on services each year is difficult to administer and oversee. A recent review by POGO points out the inconsistencies in DoD's claims about making cost-efficient policy and human capital decisions. DoD documents show that it expends between 2.35 and 3.53 times more of its funding on service contracts than on its civilian workforce, and the cost of an average contractor full-time equivalent is between 2.94 and 8.60 times more than an average DoD civilian full-time equivalent. In short, the numbers don't add up, and there need to be improvements in comparative cost modeling and service contracting data in order to control costs and protect taxpayers.

We urge you to request a GAO study of cost modeling systems to ensure DoD is able to maintain a balanced and cost-effective workforce as required by law. Additionally, POGO recommends that the NDAA for FY 2013 include improvements to the inventory of contract services that will allow DoD to better compare civilian and service contract costs.

Cancel the CMRR-Nuclear Facility at Los Alamos National Laboratory: Remove Sections 1058, 2804, and 4701 of H.R. 4310 and Section 3111 of S. 3254

After over a decade of planning, the Chemistry and Metallurgy Research Replacement-Nuclear Facility (CMRR-NF) is estimated to cost a staggering \$3.7 billion to \$5.9 billion, at least ten times more than its initial cost estimate of \$375 million. The proposed New Mexico facility would increase the United States' production of plutonium pits, a primary component of nuclear weapons. However, as POGO has argued, a growing body of scientific evidence and expert testimony shows that increased plutonium pit production is not necessary to national security and is actually counter to an American-Russian agreement to reduce each county's deployed nuclear weapons.

The NNSA told the President earlier this year to delay construction of the new facility by at least five years, saying that "existing infrastructure" could fulfill its proposed mission. And this September, the President signed a Continuing Resolution for the next six months that zeroed out funding for CMRR-NF. POGO has learned that NNSA has stopped preparing the site for the facility and is proposing to use two buildings at Los Alamos—the Plutonium Facility and the newly constructed Radiological Laboratory/Utility/Office Building—in addition to the nation's ample plutonium pit stockpile at the Pantex Plant, in order to maintain a reasonable supply of plutonium pits. The House and Senate Appropriations Committees rightly cut out funding for CMRR-NF in the Energy and Water Appropriations bills, but HASC and SASC both provided full funding for this costly facility-without-a-cause in the NDAA for FY 2013. In light of NNSA's own conclusion and the Continuing Resolution, it makes no sense to spend billions of taxpayer dollars on this nuclear boondoggle. The reconciled NDAA should halt funding for CMRR-NF.

Cancel the Uranium Processing Facility at Y-12 National Security Complex

Earlier this month, the NNSA acknowledged that the proposed Uranium Processing Facility (UPF) in Tennessee was, in fact, too small to fit all of the equipment needed to process bomb-grade uranium. This is only the latest in a slew of problems that have plagued UPF. The Army Corps of Engineers estimated earlier this year that UPF could cost taxpayers as much as \$7.5 billion, which is billions of dollars more than earlier Department of Energy estimates. Despite NNSA's record of mismanagement with UPF, the House NDAA for FY 2013 actually accelerates funding for the troubled facility. Other options exist. Officials at the Y-12 National Security Complex reported in 2007 that Building 9212 could be upgraded at a fraction of the cost of constructing UPF. Given the viable option of upgrading an existing facility, moving forward with UPF is completely unjustified.

Have NATO Pay or Cancel the B61 Life Extension Program in Europe

Originally built as a deterrent against the Soviets, the B61 gravity bomb is a holdover from the Cold War. The U.S. deploys or stores nearly half of these non-strategic bombs (about 200) in Europe, at a huge cost to U.S. taxpayers. The cost of refurbishing all of the bombs—a process known as a Life Extension Program (LEP)—is now estimated to cost a staggering \$10 billion, Senator Dianne Feinstein (D-CA) told Congress this summer. As nuclear policy experts recently calculated, "it would be less expensive to build solid-gold replicas of each of the 700-pound B61s, even at near-record gold prices," *Foreign Policy* reported in September. U.S. taxpayers will be expected to shoulder the burden of refurbishing the B61s in Europe, even though these bombs no longer serve a legitimate purpose. Other NATO nations need to step up and pay for this half of the B61 LEP if they believe maintaining the bombs is necessary. Additionally, Congress should ask for further research and analysis to determine whether the entire B61 LEP is, in fact, money well spent.

We appreciate your consideration of these important reforms, and we would welcome an opportunity to meet with you or your staff to discuss these issues. Please contact Angela Canterbury, POGO's Director of Public Policy, at acanterbury@pogo.org or 202-347-1122 for more information.

Sincerely,

Danielle Brian
Executive Director

Danielle Brian

cc: Senate Majority Leader Harry Reid and Minority Leader Mitch McConnell

House Speaker John Boehner and Minority Leader Nancy Pelosi

Members of the House and Senate Armed Services Committee

Chairman Daniel Inouye and Ranking Member Thad Cochran, Senate Appropriations Committee Chairman Harold Rogers and Ranking Member Norm Dicks, House Appropriations Committee Chairman Dianne Feinstein and Ranking Member Lamar Alexander, Senate Appropriations Subcommittee on Energy and Water

Chairman Rodney Frelinghuysen and Ranking Member Peter Viclosky, House Appropriations Subcommittee on Energy and Water

Chairman Joseph Lieberman and Ranking Member Susan Collins, Senate Homeland Security and Governmental Affairs Committee

Chairman Darrell Issa and Ranking Member Elijah Cummings, House Oversight and Government Reform Committee