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SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

HEARING: "Eliminating Wasteful Contractor Bonuses"

Opening Statement of Senator Thomas R. Carper, Chairman

My thanks to our witnesses for being here today to discuss what appears to be a very wasteful contracting practice.

About a year ago, Senator Coburn, Senator Sanders and I asked the Government Accountability Office to examine whether agencies were giving away what's known as "award-fees" to contractors and whether or not contractors really deserved them.

In the private sector, these payments would be called bonuses. They are intended to help incentivize contractors to deliver exceptional performance. In essence, the award fee is extra profit that the contractor can earn if they save the government money and deliver a superior product.

The practice of aligning performance to profit is not a new concept. It can lead to excellent results if used correctly. However, several recent controversies in the financial sector have shown that rewards and incentives that are not properly aligned with outcomes can often lead to failure.

Unfortunately, government agencies have made some of the same mistakes that private firms we hear about in the news have made over the years. Much to my disappointment, it seems that most agencies continue to struggle in figuring out how to manage award fees appropriately. In fact, the GAO has told us that agencies continue to hand out hundreds of millions of dollars to contractors for reasons that just don't make much sense. In one interview GAO conducted as part of its analysis, an Air Force official reportedly said that a contractor would have to do a "pretty bad job" just to receive 85% of the potential bonus, meaning, I assume, that a plain "bad job" might warrant 100 percent of a bonus. In another case, this time at the Department of Homeland Security, a contractor was cited for "egregious behavior" and yet still received an award fee.

Even when agencies do hold contractors' feet to the fire, they often give them second, and sometimes third chances to try and earn extra profit despite repeated failures. This practice, known as "roll-over," is meant to be used in limited situations when contractors aren't able to deliver for reasons outside of their control. Unfortunately, roll-over seems to have become the rule instead of the exception.

What is even more troubling to me is that senior management doesn't appear to be examining the results of award fees to see if they are incentivizing contractors to perform well. Instead, agencies continue to hand out billions of dollars in bonuses, assuming that they are getting the best result for the American tax payer. For instance, the GAO reported that the Department of Defense inappropriately paid $8 billion in award fees in 2005 alone. Only recently, four years later, have they started to analyze whether award fees are actually leading to improved performance.

This situation has caused many of us to question how, during a time when households around the country are tightening their budgets, federal agencies can continue to award extra profit to companies as if it is expected and not earned. It's as if you were at a restaurant and your waiter or waitress forgot your order, spilled your food on you and charged you for items you didn't get. Most of us wouldn't give that person a very big tip. But agencies are giving contractors who perform just as poorly everything they want.

Let me be clear, I am a strong believer that appropriate incentives – including bonuses – can lead to better performance. But I worry that, at the end of the day, agencies aren't aligning contractor profitability with performance. And in those cases when a contractor does fail to deliver, there needs to be consequences. Agencies can't keep giving contractors a second bite at the apple. We just can't afford to give contractors money and get nothing in return.

That said, I believe there may be some possible solutions that are currently being discussed and others that we may want to pursue. For example, after GAO exposed the fact that DOD contractors were continually given multiple opportunities to earn award fees, the use of this practice dropped dramatically. This has led to an estimated $450 million in savings in eight programs in which the "roll over" practice was once used. Perhaps this should be expanded to other agencies.

I don't see the logic of using award fees to incentivize contractors when we don't know whether or not it works. I get the sense that agencies are using this type of contracting because they don't know exactly what they want out of the contractors they do business with, let alone how it should be delivered. Instead of taking the time to lay out objective cost, schedule, and specific performance measures, agencies are using wasteful bonuses as a crutch.

In closing, I'm looking forward to hearing what our witnesses have to say about the ongoing efforts to get this issue under control and other possible solutions that will help to rein-in these wasteful contractor incentives.

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