

The Project on Government Oversight

Exposing Corruption : Exploring Solutions

POGO is an independent nonprofit that investigates and exposes corruption and other misconduct in order to achieve a more accountable federal government.

Lockheed Martin is second on the list of companies with "Most Instances of Misconduct"

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POGO Releases Updated Contractor Misconduct Database: Legislation Introduced Today

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The Project On Government Oversight (POGO) has found an additional 70 instances of misconduct and alleged misconduct that have cost the federal government's top ten contractors an additional \$357 million in pay outs to resolve the instances.

However, none of the top contractors have been suspended or debarred from doing business with the federal government in the last decade.

In all, POGO's new data, updated in the past year, shows that from 1990 through 2003 the top ten federal contractors had a total of 280 instances of misconduct and alleged misconduct and have paid over \$2.97 billion dollars in fines, penalties, restitution, settlements and cleanup costs. (see chart below of top ten contractors by number of instances, and examples of contractor misconduct allegations)

Among the new database additions are 14 new instances of misconduct or alleged misconduct by the Boeing Company, bringing the company's number to 50 since 1990.

The list also includes nine instances of violations by six contractors involving the sale of restricted technology or services to such countries as China, Russia, South Korea and Pakistan.

Regulations currently require that contracts only be awarded to "responsible" contractors with a satisfactory record of "integrity and business ethics." Despite these numerous instances of misconduct, the federal government continues to do business with the same companies.

"In 2002, nearly a third of government contract dollars went to the top ten contractors. Many of these companies are also on POGO's top ten misconduct list,"

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said Danielle Brian, executive director of POGO. "Why does taxpayer money continue to flow to contractors who cannot keep a clean track record?"

General Electric still tops the chart in POGO's new contractor database with 87 instances of misconduct and alleged misconduct and pay outs totaling more than \$990 million.

According to POGO's 2000-2001 update, GE had an additional 24 instances of misconduct or alleged misconduct and paid \$7.2 million in new pay outs.

Lockheed Martin was number two, with 84 instances of misconduct and alleged misconduct and pay outs of just over \$426 million - a 21 percent increase and \$194 million in new pay outs. Lockheed Martin made up 9% of government contracts in 2002, the most of any government contractor.

Despite the 50 instances of misconduct, Boeing - number three on POGO's list - is still being considered for a new \$16 billion handout to lease 100 converted B-767 tankers to the U.S. Air Force. The Air Force also appears to be ignoring the fact that former Boeing officials are the target of a current federal investigation into allegations that they illegally obtained Lockheed Martin Corp. documents to help Boeing win a huge government contract to launch military satellites.

Although POGO's investigation has documented a large number of instances of misconduct and alleged misconduct, the federal government currently does not possess any sort of database to record such abuse. Federal suspension and debarment officials do not have the necessary information to protect the American taxpayer's interests and account for government purchases.

Congresswoman Carolyn Maloney (D-NY), Congressman Peter King (R-NY), Congressman Gary Miller (R-CA), Paul Kanjorski (D-PA), Dennis Kucinich (D-OH), Edolphus Towns (D-NY), and Major Owens (D-NY) are introducing bipartisan legislation in the House today to help remedy the lack of access to contractors' records of misconduct as well as to strengthen enforcement of the government's debarment and suspension system.

The proposed legislation also would place the burden on the contractor to prove it is responsible and eligible for new contracts or assistance if it had two or more similar violations.

"The Federal Government should not be in the business of repeatedly rewarding contracts to companies who repeatedly break the rules," Congresswoman Maloney said in a written statement. "At a bare minimum, they should be able to keep a list of those who break the rules."

Click here to view POGO's updated Federal Contractor Misconduct Database.

Contractors with the Most Instances of Misconduct (1990 - 2003)		
Contractor	Instances of Misconduct	Total Fines, Penalties, and Alleged Misconduct and Settlements
General Electric	87	\$990,083,577
Lockheed Martin	84	\$426,162,291
Boeing	50	\$378,941,913
Northrop Grumman	36	\$310,429,431
Raytheon	31	\$156,576,914
United Technologies	23	\$215,287,702
General Motors	22	\$1,004,677,636
Textron	21	\$24,938,166
TRW	19	\$389,546,250
British Nuclear Fuels	18	\$78,490,620

Misconduct Highlights

Compromising National Security

- 2003: **Raytheon** allegedly attempted to export communications equipment to Pakistan from 1990 through 1997 in violation of United States export control laws. Raytheon paid a \$25 million settlement to resolve this matter.
- 2002: **Boeing** Satellite Systems and Hughes Electronics [a wholly owned subsidiary of **General Motors**] were charged with 123 violations of the Arms Export Control Act and the International Traffic in Arms Regulations. The charges included conspiring with Chinese authorities and other third party foreign nationals to furnish defense services to China. The two companies paid a \$32 million fine.
- 2001: **Boeing** was charged with 110 violations regarding the Arms Export Control Act and the International Traffic in Arms Regulations. The charges pertained to munitions and defense articles (i.e., technical data) exported to Australia, Singapore, Malaysia, Turkey, Spain, and Italy. Boeing paid a civil penalty of \$4.2 million.
- 2000: **Lockheed Martin** was charged with 30 violations of the Arms Export Control Act and the International Traffic in Arms Regulations. The violations were regarding the transfer of space launch assistance technologies to China. Lockheed Martin paid a civil penalty of \$13 million.
- 1998: **IBM** East Europe/Asia Ltd., a subsidiary of IBM, pleaded guilty to

violations of the International Emergency Economic Powers Act and the Export Administration Regulations relating to the unlawful export of computers to a Russian nuclear weapons laboratory. The company paid an \$8.5 million criminal fine.

- 1998: **Boeing** was charged with 207 violations of the Arms Export Control Act and the International Traffic in Arms Regulations. The charges included exporting defense articles and defense services to Germany, Sweden, Russia, Ukraine, and Norway without required approval from the Department of State. This resulted in a \$183 million fine.
- 1997: **Compaq Computers** allegedly violated the U.S. Department of Commerce's Export Administration Regulations by exporting computer equipment to Venezuela, Chile and the People's Republic of China. Compaq paid a \$55,000 civil penalty.
- 1997: **Lockheed Martin** allegedly exported material to South Korea that can be used in missile delivery/reentry systems. Lockheed did not obtain the export license required for national security and nuclear nonproliferation considerations. The company paid a \$45,000 civil penalty.
- 1995: **Lockheed Martin** pleaded guilty to violating the Foreign Corrupt Practices Act for paying bribes to officials of the Egyptian Government. The company paid a criminal fine of \$24.8 million.

Putting Our Troops At Risk

- 2000: A C-130 Hercules aircraft was on a routine training mission when its four Allison T-56 turboprop engines failed, causing the aircraft to crash into the Pacific Ocean. **Lockheed Martin** was one of the parties allegedly responsible for the crash that took the lives of ten Air Force Reservists. The sealed case was later settled.
- 2000: Three Army Chinook helicopter accidents resulted in five deaths and two injuries. **Boeing** allegedly placed defective gears in the helicopters and then sold the aircraft to the Army. Boeing agreed to pay the government \$54 million in a settlement agreement.
- 1997: An Air Force Academy cadet and officer were killed when the engine in their aircraft failed apparently due to an improperly designed fuel delivery system. **Northrop Grumman** paid part of a \$4 million verdict.
- 1993: An Army Blackhawk helicopter crashed killing four soldiers and seriously injuring two others. Evidence revealed that Sikorsky Aircraft had found serious controllability problems with asymmetric fuel, but had failed to warn the Army. As

a result, **United Technologies**, the parent company of Sikorsky Aircraft, paid a \$22 million verdict.

- 1991: Two soldiers were seriously injured when their aircraft crashed due to a missing flight control mechanism. **The DynCorp** company (acquired by Computer Sciences Corp.) was found solely and legally responsible for this missing part which caused the crash. DynCorp agreed to pay a \$1.6 million settlement.
- 1990: An Army Blackhawk helicopter crashed, allegedly due to fractured lock washers in the helicopter's tail rotor assembly. As a result, five soldiers died and eight were injured. Sikorsky Aircraft, a subsidiary of **United Technologies**, paid a \$9.74 million civil settlement and took steps to prevent this from happening in 1,500 Army, Navy, and Air Force aircraft containing the same lock washers

Shareholder Fraud

- 2002: **Compaq** paid a \$28,650,000 settlement after Compaq executives allegedly sold their shares of stock while issuing misleading statements in order to artificially inflate the stock price.
- 2001: **Boeing** allegedly conspired, made false statements, and concealed material facts on export license applications to keep the company's share price as high as possible. Boeing settled for \$92.5 million.
- 2001: In one of the largest settlements in securities class action history, **Corrections Corporation of America** agreed to pay more than \$120 million to resolve six different shareholder lawsuits. In a merger to create Prison Realty Trust and spin-off privately held CCA, the company allegedly engaged in a scheme to conceal material information from shareholders which served to artificially inflate the company's securities.

Founded in 1981, the Project On Government Oversight (POGO) is an independent nonprofit that investigates and exposes corruption and other misconduct in order to achieve a more effective, accountable, open, and honest federal government.

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