United States Senator Chuck Grassley

Iowa

http://grassley.senate.gov
Grassley_Press@grassley.senate.gov

Beth Pellett Levine, 202/224-6197
Lucas Bolar, 202/224-0484

Prepared Statement of Senator Chuck Grassley of Iowa
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I want to thank Chairman Waxman and Ranking Member Davis for the opportunity to present this statement about some troublesome issues at the General Services Administration (GSA). I also want to thank the Chairman and Ranking Member for their commitment and continued interest on this very essential part of what we do here in Congress, oversight of government institutions and operations. Today's hearing will focus on a number of issues related to decisions made by the Administrator of GSA and other senior GSA officials, and ultimately, their impact on the wallet of the American Taxpayer. My concerns about these matters began last year when I learned that the relationship between the GSA Inspector General (IG), Mr. Brian Miller, and the GSA Administrator, Ms. Lurita Doan, was strained and deteriorating fast.

I have a long history of looking into both wasteful government contracting and the very important role played by IG's throughout the government. It doesn't matter who is in the White House – Republican or Democrat. I just keep doing it. I believe that the IG, in any agency, is our first and main line of defense against waste, fraud, and abuse of taxpayer money and misconduct by senior government officials. The IG's, quite simply, are the "watchdogs" in the government. I have been, and will continue, to watch the "watchdogs." It is incumbent on Congress to insure that the IG's are doing their job as prescribed in the IG Act, that they have the resources to do their job, and that there is no undue interference from the agency on the IG's ability to accomplish their mission.

Currently, the GSA holds contracts with thousands of government contractors worth billions of dollars. GSA is probably unique in the executive branch, as almost 90 per cent of its budget does not come directly from money appropriated by Congress. The vast majority of funds that GSA uses for its day to day operations come from fees charged to other Government agencies which tap in on better prices promised by GSA-negotiated, government-wide contracts. However, what must not be lost is that both the money and fees paid by government agencies to GSA for contract work is money appropriated by this Congress. Someone has to be there to insure that these contracts yield the absolute best deal possible, and that the contractors involved honor all terms and conditions of each contract. In GSA, this is a team effort involving GSA contract officials and the GSA IG. This is a delicate balance, but one that has proven to work in the past - proven by the millions and millions of dollars in savings to the American Taxpayers.

When I learned that the relationship between the GSA Administrator and her IG was becoming more and more strained, I decided to get to the bottom of the matter. And, I have not been pleased with what I have found so far. I can certainly accept that agency heads and their IG may not always see eye to eye on difficult issues. However, I cannot accept any move by an agency head to undermine the independence of the IG. That independence is the heart and soul of the IG Act, and it's what allows the IG's to present objective findings and recommendations in their investigative and audit reports. Therefore when it was brought to my attention that the Administrator intended to remove the reimbursable funding that the GSA IG depends on for audits of contracts in their pre-award phase, I immediately looked into the impact that would have on the IG's work. In the end, the reimbursable audits were not removed from the GSA budget for fiscal year 2007, but the entire situation provided insight into a flawed budgeting concept that has the unintended effect of encroaching on the independence of the IG. On February 23, 2007, I asked the Senate Appropriations Committee to correct this problem. The current arrangement appears to be unacceptable because it could undermine the IG's independence. These audits cost the GSA only $5 million per year, but have been responsible for saving more than $2 billion in the last two years alone. Ten million in and two billion out sounds like a pretty good deal to me.

I have asked Administrator Doan about her relationship with the IG, and she has assured me that she understands and accepts the importance and necessity of IG's independence. She wants to establish fiscal discipline throughout the agency, including the Office of the IG. I accept that. However, her actions and words have not indicated to me that she is committed to utilizing the GSA Office of the IG to its fullest potential as intended in law. She has indicated privately and publicly that the IG has been heavy handed in his dealings with GSA employees and stakeholders. She has even suggested that GSA IG officials have intimidated other GSA employees and contractors. These are very serious allegations against federal law enforcement officers and accredited auditors, and if true, deserve the highest level of investigation by both Congress and the executive branch. However despite my numerous attempts to get details on these allegations from Administrator Doan, I have received nothing but innuendo and unspecified allegations.

During the course of my investigation, I discovered that there was one, specific allegation related to a contract involving the government vendor, Sun Microsystems. The GSA IG conducted a very thorough investigation of the matter and could find no one in that GSA regional office that felt intimidated by IG officials. However as a result of my inquiry, I did learn some very interesting facts about this Sun Microsystems contract.

The first piece of information that caught my attention was that, despite repeated warnings to senior GSA officials in 2006 that Sun Microsystems had allegedly committed civil and/or criminal fraud on this contract and its predecessor contract, GSA, with Administrator Doan's blessing, proceeded to re-award the contract to Sun on September 8, 2006, with no conditions, strings, or precautions regarding the alleged fraud. The IG began post-award audits of these contracts over years ago. By August 2006, senior GSA contracting officials, including Administrator Doan, were fully knowledgeable about the alleged fraud. Yet none took appropriate corrective action to address the alleged fraud. Why? The alleged fraud on these contracts, involving defective pricing, unauthorized charges, and unpaid discounts, is valued in

tens of millions of dollars. Even Sun Microsystems had admitted to GSA that they had been negligent in providing proper pricing and discount information to GSA, and had provided a corrective action plan to prevent this from happening in the future. Whether this corrective action plan is effective remains to be seen, but that doesn't remove the years of negligence by this government contractor.

The second piece of information that concerned me was that this new Sun contract, which will go through 2009, was negotiated on terms that are extremely unfavorable to the Government. The terms were so unfavorable, in fact, that immediately upon signing, the American Taxpayers lost millions of dollars due to improper discounting and pricing calculations. The lost savings could be as high as $20 to $30 million dollars. This was the very same issue that the GSA IG was investigating before the contract was renewed. It seems that everyone involved - the IG, the contracting officer, senior GSA Officials - was aware that the new contract was bad for GSA, bad for the government, and bad for the Taxpayer.

GSA's preliminary response to the allegations of fraud developed by the IG was to grant another in a long line of contract extensions to Sun on August 30, 2006. This bought a little time. Then a new contracting officer was installed on August 31st, a contracting officer with no previous experience with this very complicated contract. Finally, on September 8th, just 8 days later, GSA awarded the contract to Sun. This contract that was even worse for the Government than what had been previously negotiated over the past year by the two previous contract officers who had been replaced over the previous seven months.

If this was not intolerable enough, Administrator Doan told me in a letter dated March 13, 2007, that she was made aware of the potential criminal fraud by Sun on August 29, 2006, two days before the new contract officer was appointed and nine days before the new contract was awarded. This is even more shocking given that senior staff in the Federal Acquisition Service, the arm of GSA responsible for negotiating this contract, were made aware of Sun's alleged fraud on February 1, 2006 or earlier, but at least seven months before the contract was awarded. What was the rationale for going ahead with this contract? Was it GSA's fear of losing the contract to another agency like NASA, the loss of the income from fee's, or simply a desire to continue doing business with this contractor for some other, as yet unknown, reason? Hopefully continued investigation, such as this hearing today, will eventually reveal what went wrong here.

I would like to close by making a very important point: It was the teamwork of the IG and the contracting officials that uncovered both the potential fraud and identified the problems with the new contract. And it was IG Brian Miller's outstanding leadership that created an environment where that could happen. Yet despite their best efforts, their warnings fell upon deaf ears at the highest levels of GSA, up to the Administrator. The message this sends to government contractors is very clear: It doesn't matter how poorly you manage the government's money or how badly you violate government contracts, the doors to the U.S. Treasury are wide open. Help yourself to what's in the coffers. GSA will do business with you on your terms.

Mr. Chairman, let me make this very clear. As long as I am on duty, the Government coffers are not open. We are watching the activities of government contractors and senior agency officials. The perpetuation of fraud and violations of the law will not be tolerated. Period. There are systems in place to prevent this, like the IG Act and Congressional oversight. When money is lost due to a flawed contract, negligence, or even fraud, it must be remembered that the money is not GSA's money, it is not Congress' money. That money comes out of the pockets of hard working Americans, and among our most important responsibilities is to ensure that it is spent responsibly, wisely, and according to law. If fraud occurred on this contract and Sun owes the taxpayers money as the IG reports, then that money must be recovered.

Mr. Chairman and Ranking Member Davis, I thank you both for the opportunity to present this statement. I also thank you for your patience and continued leadership on GSA oversight.

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