At Our Expense
Federal Contractors that Harm Workers Also Shortchange Taxpayers

By Karla Walter and David Madland December 2013
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Introduction

The federal government spends hundreds of billions of dollars every year contracting out government services ranging from the design and manufacture of sophisticated weapons systems to janitorial and maintenance work. Yet the review process to ensure that only responsible companies receive federal contracts is very weak, and too often the government contracts with companies with long track records of violating workplace laws. New analysis from the Center for American Progress Action Fund, or CAP Action, shows that contracting with companies with egregious records of workplace violations also frequently results in poor performance of government contracts.

Our analysis builds on a 2010 report from the Government Accountability Office, or GAO, which scrutinized the companies levied with the 50 largest workplace health and safety penalties and those that received the 50 largest wage-theft assessments between fiscal year 2005 and fiscal year 2009. The GAO investigation found that even after committing such violations, these companies frequently received new government contracts.1 CAP Action—reviewing the same universe of companies analyzed by the GAO2—found that the companies with the worst records of harming workers were also often guilty of shortchanging taxpayers through poor performance on government contracts and similar business agreements in ways that defraud the government or otherwise provide a bad value for taxpayers.3

Among the 28 companies that received the top workplace violations from FY 2005 to FY 2009 and subsequently received federal contracts, a total of seven companies—or 25 percent—also had significant performance problems.4

These performance problems ranged from contractors submitting fraudulent billing statements to the federal government; to cost overruns, performance problems, and schedule delays during the development of major weapons systems that cost taxpayers billions of dollars; to contractors falsifying firearms safety test results for federal courthouse security guards; to an oil rig explosion that spilled millions of barrels of oil into the Gulf of Mexico.
Although the federal government does not provide data on the frequency of performance problems across all federal contractors for comparison, the fact that one in four contractors with persistent or egregious workplace violations subsequently provided bad value for the government signals a serious cause for concern.

While this CAP Action analysis represents new evidence that companies who flout workplace laws also often show disregard for taxpayer value, our evaluation is not the first to find this link. Thirty years ago, the U.S. Department of Housing and Urban Development found a “direct correlation between labor law violations and poor quality construction” on HUD projects, and found that these quality defects contributed to excessive maintenance costs.

Similarly, a 2003 Fiscal Policy Institute survey of New York City construction contractors found that contractors with workplace law violations were more than five times more likely to receive a low performance rating than contractors with no workplace law violations. And a 2008 CAP Action report found a correlation between a contractor’s failure to adhere to basic labor standards and wasteful practices. Indeed, it is increasingly common for private-sector companies to factor in a bidder’s workplace safety record in contracting decisions.

The federal government could have prevented many of these performance problems by reviewing companies’ records of workplace violations before awarding a government contract and excluding those companies with persistent or egregious violations. This sort of examination is supposed to occur—federal regulations require that contractors have a satisfactory record of performance, integrity, and business ethics, in order to ensure that the government only does business with responsible companies with good performance records.

The existing tools to ensure that this actually happens, however, are woefully inadequate. The federal database tracking contractor responsibility—the Federal Awardee Performance and Integrity Information System, or FAPIIS—is largely dependent on self-reported data even though official records such as workplace and environmental violations are already collected by enforcement agencies and made publicly available in government enforcement databases.
The FAPIIS database includes only the legal violations committed by a company while working on federal contracts or grants, but not information on these contractors’ private-sector compliance history. What’s more, most workplace violations are excluded due to high thresholds for reimbursement, restitution, and damages. This means that federal contracting officers may miss more than half the story about a company’s record of compliance.

Moreover, enforcement agencies provide no analyses of contractors’ legal records, and contracting officers receive no guidance from existing regulations on how to evaluate bidders’ responsibility records. A contracting officer would have to sift through millions of compliance records—evaluating everything from companies’ tax and environmental violations to workplace safety and pay records—and use their own judgment about whether past violations are enough to find a contractor not responsible. As a result, the new database has not formed the basis of rigorous responsibility review.

We profile the performance problems of the contractors revealed by our analysis in the following section.

CAP Action has previously detailed a number of policy reforms that would help address these issues, but in order to maintain focus on the problems in the contracting system, we do not repeat our recommendations here.
Performance problem profiles

Among the 28 companies that were at the top in workplace violations from fiscal year 2005 to fiscal year 2009 and subsequently received federal contracts, we identified a total of seven companies—or 25 percent—that also had significant performance problems. We include only those performance problems that occurred after the workplace violation case was closed.

Currently, the federal government provides the public little information to evaluate the performance of companies on contracts or to determine how the government evaluates past performance. The federal government tracks performance through its Past Performance Information Retrieval System, but this information is not made available to the public.

We consequently relied on a search of publicly available websites—including federal enforcement sites, company U.S. Securities and Exchange Commission filings, the Project on Government Oversight’s Federal Contractor Misconduct Database, and news searches—to obtain performance information. As a result, this report may undercount performance problems, since many instances may not have been made public or may not have received significant media attention.

We also include in the profiles below data from government websites on the total value of the federal contracts between FY 2009 and FY 2013 for each contractor with past performance problems. While government agencies and advocacy groups have found significant problems with government procurement spending data, they are the best data available.

Each contractor profile starts with a brief description of the labor law violated and the penalty assessed. Next, we highlight the total value of contracts awarded between FY 2009 and FY 2013. Finally, we detail the various performance problems of the contractor, subsequent to the workplace violation and penalty.
Note: The source data for workplace violations was obtained from the Department of Labor’s online database\textsuperscript{19} and the Department of Labor’s Wage and Hour Division.\textsuperscript{20} The total value of contracts awarded between FY 2009 and FY 2013 comes from the Federal Procurement Data System.\textsuperscript{21}

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Contractor performance problems by company

KBR, defense construction and service contractor

• Assessed $1.1 million in back wages for violations of the Davis-Bacon Act (case closed in 2007).
• Awarded about $11.4 billion in government contracts from FY 2009 to FY 2013.

Performance problems

• Failed to meet a performance level deserving of government payment for combat-support work completed during the first four months of 2008, according to the U.S. Army Sustainment Command.\textsuperscript{22} The command’s statement did not reference the January 2008 death by electrocution of a soldier stationed in Iraq, but said that officials investigating the soldier’s death and the electrical work performed by the company were consulted in reaching the decision.\textsuperscript{23} The company estimated that it would have earned about $20 million for its work during this period.\textsuperscript{24}
• Disqualified from participating in two competitions for combat-support services contracts in 2008 after a company employee accessed source-selection and proprietary information on competing bidders and the company refused to take corrective action.\textsuperscript{25}
• Overcharged the government $1.4 million in lease charges and fees associated with a subcontractor’s cooking-equipment purchase, according to a 2010 report from the Inspector General of the Department of Defense.\textsuperscript{26}
• Company employee pled guilty to bribery for her participation in a fraudulent billing scheme to overcharge the U.S. Army for trucking services in Afghanistan between April 2008 and December 2008.\textsuperscript{27}
BP, multinational oil and gas company

- Initially assessed $43 million in fines for four separate violations of the Occupational Health and Safety Act (cases closed in 2008 and 2009).  
- Awarded about $4.6 billion in government contracts and $433 million in federal offshore oil and gas leases from FY 2009 to FY 2013.

**Performance problem**

- Responsible for an offshore oil well blowout on land leased from the federal government that killed 11 workers and resulted in the largest oil spill in U.S. waters (4.9 million barrels) and billions of dollars in economic damage in 2010. BP pled guilty to 11 felony counts of misconduct or neglect of ship officers for the worker deaths as well as a felony count of obstruction of Congress and misdemeanor counts under federal environmental laws. The contractor agreed to a criminal penalty settlement of $4 billion in 2012. The Environmental Protection Agency announced on November 28, 2012, that it was temporarily suspending BP from receiving new federal government contracts, grants, or other covered transactions until it could demonstrate that “it meets Federal business standards.” In February 2013, the EPA separately disqualified BP Exploration & Production Inc. under the Clean Water Act from receiving any new federal contracts or other benefits. The company has spent more than $14 billion in cleanup operations, according to a January 2013 report from the Congressional Research Service.

Corrections Corporation of America, or CCA, correctional facilities and immigrant detention center manager

- Assessed $1.5 million in back wages for violations of the Service Contract Act (case closed in 2005).
- Awarded about $2.3 billion in government contracts from FY 2009 to FY 2013.

**Performance problem**

- CCA violated contract requirements against detainees being transported without a same-sex officer present at a Texas immigrant detention center in 2010, according to analysis by the American Civil Liberties Union of government documents obtained through a Freedom of Information Act request. The American Civil Liberties Union of Texas filed a lawsuit on behalf of the
women in 2011 naming the company, two former employees at the facility, and three ICE officials. The guard accused in the case pled guilty to two federal deprivation-of-rights charges as well as five misdemeanor charges in relation to his assaults of immigrant detainees.\textsuperscript{37} The ACLU recently settled another suit, also filed in 2011, alleging that a transgender woman was sexually assaulted by a CCA guard at another immigrant detention center.\textsuperscript{38} The suit named CCA; Immigration and Customs Enforcement, or ICE, officials; and the City of Eloy, Arizona, where the center is located. The claims settled in the agreement were allegations only, and there was no determination of liability.

\textbf{Akal Security, Inc., security services company}

\begin{itemize}
  \item Assessed $1.15 million in back wages for violations of the Service Contract Act (case closed in 2005).
  \item Awarded about $3.6 billion in government contracts from FY 2009 to FY 2013.
\end{itemize}

\textit{Performance problem}

\begin{itemize}
  \item Agreed to pay almost $1.9 million in 2012 to settle allegations that the company falsified firearms safety test results for federal courthouse security guards from 2007 and 2011 in the Northern District of California.\textsuperscript{39} The Department of Justice alleged that company employees administering the firearms qualifications test did not apply required time limits, sometimes out of concerns that security guards would not pass a timed test. The company took corrective steps to ensure compliance. The claims settled in the agreement between Department of Justice and Akal Security were allegations only, and there was no determination of liability.
\end{itemize}
Wackenhut Services, Inc., security services company

- Assessed $2.5 million in back wages for violations of the Service Contract Act (case closed in 2008).
- Awarded about $1.7 billion in government contracts from FY 2009 to FY 2012.

Performance problem
- Company subsidiary, ArmorGroup of North America, failed to comply with several requirements of a State Department contract to provide security for the U.S. Embassy in Kabul, Afghanistan, “which could potentially undermine the security of the U.S. mission,” according to a 2010 report by the State Department Office of Inspector General. The company was unable to recruit and train security forces to the staffing levels and quality required by the contract, with violations that included: employing Nepalese guards without verifiable experience and training and insufficient language skills; qualifying guards who did not pass firing range tests; not adequately training canine explosive detection units; and allowing disciplinary problems among company personnel to go uncorrected.

Lockheed Martin, aerospace, defense, security, and advanced technology company

- Assessed $974,000 in back wages for violations of the Fair Labor Standards Act at Knolls Atomic Power Laboratory, where Lockheed Martin was the operating contractor (case closed in 2006).
- Assessed $2 million in back wages for violations of the Fair Labor Standards Act at Sandia National Laboratories, operated by Sandia Corporation, a wholly owned subsidiary of Lockheed Martin (case closed in 2009).
- Awarded about $170.7 billion in government contracts from FY 2009 to FY 2013.

Performance problems
- Lockheed Martin is the lead aircraft contractor developing the F-35 Joint Strike Fighter, a new aircraft for the Air Force, Navy, and Marine Corps, which has been plagued by performance problems, cost overruns, and schedule delays. The Department of Defense withheld $614 million in performance fees in 2010 after an independent assessment team found that Lockheed Martin and its subcontractors had failed to meet key benchmarks in the development of the aircraft.
• More recently, a 2013 Department of Defense Inspector General report found hundreds of flaws in the way Lockheed Martin and its subcontractors produced the F-35. The report concluded that the company was not following contractually required quality management standards and recommended that the government modify its contracts to include a quality escape clause to ensure that the government doesn’t pay for poor-quality products.

The aircraft will not go into full production until 2019, seven years later than originally planned, according to a March 2013 report by the Government Accountability Office. Total U.S. investment to develop and procure 2,457 jets through 2037 is now expected to reach $396 billion—70 percent higher than the total price tag of $233 billion projected in 2001 at the start of system development. Meanwhile, Department of Defense services are spending about $8 billion to extend the life of existing aircraft and buy new ones.

• Terminated for cause on a contract with the Department of the Army to consolidate a medical research laboratory at Fort Detrick, Maryland, in 2013. The termination was based on “seriously defective deliverables,” according to a memo from the contracting officer.

• Failed to meet a performance level deserving of a payment in the first quarter of 2007 on a contract to provide preflight briefings to plane pilots on weather and other flight conditions. The Federal Aviation Administration withheld $3 million in payments.

Group Health Cooperative, health maintenance organization

• Assessed $1.4 million in back wages for violations of the Fair Labor Standards Act (case closed in 2005).

• Awarded about $20.2 million in government contracts from FY 2009 to FY 2012 and collected $621.3 million in premiums from the Federal Employees Health Benefits Program between FY 2006 and FY 2008.

Performance problem

• Overcharged the government $33 million in inappropriate health benefits charges under the Federal Employee Health Benefits Program in 2007 and 2008, according to an audit by the Inspector General of the Office of Personnel Management.
Conclusion

Federal regulations require that the government only do business with responsible contractors that have a satisfactory record of performance, integrity, and business ethics. Yet weak guidance and lax enforcement of these regulations means that the government frequently contracts with companies with long track records of violating workplace regulations and laws.

New analysis from the Center for American Progress Action Fund shows that this not only hurts workers, but all too often provides a bad deal for taxpayers who must pay for poorly performed contracts and live with the consequences of shoddy work that damages the environment, undermines public safety, and jeopardizes national security. Government can go a long way toward protecting workers and taxpayers alike by reviewing records of workplace law violations by companies before awarding them lucrative government contracts.
Appendix: Methodology

This report builds on the analysis of a 2010 report from the Government Accountability Office, “Federal Contracting: Assessments and Citations of Federal Labor Law Violations by Selected Federal Contractors,” which surveyed the companies receiving the 50 largest workplace health and safety penalties and the 50 largest wage-theft assessments between fiscal year 2005 and fiscal year 2009 to determine if these companies continued to receive government contracts.51

CAP Action reviewed the same universe of companies analyzed by the GAO. The GAO does not make the data it used for its analysis publicly available because it includes company-specific information. We were, however, able to obtain data on workplace health and safety violations from the Department of Labor’s online database,52 and data on wage-theft assessments from the Department of Labor’s Wage and Hour Division.53 We also spoke with authors of the GAO report in order to verify that we followed the same methodology used in their analysis.

The 50 largest workplace health and safety penalties are defined as the 50 largest penalties for violations of the Occupational Safety and Health Act closed by the Occupational Safety and Health Administration between FY 2005 and FY 2009.

The 50 largest wage-theft assessments are defined as the 50 largest back-wage assessments for violations of the Service Contract Act, Fair Labor Standards Act, Family and Medical Leave Act, and Davis-Bacon Act closed by the Department of Labor’s Wage and Hour Division between FY 2005 and FY 2009. The GAO excluded Davis-Bacon Act violations from its review because the agency makes determinations on whether to suspend or debar companies with such violations. CAP Action’s final list of the top 50 wage-theft violators included two companies with violations of the Davis-Bacon Act.
We used the government websites USAspending.gov and the Federal Procurement Data System (www.fpds.gov) to determine whether a company continued to receive federal contracts after receiving a major workplace violation. Companies must have received a federal contract valued at more than $100,000 in FY 2009 in order to be counted as a federal contractor. Companies that received government contracts after FY 2009, but not in FY 2009, were excluded from our count—again to keep our methodology consistent with that of the GAO.

We also include in the profiles above data from the Federal Procurement Data System on the total value of the federal contracts between FY 2009 and FY 2013 for each contractor with past performance problems. While government agencies and advocacy groups have found significant problems with government procurement spending data in the past, they are the best data available.

We found the same number of companies with top safety violations that continued to receive government contracts (eight companies total), and top wage-theft assessments to receive government contracts (20 companies total) as the GAO. However, our final list of bad actors—companies with long track records of fraud and violations of labor law and workplace safety regulations—does not match the GAO’s list exactly since we included violations of the Davis-Bacon Act.

We obtained performance information through a search of publicly available websites, including federal enforcement sites, company U.S. Securities and Exchange Commission filings, the Project on Government Oversight’s Federal Contractor Misconduct Database, and news searches. We may undercount performance problems, since some instances may not have been made public or received significant media attention. While the federal government tracks contractor-performance data through its Past Performance Information Retrieval System, this information is not made available to the public.

We also include in our analysis performance problems by the companies in government programs that are not managed through the federal contracting system, but are substantially similar sorts of business agreements where the government entered into contracts or agreements that provided payment to companies in exchange for goods or services. We include, for example, energy companies receiving offshore oil and gas leases from the Department of the Interior’s Bureau of Ocean Energy Management and companies participating as insurance carriers in the Federal Employee Health Benefits Program.
Further, we do not limit our findings of performance problems to a firm making an admission of fault. We include all government findings of performance problems, lawsuits alleging performance violations where companies have settled, and cases where an employee was found guilty of misconduct while carrying out contract duties.

We include only those performance problems that occurred after the workplace violation case was closed or, in the instances where a company had multiple workplace violations, performance problems occurring after the first case was closed.
About the authors

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Endnotes

1 Government Accountability Office, “Federal Contracting: Assessments and Citations of Federal Labor Law Violations by Selected Federal Contractors,” GAO-10-1033, Report to Congressional Requesters, September 2010. The 50 largest wage-theft assessments are defined as the 50 largest back-wage assessments closed by the Wage and Hour Division of the Department of Labor between FY 2005 and FY 2009. The 50 largest workplace health and safety penalties are defined as the 50 largest penalties for violations of occupational safety and health regulations closed by the Occupational Safety and Health Administration of the Department of Labor between FY 2005 and FY 2009. The GAO found that one-third of companies with these significant violations went on to receive a government contract in FY 2009.

2 More on our research methods is available in the “Methodology” appendix.

3 We also include in our analysis performance problems by the companies in government programs that are not managed through the federal contracting system, but are substantially similar sorts of business agreements where the government entered into contracts or agreements that provided payment to companies in exchange for goods or services. This includes, for example, energy companies receiving offshore oil and gas leases from the Department of the Interior’s Bureau of Ocean Energy Management and companies participating as carriers in the Federal Employee Health Benefits Program. These programs are not managed through the federal contracting process, but do require participants to have satisfactory compliance with the law.

4 The federal government does not make contractor performance information publicly available. In order to determine whether a contract had performance problems, we reviewed publicly available news and data sources. We do not limit our findings of performance problems to a firm making an admission of fault. We include all government findings of performance problems, lawsuits accusing performance violations where companies have settled, pending cases where the government has accused a company of performance problems, and cases where an employee was found guilty of misconduct while carrying out contract duties. Out of the 20 companies that received at least one of the 50 largest wage-theft assessments and continued to receive government contracts, six companies were found to have a performance problem. Among the eight companies that received at least one of the 50 largest workplace health and safety assessments and continued to receive government contracts, one company was found to have a performance problem.


9 Federal Acquisition Regulation, Subpart 9.1—Responsible Prospective Contractors.


11 Contractors with current active federal awards with total value greater than $10,000,000 are required to self-report legal violations. The database also includes determinations entered by federal government personnel including: terminations for default, terminations for cause, terminations for material failure to comply, nonresponsibility determinations, recipient not qualified determinations, defective pricing determinations, administrative agreements, and Department of Defense determinations of contractor fault.


13 Contractors with current active federal awards with total value greater than $10,000,000 must report any administrative proceeding in which there was a finding of fault and liability that results in the payment of a monetary fine or penalty of $5,000 or more; or the payment of a reimbursement, restitution, or damages in excess of $100,000. However, penalties and reimbursements for workplace violations often fall below these thresholds and frequently do not include an admission of fault.


More on our research methods is available in the “Methodology” appendix.

We used the government websites USAspending.gov and the Federal Procurement Data System (https://www.fds.gov/ fpdsng.cms/).


Data on file with authors.


The Army did not press charges against the company for the soldier’s death.


Initial penalties on BP totaled $43 million in fines for four separate violations of the Occupational Health and Safety Act (cases closed in 2008 and 2009). These were later reduced to a total of $26 million in current penalties.


Other companies share responsibility for the oil well explosion.


The T. Don Hutto Residential Center is owned and operated by the Corrections Corporation of America. However, the facility is contracted through an intergovernmental service agreement between ICE and Williamson County, the Texas county in which Hutto is located. The contract with the county required that during all transportation activities, “at least one transportation officer shall be of the same sex as the residents being transported” and that “the subcontractor will be held to the same terms and conditions as the Service Provider.” Also, CCA’s Quality Control Plan (included as an attachment to the contract) states that the plan is fully consistent with the ICE Statement of Work which includes the same transportation requirements. “Intergovernmental Service Agreement between the United States Department of Homeland Security U.S. Immigration and Customs Enforcement and Williamson County, Texas,” signed January 27, 2010, available at https://www.aclu.org/files/assets/Attachment_A_PDF; American Civil Liberties Union, “Documents Obtained by ACLU Show Sexual Abuse of Immigration Detainees Is Widespread National Problem,” Press release, October 19, 2011, available at http://www.aclu.org/immigrants-rights-prisoners-rights-prisoners-rights/documents- obtained-aclu-show-sexual-abuse; Sarah Doe; Kimberly Doe; and Raquel Doe v. Jerald Nevelfeld, Immigration and Customs Enforcement Contracting Officer, et. al., filed September 19, 2011, available at http://www.contractormisconduct.org/ass/contractors/170/cases/1713/2539/corrections-corp-of-america_complaint.pdf.

38 The detention center is owned and operated by the Corrections Corporation of America. However, the facility is contracted through an intergovernmental service agreement between ICE and the City of Eloy, Arizona. American Civil Liberties Union, “ACLU of Arizona Files Lawsuit on Behalf of Transgender Woman Sexually Assaulted By CCA Guard,” Press release, December 5, 2011, available at https://www.aclu.org/immigrants-rights-lgbt-rights-prisoners-rights/aclu-arizona-files-lawsuit-behalf-transgender-woman-Guzman-Martinez-v-Corrections-Corporation-America, a Maryland corporation, et al., Notice of Settlement, filed February 14, 2013 (notice on file with author).


40 In 2010, the Wackenhut Corporation officially changed its name to G4S Secure Solutions (USA) Inc.


42 Note that Knolls Atomic Power Laboratory was operated by Lockheed Martin until 2008.


46 Ibid.


50 Ibid.


53 Data on file with authors.

54 See, for example, Government Accountability Office, “Government Transparency.”
The Center for American Progress Action Fund transforms progressive ideas into policy through rapid response communications, legislative action, grassroots organizing and advocacy, and partnerships with other progressive leaders throughout the country and the world. The Action Fund is also the home of the Progress Report and ThinkProgress.