

United States Senate
WASHINGTON, DC 20510-4504

May 24, 2023

The Honorable Lloyd J. Austin III
Secretary of Defense
1000 Defense Pentagon
Washington, D.C. 20301-1000

Dear Secretary Austin:

We write to request you begin a thorough investigation in light of CBS News' investigation¹ into price gouging from U.S. defense contractors. The report uncovered repeated instances of defense contractors over-charging the Department of Defense (DOD) to secure excess profits of 40-50 percent, costing the U.S. taxpayers hundreds of millions of dollars.

The six-month investigation by CBS News, including extensive interviews with former DOD contracting officials, uncovered massive over-charges from defense contractors accounting for hundreds of millions of dollars. As CBS reported, DOD's fixed price contracts would often provide for private profits of 12-15 percent. Pentagon analysts found over-charges that boosted total profits to nearly 40 percent and sometimes as high as 4,000 percent.² Lockheed Martin, Boeing, Raytheon, and TransDigm are among the offenders, dramatically overcharging the Department and U.S. taxpayers while reaping enormous profits, seeing their stock prices soar, and handing out massive executive compensation packages.

These companies have abused the trust government has placed in them, exploiting their position as sole suppliers for certain items to increase prices far above inflation or any reasonable profit margin. Raytheon, for example, has increased prices for its Stinger missiles seven-fold, leaving the U.S. paying "more than \$400,000 to replace each missile sent to Ukraine"³ to oppose Russia's brutal and illegal invasion. Boeing and Lockheed Martin, and numerous smaller companies, have comparably fleeced the U.S. taxpayer on other weapons systems and components.

The Department has requested \$842 billion for FY 2024, which would be its largest budget in history, despite the end of the war in Afghanistan. Almost half of this budget will go to private contractors, underlining the importance of reining in this out of control price gouging. Dollars

¹ CBS News, "Weapons contractors hitting Department of Defense with inflated prices for planes, submarines, missiles," May 21, 2023: <https://www.cbsnews.com/news/weapons-contractors-price-gouging-pentagon-60-minutes-transcript-2023-05-21/?ftag=CNM-00-10aab7d&linkId=215643577>.

² Department of Defense Inspector General, "Review of Parts Purchased from TransDigm, Inc." February 25, 2019, p. ii, <https://media.defense.gov/2019/Feb/27/2002093922/-1/-1/1/DODIG-2019-060.PDF>.

³ CBS News, "Weapons contractors hitting Department of Defense with inflated prices for planes, submarines, missiles," May 21, 2023: <https://www.cbsnews.com/news/weapons-contractors-price-gouging-pentagon-60-minutes-transcript-2023-05-21/?ftag=CNM-00-10aab7d&linkId=215643577>.

that are wasted on overpriced weapons or spare parts cannot be spent to counter adversaries or support service members.

Unfortunately, this recent investigation only underlines long-standing concerns around the Department's inability to pass an audit, accurately track its finances, or mitigate against fraud risk in the hundreds of billions of dollars in contracts it awards every year. Earlier this year, the Government Accountability Office (GAO) reported that DOD accounting systems cannot generate reliable and complete information and are unable to even capture and post transactions to the correct accounts, in violation of statutory requirements.⁴ As Sens. Sanders and Grassley noted with Sens. Wyden and Lee, DOD's failure to better manage its finances is behind its long string of audit failures. As we noted then, the "inability of the multi-trillion dollar Pentagon enterprise to account for the money it spends...leaves the door wide open to widespread waste, fraud, and abuse."⁵ Regrettably, the CBS investigation has proven these fears to be well-founded.

In 2021, the GAO reported that DOD had failed to implement a comprehensive approach to combat department-wide fraud, despite regularly awarding contracts worth hundreds of billions of dollars.⁶ As Senator Sanders noted at the time with former Chairwoman Carolyn B. Maloney, then of the House Oversight and Reform Committee, "the Pentagon doesn't seem to want to get serious about combatting the fraud, waste, and financial mismanagement that has been its legacy for decades."⁷ It is essential that DOD, which accounts for about two-thirds of all federal contracting activity and nearly half of all discretionary spending, be held to the same level of accountability as the rest of the government.

Unfortunately, this history of unaccountable spending stretches back decades. In 2018, DOD reported to Congress that, from fiscal years 2013 to 2017, over \$6.6 billion had been recovered from defense contracting fraud cases. In 2020, the DOD Office of Inspector General reported that 395 of its 1,716 ongoing investigations – or approximately one-in-five – are related to procurement fraud. And DOD has been on GAO's High-Risk List for financial management since 1995. DOD has consistently failed to implement GAO's recommendations, prioritize financial management and fraud reduction, or mobilize sufficient resources to pass an audit.

The DOD can no longer expect Congress or the American taxpayer to underwrite record military spending while simultaneously failing to account for the hundreds of billions it hands out every year to spectacularly profitable private corporations. We ask that you please provide us an update on the Department's efforts to implement outstanding GAO recommendations related to financial management and fraud risk reduction, as well as your efforts to investigate the price gouging uncovered by CBS's recent reporting.

⁴ Government Accountability Office, "DOD needs to Improve System Oversight," March 7, 2023: <https://www.gao.gov/products/gao-23-104539>.

⁵ "Sanders, Grassley, And Wyden Decry Pentagon's Wasteful Spending And Inability To Pass An Audit," March 7, 2023: <https://www.grassley.senate.gov/news/news-releases/sanders-grassley-and-wyden-decry-pentagons-wasteful-spending-and-inability-to-pass-an-audit>.

⁶ <https://www.gao.gov/products/gao-21-309>

⁷ <https://www.sanders.senate.gov/press-releases/news-new-study-finds-dod-efforts-to-combat-waste-and-fraud-are-incomplete-and-inadequate/>

Sincerely,



Bernard Sanders
United States Senator



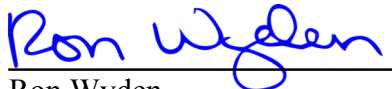
Charles E. Grassley
United States Senator



Elizabeth Warren
United States Senator



Mike Braun
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Ron Wyden
United States Senator