Section 4007 -- Eliminates the awarding of bonuses to government contractors for unsatisfactory performance.

The federal government awards billions of dollars of bonuses to federal contractors for projects that are over budget or have failed to meet basic performance requirements.

This section would prohibit bonuses from being paid to government contractors whose performance is not satisfactory performance or does not meet the basic requirements of the contract.

Federal agencies continue to pay bonuses to contractor for unsatisfactory work even after the Office of Management and Budget directed agencies to stop the practice.

This amendment would save at least $8 billion over the next decade by eliminating federal bonuses paid to poorly performing contractors.

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The federal government awards billions of dollars of unwarranted bonuses to poorly performing contractors.

There are numerous examples of unwarranted bonuses awarded by the federal government that have cost taxpayers billions of dollars over the past decade.

These include:

- The Department of Defense paid $8 billion in bonuses to contractors for weapons programs that had severe cost overruns, performance problems, and delays between 1999 and 2004.

- The U.S. Army paid "tens of millions of dollars in bonuses" to KBR Inc., even after it concluded the firm's electrical work had put U.S. soldiers at risk. While the Army is investigating the situation, the Senate Democratic Policy Committee, the research arm of the Senate Democratic leadership, claims KBR is linked to at least two, and as many as five, electrocution deaths of U.S. soldiers and contractors in Iraq due to "shoddy work."

- The Centers for Medicare and Medicaid Services pays more than $312 million per year in quality-of-care bonuses to nursing homes that provide below average care and have past violations of health-and-safety regulations.

- The Customs and Border Protection Agency improperly awarded a $475 million no-bid contract, which included an inappropriate financial bonus as part of the deal, to Chenega Technology Services in 2003. In response, then-Senator Hillary Rodham Clinton noted a “troubling pattern” of such bonuses at the Department of Homeland Security (DHS) and asked Inspector General Richard Skinner to investigate. “In too many cases, DHS appears to be awarding bonuses despite poor performance, or worse, without even evaluating work,” Clinton wrote, stating “Failing contractors should be rooted out, not rewarded.”

- The National Aeronautics and Space Administration (NASA) paid Boeing a bonus of $425.3 million for work on the space station that ran eight years late and cost more than twice what was expected. Boeing estimates that it will incur an additional $76 million in overruns by the time the contract is completed.

- NASA paid Raytheon a $103.2 million bonus for the Earth Observing System Data and Information System despite the project costing $430 million more and taking two years longer to complete than expected.

- Lockheed collected a $17 million bonus from NASA for the Landsat-7 satellite even though the project was delayed nine months even and the costs rose 20 percent to $409.6 million.

- The Department of Commerce selected Northrop Grumman in 2002 to build a $6.5 billion satellite system that would conduct both weather surveillance and military reconnaissance that was supposed to save the government $1.6 billion. The first launch was scheduled for 2008 but hasn’t happened, the project’s budget has doubled to $13.1 billion, and Northrop’s performance has been deemed unsatisfactory. Yet, from 2002 to 2005, the government awarded Northrop $123 million worth of bonuses.

- In 2007, Harris Corp. developed a handheld device to collect data for the 2010 Census that failed to work properly and was $198 million over budget. Despite this costly failure that could cause delays in preparing for the nationwide head count, the Department of Commerce’s Census Bureau awarded Harris $14.2 million in bonuses.

- In 2006, the Department of Treasury abandoned a $14.7 million computer project intended to help detect terrorist money laundering. The failed project was 65 percent over its original budget, but the vendor, Electronic Data Systems Corp., was awarded a $638,126 bonus.

- The repair and restart a Tennessee Valley Authority (TVA) nuclear reactor cost $90 million more than what the federal utility budgeted, but TVA paid the primary contractors on the project, Bechtel Power Corp. and Stone and Webster Construction Inc., an extra $42 million in bonuses and other fees last year.

Federal agencies continue to pay bonuses to contractor for unsatisfactory work even after the Office of Management and Budget directed agencies to stop the practice.

Government contractors continue to be given bonuses for unsatisfactory work even after the Office of Management and Budget (OMB) directed agencies to stop rewarding poor-performing contractors, according to the Government Accountability Office (GAO).

GAO identified examples of agencies awarding bonuses to poorly performing contractors across the government:

- The Homeland Security Department (DHS) continues to award vendors who perform poorly a second chance to earn 100 percent of their performance bonuses.

- The Energy Department (Energy) allows vendors to receive up to 84 percent of their performance awards, even if they do not meet expectations.

- A Health and Human Services (HHS) contract for call center services pays the contractor bonuses for its effort — such as fully staffing the center — instead of its performance, such as how quickly calls are answered.

The awarding of bonuses for shoddy work continues even after OMB issued guidelines in December 2007 requiring agencies to withhold such awards for poor performance and deny vendors second chances to earn bonuses withheld for poor performance.

Acquisition staffs at DHS, HHS and Energy told GAO they did not follow OMB's guidance because they were not aware of it.

This amendment would save at least $8 billion over the next decade by eliminating federal bonuses paid to poorly performing contractors.

This amendment would ensure:

1. All new contracts using award fees and bonuses link such fees and bonuses to acquisition outcomes, which should be defined in terms of program cost, schedule, performance, and outcome;

2. No bonuses or awards are paid for contractor performance that is judged to be below satisfactory performance or performance that does not meet the basic requirements of the contract or significantly exceeds the original cost estimate; and

3. All funds set aside for bonuses and incentive fees that are not paid due to contractors' inability to meet performance criteria are returned to the Treasury.