Chairmen Walberg and Roe, Ranking Members Wilson and Polis, thank you for this opportunity to present testimony in support of President Obama’s Fair Pay and Safe Workplaces Executive Order.

My name is Karla Walter. I am the Associate Director of the American Worker Project at the Center for American Progress Action Fund. CAP Action is an independent, nonpartisan, and progressive education and advocacy organization dedicated to improving the lives of Americans through ideas and actions.

In my testimony today, I will make three main points:

First, far too often companies with long and egregious records of violating workplace laws continue to receive federal contracts. This not only harms workers, but also taxpayers, and law-abiding businesses.

Second, the contractor review process is supposed to prevent this from happening by ensuring that only responsible companies receive federal contracts, but the current system is broken.

Third, President Obama’s Fair Pay and Safe Workplaces Executive Order—informe by proven methods adopted by state governments, the private sector, and even federal government agencies in limited instances—strives to help fix the broken system and ensure that law-breaking contractors come into compliance before they are able to receive new contracts.

**Law-breaking companies continue to receive contracts**

The federal government spends hundreds of billions of dollars each year contracting out everything from janitorial services to the design and manufacture of sophisticated weapons systems. More than 1 in 5 American workers are employed by a firm that contracts with the federal government, according to the U.S. Department of Labor.¹
Current regulations require that the government only contract with companies that have a satisfactory record of performance, integrity, and business ethics. \(^2\) But the contracting system does not effectively review the responsibility records of companies before awarding contracts, nor does it adequately impose conditions on violators that encourage them to reform their practices. \(^3\)

Instead, the federal government all too often awards contracts to workplace law violators with no strings attached. As a result, contractors that violate wage and workplace safety laws have little incentive to improve their practices. For example, a 2013 report by the Majority Committee Staff of the Senate Health, Education, Labor and Pensions Committee found that government contractors are often among the worst violators of workplace laws.

The report reviewed the 100 largest penalties and assessments for violations of both workplace wage and health and safety laws between fiscal years 2007 and 2012, finding that nearly 30 percent of the top violators were federal contractors that were still receiving contracts after having committed these violations. They were cited for 1,776 separate violations of these laws and paid $196 million in penalties and assessments during this time period. \(^4\)

Workers at these companies were short-changed by $82 million, with violations that included not paying workers at a chemical weapons storage facility for time spent donning safety gear; failing to pay more than 25,000 call center workers for overtime; and misclassifying workers responsible for helping recently released prisoners re-enter society and find work. \(^5\)

And at least 42 people have died from workplace accidents and injuries at these companies. \(^6\) The victims range from a 46-year-old father of four killed while trying to clear a clothes jam in an industrial dryer; to 13 workers killed in a sugar refinery explosion sparked by combustible dust; to workers at two separate companies killed in oil refinery explosions.

This report echoes the findings and methodology of a 2010 report from the Government Accountability Office 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. \(^7\) Approximately one-third of all assessments were levied against companies that continued to receive federal contracts.

Moreover, research shows that when government continues to do business with these law-breaking companies it also frequently results in poor contract performance—wasting taxpayer dollars and delivering low-quality services to the government.

Analysis from the Center for American Progress Action Fund shows that 1 in 4 companies that committed the worst workplace violations—including wage and safety violations—and later received federal contracts had significant performance problems. \(^8\) These problems ranged from contractors submitting fraudulent billing statements to the federal government; to cost overruns, performance problems, and schedule delays during the development of a major weapons system that cost taxpayers billions of dollars; to contractors falsifying firearms safety test results for courthouse security guards; to an oil rig explosion that spilled millions of barrels of oil into the Gulf of Mexico. \(^9\)
While this CAP Action analysis represents new evidence that companies who flout workplace laws also often show disregard for taxpayer value, our evaluation was 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.  

Finally, the current system puts law-abiding companies that respect their workers at a competitive disadvantage against bad actors that lower costs by paying below what they are legally required and cutting corners in workplace safety.

In a 2014 McClatchy DC report Sandie Domando—the executive vice president of Concrete Plus—explained how law-breaking federal contractors harmed businesses and taxpayers alike:

> “With those government jobs, it’s just not a fair playing field ... And that means that the tax money that we’re paying in—that everybody’s paying in—the government isn’t spending it on the people that need it… They’re giving it to companies that aren’t following the rules.”

The Broken Responsibility Review System

The federal government could have prevented many of these problems by reviewing companies’ records of workplace violations before awarding a government contract and ensuring that companies with persistent or egregious violations cleaned up their acts before receiving any new contracts.

A more thorough responsibility review is supposed to occur—the Federal Acquisition 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 purpose of a responsibility determination is not to penalize federal contractors, but to promote an efficient procurement process by ensuring that the government only deals with companies that have a good track record of legal compliance. In order to do so, the Federal Property and Administrative Services Act of 1949 and the Armed Services Procurement Act of 1947 authorize the President to create processes to ensure that federal contractors are responsible.  

Unfortunately, the existing tools to ensure that this actually happens are woefully inadequate. The federal database tracking contractor responsibility—the Federal Awardee Performance and
Integrity Information System, or FAPIIS—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, FAPIIS has not formed the basis of rigorous responsibility review.

Fixing the broken system

The Fair Pay and Safe Workplace Executive Order, signed by President Obama on July 31, 2014, simply strives to ensure that a contractor’s record of workplace law violations will be taken into account in determining if the contractor has “a satisfactory record of integrity and business ethics.” It aims to create a fair, efficient, and consistent process by which the federal government can help ensure all federal contractors are responsible and respect their workers.

In particular, the order will:

- Require federal contractors to disclose their record of compliance with workplace laws
- Ensure that law-breaking companies clean up their acts by empowering federal agencies to consult with the U.S. Department of Labor to investigate and remediate ongoing problems with their contractors

The order is informed by best practices from state and local governments, private-sector companies, and, in limited instances, federal government agencies that have adopted thorough responsibility screenings to review a potential contractor’s workplace record before entering into a contract. These laws and policies—which, in some cases, have been on the books for more than a decade—have helped improve contract performance and protect workers. Moreover, these laws help ensure that law-abiding companies can compete on a fair playing field for government contracts.

Many states—including California, Connecticut, Illinois, Massachusetts, Minnesota, and New York, as well as the District of Columbia and other major cities, including Los Angeles and New York City—have adopted responsible bidder-screening programs. They have adopted these laws to improve the quality of their contractor pools and do a better job of identifying companies with long track records of committing fraud, wasting taxpayer funds, violating workplace laws and other important regulatory protections, as well as those lacking the proper experience and licensure.
For example, Massachusetts has enacted a prequalification process for contractors bidding on state and local public-works projects, which is mandatory for projects of more than $10 million and optional for smaller projects.\(^{21}\) Prequalification is based upon various factors, including a review of the firm’s safety record and compliance with workplace laws.\(^{22}\)

New York law also requires state agencies to make a determination of responsibility before awarding a contract and encourages the use of use tools such as vendor certification and ongoing monitoring to correct problems found in responsibility reviews.\(^{23}\) New York State Comptroller Thomas DiNapoli approved a $4.7 million painting contract last year, but only after the state transportation agency appointed an independent integrity monitor to ensure that the contractor complies with wage laws. The comptroller—who reviews contracts for state agencies—had previously rejected the contractor due to an apparent connection to companies that were debarred for wage violations.\(^{24}\)

Finally, Minnesota passed legislation just last year that requires state and local governments to conduct a thorough review of a proposed contractor’s record on publicly-owned or financed construction projects on contracts valued at more than $50,000. The process includes a review of a company’s safety record and compliance with wage laws.\(^{25}\)

Some federal contracting programs also use a thorough responsibility review process in order to improve contract performance. The U.S. Department of Defense conducts a pre-award safety survey—which includes a review of safety history and accident experience—on all department ammunition and explosives contracts.\(^{26}\) The U.S. Chemical Safety Board—an independent federal watchdog agency—issued a recommendation in 2013 that the government establish similar safety review requirements for all federal contracts after an explosion killed five workers at a company contracted by the U.S. Department of the Treasury to dispose of fireworks.\(^{27}\)

Additionally, the Recovery Operations Center of the Recovery Accountability and Transparency Board provided risk assessments—including a review of past convictions and other government enforcement data—on companies that bid for contracts funded through the American Recovery and Reinvestment Act of 2009.\(^{28}\) According to the board’s executive director:

> The Board is not telling agencies what to do. When we issue an alert, we are throwing up a caution flag—take care, we are saying, before handing out that contract. Bottom line: [The program] can be used throughout the lifecycle of an award and will reduce fraud and improper payments, saving taxpayers money.\(^{29}\)

Even in the private sector, it is becoming increasingly common for companies to factor in a bidder’s workplace safety record in contracting decisions. A number of industry associations, including the Construction Users Roundtable, the American National Standards Institute, and FM Global recommend evaluating the safety record of companies that are bidding for contracts.\(^{30}\)

Opponents have argued that the new system will create an undue burden on private companies that will increase compliance costs.\(^{31}\) However, the administration has indicated that the new system will simply require law-abiding companies to check a box to certify legal compliance, a
similar process for how these firms currently report on a number of responsibility matters, including tax delinquency and contract fraud. An online database can help improve public accountability, and guidance from the Department of Labor aims to provide consistency across all branches of government.

Only contractors that have shortchanged their workers and cut corners on workplace safety should be subject to a heightened review process and any potential costs associated with complying with current workplace laws. The government can encourage these companies to clean up their acts and ensure an efficient contract award process by creating a way for companies to come forward in order to rectify ongoing problems before they bid on contracts.

Indeed, in developing draft regulations and guidance on the order, the administration has solicited input from various stakeholder groups—including business community representatives—to ensure that the new system is efficient and practicable for all parties. 32

President Obama’s order strives to ensure that companies that respect their workers are not put at a competitive disadvantage compared to bad actors that reduce costs by paying wages lower than required by law and cutting corners on workplace safety.

While opponents have argued that these sorts of policies could bar or even “black list” companies with minor workplace violations from receiving any federal contracts, improved responsibility guidance and a thorough investigation process should allow the government to identify only persistent violators of workplace laws and provide them an opportunity to clean up their acts.

Efforts to protect workers employed by contractors and ensure law-abiding contractors are able to compete on an even playing field have increasingly received bipartisan support. Last year, the House of Representatives took an even more aggressive stance, adopting an amendment to the Transportation, Housing and Urban Development Appropriations Act to deny certain federal contracts to any company that committed certain violations of the Fair Labor Standards Act. 33

States and localities have found that adopting laws to raise workplace standards among contractors actually increases competition among responsible companies, according to a report from the National Employment Law Project. 34 For example, after Maryland implemented a contractor living standard, the average number of bids for contracts in the state increased by 27 percent—from 3.7 bidders to 4.7 bidders per contract. Nearly half of contracting companies interviewed by the state of Maryland said that the new standards encouraged them to bid on contracts because it leveled the playing field. 35

Also, high-road businesses that respect their workers and obey workplace laws reported that they are more likely to bid on District of Columbia contracts since it enacted an enhanced responsibility review process in 2010. 36 According to Allen Sander, chief operating officer of Olympus Building Services Inc.:

Too often, we are forced to compete against companies that lower costs by short-changing their workers out of wages that are legally owed to them. The District of
Columbia’s contractor responsibility requirements haven’t made the contracting review process too burdensome. And now we are more likely to bid on contracts because we know that we are not at a competitive disadvantage against law-breaking companies.37

Conclusion

Congress has opportunity to support implementation of President Obama’s Fair Pay and Safe Workplaces Executive Order and thereby strive to ensure companies with long and egregious records of violating workplace laws come into compliance before they are able to receive more government contracts. This will make a considerable difference for the more than 1 in 5 American workers employed by companies receiving federal contracts; ensure law-abiding companies compete on an even playing field; improve the quality of services provided to the government; and prevent waste of taxpayer dollars.

Endnotes

5 Ibid.
8 Walter and Madland, “At Our Expense.”
9 Ibid.
16 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.

17 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.


22 Ibid. Companies seeking prequalification are required to report on every legal proceeding, administrative proceeding and arbitration currently pending or concluded adversely against it which relate to the procurement or performance of any public or private work. In addition, companies are required to report on their workers’ compensation experience modifier. These items are evaluated and scored as part of a company’s total management experience score.

23 New York State, “Vendor Responsibility Questionnaire, For-Profit Business Entity,” (2013), available at: http://www.osc.state.ny.us/vendrep/documents/questionnaire/ac3290s.pdf; and New York State, “Best Practices Determining Vendor Responsibility,” (April 2009), available at: http://www.ogs.ny.gov/procurecounc/pdfdoc/Bestpractice.pdf. New York’s Vendor Responsibility Questionnaire requires bidders to report on whether they have been subject to an investigation, open or closed, for a civil or criminal investigation; received any serious or willful OSHA citation or Notification of Penalty; or had a government entity find a willful prevailing wage violation or other willful violation of New York State Labor Law. Each state agency is responsible for establishing a vendor responsibility review and determination process. However, the Office of the State Comptroller must also be satisfied that a proposed contractor is responsible.

Minnesota House File 1984 (2014), available at https://www.revisor.mn.gov/bills/bill.php?f=HF1984&y=2014&ssn=0&b=house. Minnesota’s responsible contractor requirements took effect on January 1, 2015. To be a responsible contractor, a contractor must verify that it is in compliance with a number of state and federal laws. For example, bidders must report on violations of state wage laws; findings by U.S. Department of Labor Wage and Hour Division ruled on by an administrative law judge or Administrative Review Board; and court findings that a company is liable for underpayment of wages or penalties for misrepresenting a construction worker as an independent contractor. Contractors that are not in compliance with any one of the minimum criteria or that make a false statement are ineligible to be awarded a contract.


Karla Walter and David Madland, “At Our Expense”


For example, on October 10, 2014, the White House hosted a listening session regarding the executive order with numerous business community representatives.


