

[Received via email 9/27/2005]

Kevin:

In accordance with the request set forth in your August 16, 2005 letter to SAIC's General Counsel, and further to our previous discussions referenced below, attached please find SAIC's responses to the three matters POGO has identified as relevant to SAIC. For ease and efficiency, I have included with our response both the Case Name and POGO's Synopsis thereof.

Please note that the responses to the two older matters (circa. 1995 and 1998) are substantially similar to responses SAIC previously provided to POGO on a couple of occasions, most recently in 2003.

Again, we greatly appreciate the opportunity to respond to the information you have identified and to have our responses posted on POGO's website and/or included in POGO's database itself. If you have any questions regarding these or any other matters pertaining to SAIC, please don't hesitate to contact me directly at the number listed below.

Andrew N. Petrakes.  
Senior Counsel, SAIC  
(858) 826-2731

### **POGO-Identified Instances of Misconduct Involving SAIC**

#### **1. Case Name: United States ex rel. Woodlee v. Science Applications International Corporation**

POGO Synopsis: Science Applications International Corporation agreed to pay the United States \$2.5 million to settle allegations that it made false claims and engaged in defective pricing on delivery orders with the Air Force for environmental clean-up at Kelly Air Force Base in San Antonio, Texas. The government's complaint alleged that the corporation knowingly failed to disclose information about its costs during price negotiations with the Air Force, as required by the federal Truth in Negotiations Act. The lawsuit alleged that SAIC, in internally developing its cost and price proposals, utilized hidden management reserves to inflate its estimates of the amount of labor hours it would require to complete the delivery orders, but never told the Air Force about the reserves or the padded hours.

SAIC Response: In 2001, the government initiated an investigation - prompted by allegations made by a disgruntled former employee - into a contract awarded to SAIC in 1995 to perform environmental services at the former Kelly AFB in San Antonio, Texas. Although the government concluded that none of the former employee's allegations had merit, it partially intervened (joined) in a civil lawsuit filed by the former employee, claiming that the small, SAIC satellite office responsible for performing the work failed to disclose the existence of certain risk and profitability

analyses it had generated on proposals for a handful of firm fixed price delivery orders issued under the contract. The government claimed that such information was required to be disclosed during negotiations by the Truth in Negotiations Act (TINA, a statute applicable to only 2% of SAIC's total overall work) and the contract itself. The case involved complex legal issues regarding whether such purely judgmental information was required to be disclosed under TINA, and whether TINA even applied to the orders at issue. Notably, two of the largest trade associations in the industry took the highly unusual step of objecting - publicly and forcefully - to the Air Force's position on several grounds. SAIC ultimately agreed to settle the case for \$2.5 million, but admitted no liability or wrongdoing whatsoever and, to the contrary, affirmatively denied that it committed any violation of TINA or other wrongdoing alleged by the government. Finally, there was never any allegation that SAIC did not adequately or properly perform such environmental services, or that the government was dissatisfied in any way with SAIC's performance.

## **2. Case Name: Allegations re: Cost/Labor Mischarge**

POGO Synopsis: According to a GAO report cited by Senator Harkin and Representative DeFazio, SAIC paid \$1,124,850 to settle allegations of a "Cost/Labor Mischarge."

SAIC Response: SAIC voluntarily disclosed that an internal audit review of personnel labor categories on a U.S government contract awarded in 1988 revealed that certain personnel performing work on the contract did not have the requisite, contractually specified experience or education. As a result, SAIC credited the government for amounts billed for the services of such personnel. There was no government allegation or finding of misconduct by SAIC.

## **3. Case Name: United States ex rel. Thornton v. SAIC**

POGO Synopsis: SAIC was among three government contractors which paid "the United States a total of \$230,000 to settle allegations [of False Claims Act violations] in which they allegedly failed to properly test electrical cables installed at a U.S. Treasury facility under construction in Fort Worth, Texas, that prints money..."

The United States alleged that subcontractors falsified the testing of certain power cables during the construction of the Western Currency Production Facility in Fort Worth. The improperly tested cables were ultimately replaced.

SAIC was the prime contractor on the project. AlliedSignal, through its Bendix Field Engineering Corporation subsidiary, was retained to install certain hardware and AlliedSignal, in turn, awarded a subcontract to Lloyd Electric's predecessor, J.V. Clark Electric Co. Inc., to install electrical wiring and cables at the facility." SAIC's share of the settlement was \$125,000.

SAIC Response: SAIC was the prime contractor on a project with the U.S. Army Corps of Engineers awarded in 1990 to design, install and test a security system at the Bureau of Engraving and Printing's Western Currency Facility in Fort Worth, Texas. The government initiated an investigation relating to performance under the contract, the target of which was a second tier subcontractor to SAIC (a local electrical contractor, J.V. Clark Electric Co., who was hired by SAIC's first tier subcontractor, Bendix) who allegedly did not perform all required electrical testing on a particular cable at the facility. SAIC and Bendix offered to reimburse the government for the cost of conducting the investigation, which amounted to \$230,000 (SAIC paid \$125,000), provided that the government intervene in the case and obtain a dismissal with prejudice. The government agreed and settled the case on this basis. SAIC was assessed no fines or penalties and admitted no liability.