

Boeing's call for help from Air Force raises more questions

Contract pursued even after scandal

By Byron Acohidio
USA TODAY

The phone rang in the Pentagon office of Air Force Assistant Secretary Marvin Sambur about the same time the story of Boeing's ethics scandal hit news wires two Monday mornings ago.

The caller was Jim Albaugh, chief of Boeing's defense and space unit, who told Sambur that his company had fired its chief financial officer and another executive — who had been a high-ranking Air Force procurement official in 2002 — for ethical misconduct. The circumstances were related to a pending \$18 billion contract to supply the Air Force with modified Boeing 767 tankers, used to refuel fighter jets in midair.

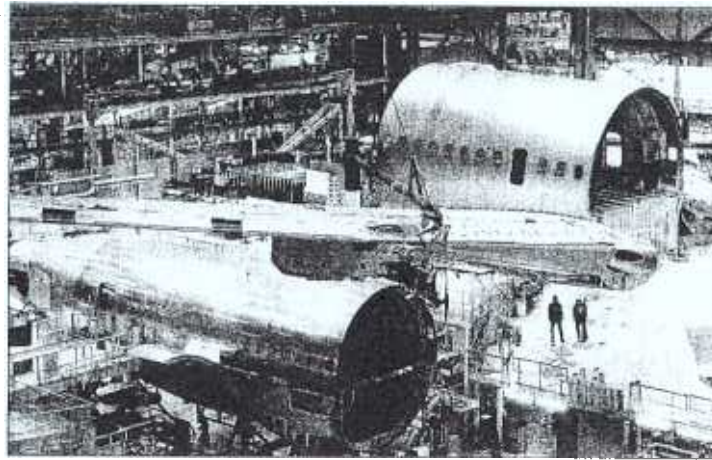
Albaugh's gesture was more than a courtesy call to the Air Force's top civilian official for acquisitions. He also wanted Sambur's help in closing the deal.

Sambur did help, but his and Boeing's efforts in the days after Albaugh's call have raised new questions about the close ties between the Air Force and one of the nation's top defense contractors. Friday, Sen. John McCain, R-Ariz., who derided the original \$21 billion tanker deal as a Boeing bailout, accused the Air Force of secretly trying to undercut Congress' scaled-down compromise plan.

"It's astonishing," McCain says. "Even in light of serious allegations, they continued to push to railroad the deal through, and they still are."

Boeing's contracting scandal led to CEO Phil Condit's resignation last week, and the fallout isn't over. With the Pentagon's inspector general now reviewing all of Boeing's dealings with the Defense Department and new Senate hearings on the tanker plan set for February, Boeing may face a long wait before it sees revenue from the contract.

The future of its 767 model and thousands of jobs dedicated to building it all



File photo by Michael O'Leary, AP

In production: Crane operators lowered the wing and center of a Boeing 767 tanker in May.

depend on the outcome.

According to Sambur, that was on Albaugh's mind the day he called for helping the contract wrapped up.

On Nov. 24, the same morning Boeing fired two executives, President Bush signed a \$400 billion defense spending bill allowing the Air Force to lease 20 of the 767s this fiscal year and buy 80 more later.

Sambur says Albaugh wanted the Air Force to sign a contract quickly so Boeing could begin building the wing of the first tanker Dec. 12. Airline orders for the 767 had dried up, and Boeing needed the Air Force deal to keep production going.

Albaugh, who confirmed his call but declined to discuss specifics, that day told Sambur that Boeing faced "tough decisions" about the 767, Sambur recalls.

Months ago, Boeing had decided to phase out the 757 model because of declining orders. Sambur says Albaugh told him the company soon would have to make a decision on the 767: "Do they continue working? Do they stop production?"

Sambur, who had championed the original Boeing tanker deal, sprang into action.

The evening of Nov. 25 and most of the next day, Sambur and Defense Department colleagues worked their e-mail, trying to win support for an immediate contract even though Defense Secretary Donald Rumsfeld had told reporters Nov. 25 the deal needed further review.

When a colleague brought up Rumsfeld's mandate, Sambur suggested signing a contract after a two-week "pause."

"Ever since the beginning, they've been trying to push this thing through as fast as they could," says Eric Miller, senior defense investigator for the Project on Government Oversight. "It's hard to tell whether the need was driving the deal or the deal was driving the need."

Sambur says he was doing his job. "The law was written. The law was signed. We were acting on the law," he says.

But when word of Sambur's efforts reached McCain, the senator was furious. While hashing out the compromise in early November, McCain said, he had asked Pentagon officials several times to supply him with contract wording they intended to use to implement the tanker

compromise, but he was repeatedly rebuffed.

The original proposal to lease 100 tankers for \$21 billion had become mired in criticism that it was too expensive. Leasing just 20 tankers would save taxpayers \$3 billion to \$5 billion.

McCain says it became clear to him in early November that Deputy Defense Secretary Paul Wolfowitz and some House members wanted to give the Air Force leeway to sign a contract to lease 100 jets, not 20.

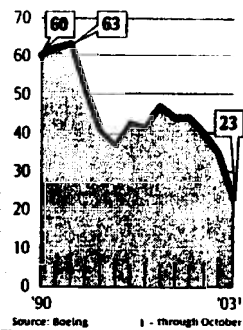
The catch: Just before delivery on jets No. 21 to No. 100, the Air Force would exercise an option to buy them, meeting the letter, but not the spirit, of the compromise.

In what McCain describes as an "Erroneous arrangement," the government would pay upfront leasing expenses on 80 jets it was required by law to buy, and savings would top out at \$2 billion, not \$5 billion.

The firing of Boeing CFO Mike Sears and military contracts manager Darleen Druyun, announced Nov. 24, seemed to con-

767 model's decline

Boeing currently has 26 unfilled orders of 767s, creating a production backlog. Annual 767 deliveries:



Source: Boeing | - through October
By Marcy E. Mullins, USA TODAY

firm the worst suspicions of the opponents of the tanker deal. Before joining Boeing in late 2002, Druyun had been an Air Force procurement specialist under Sambur and a chief architect of the tanker lease deal.

Boeing said an internal investigation revealed Sears violated company policy by offering Druyun a job before she had recused herself from Boeing-related negotiations. Sears and Druyun had tried to conceal their actions, Boeing said.

The timing of the dismissals was driven by Boeing's desire to do the right thing, says Boeing spokesman John Dern. "Once we felt like we had the facts verified and well established, we weren't going to wait," he says.

Nov. 25, the day after the firings, Boeing's board of directors accepted Condit's resignation and began laying plans to announce his departure after Thanksgiving weekend. Nov. 28, the day after Thanksgiving, McCain and Sen. Peter Fitzgerald, R-Ill., wrote to Rumsfeld charging that it would be "irresponsible" to sign a contract with Boeing without a full review.

McCain and Fitzgerald sent Rumsfeld more evidence, saying Druyun advanced Boeing's interests "to the detriment of our military needs and the interests of taxpayers."

In one Oct. 12, 2001, e-mail provided by McCain's office, a senior Boeing executive advised Sears that "Darleen will make the actual contract favorable and is willing to go to the financial market with us to stress the low risk in such a lease with the USAF. I think we should support her plan." And a June 17, 2002, e-mail described Druyun's "covert operation" to direct more funding sources to the lease plan.

Sambur says the draft contract has changed substantially in the year since his former subordinate Druyun left to join Boeing. "There's nothing left that has her fingerprints on it," he says.

Paul Nisbet, aerospace industry analyst at JSA Research, believes Condit might have kept his job if the Air Force produced a signed contract over Thanksgiving weekend. "If it had come through, I think he'd still be there," he says.