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SPECIAL COMMITTEE ON AGING

## United States Senate

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June 25, 2019

The Honorable John W. Henderson  
Assistant Secretary of the Air Force for Installations, Environment, and Energy  
U.S. Department of the Air Force  
1670 Air Force Pentagon  
Washington, D.C. 20330

Dear Assistant Secretary Henderson:

I am writing to express deep concern and request additional information regarding recent reports that Balfour Beatty Communities, LLC (Balfour) – a private military housing provider – has been submitting falsified maintenance records to the Department of the Air Force (Air Force) in order to receive millions of dollars in unearned performance incentive fees. Balfour allegedly “systematically falsified” maintenance logs in order to “boost income” while leaving families in unsafe and hazardous homes.<sup>1</sup> Making this matter even more troubling, it appears that while Balfour was failing to provide the “quality homes,” it assured Congress and the public it was offering to servicemembers,<sup>2</sup> the Air Force was allowing this to happen, and failing to use its oversight authority to protect residents and taxpayers.

After media reports late last year revealed that private military housing companies were failing to provide quality housing to our military personnel and their families, I wrote to the Air Force on February 6, 2019 requesting information about military housing agreements between the Air Force and Balfour and other private housing companies like Balfour.<sup>3</sup> You reassured me in a letter response and in a Senate Armed Services Committee hearing that “the Air Force performs direct compliance oversight on privatized housing project owners,”<sup>4</sup> and “what ultimately determines whether a military family has a positive or negative experience in military housing has everything to do with the on-site leadership managing the housing at each location.”<sup>5</sup> The new allegations about the shameful conduct of local housing offices, and the Air

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<sup>1</sup> Reuters, “Air Force landlord falsified records to boost income, documents show,” M.B. Pell, June 18, 2019, <https://www.reuters.com/investigates/special-report/usa-military-maintenance/>.

<sup>2</sup> Balfour Beatty Communities, “Written Statement,” February 13, 2019, [https://www.armed-services.senate.gov/imo/media/doc/Williams\\_02-13-19.pdf](https://www.armed-services.senate.gov/imo/media/doc/Williams_02-13-19.pdf).

<sup>3</sup> Letter from Senator Elizabeth Warren to military housing developers and military services, February 6, 2019, <https://www.warren.senate.gov/oversight/letters/senator-warren-questions-military-housing-developers-on-defense-dept-partnership-agreements>; Reuters, “Ambushed at home: the hazardous, squalid housing of American military families,” <https://www.reuters.com/investigates/section/usa-military/>.

<sup>4</sup> Air Force, Response to Questions for the Record, May 28, 2019, [on file with the Office of Senator Warren].

<sup>5</sup> Senate Committee on Armed Services, “Current Condition of the Military Housing Privatization Initiative,” February 13, 2019, <https://www.armed-services.senate.gov/hearings/19-02-13-current-condition-of-the-military-housing-privatization-initiative>.

Force's failure to police that conduct, provide a troubling explanation for why thousands of military families are forced to live in unsafe or unsanitary military housing.

Balfour – one of several major private military developers who “operate 99 percent of domestic military family housing”<sup>6</sup> – currently runs seven Air Force Military Housing Privatization Initiative (MHPI) projects – including the AMC West project, which consists of Fairchild Air force Base in Washington, Tinker Air Force Base in Oklahoma, and Travis Air Force Base in California.<sup>7</sup> All three of these installations are now subject to “ongoing investigations” by the Federal Bureau of Investigations and the Air Force Office of Special Investigations for their “record keeping practices.”<sup>8</sup>

Balfour allegedly employed misleading practices to deceive the Air Force into awarding the company performance incentive fees – which depend on how quickly the company responds to emergency, urgent and routine work orders and on how the company scores on maintenance surveys completed by residents. Balfour, like other military housing developers that signed agreements with the military services uses a complicated web of subsidiaries and affiliates to serve as property managers and developers that receive these incentive fees.<sup>9</sup> Over the last ten years, Balfour and its affiliate created to manage the AMC West Project, have been receiving a 2.5% monthly base management fee calculated from the Effective Gross Revenue of the project, and up to 2% of the Effective Gross Revenue of the project as incentive management fees.<sup>10</sup> Since 2009 – Balfour and its affiliates have received almost \$10 million in total performance incentive fees for asset and property management of the AMC West project.<sup>11</sup> But if the new allegations are true, it appears that Balfour received these rewards – funded mostly with the rent Air Force servicemembers and their families pay to live in the houses Balfour was failing to maintain – based on years of falsified records.

According to the reports, at least one Balfour installation “kept two sets of maintenance books,” in order to mislead the Air Force about how quickly it was responding to maintenance requests and regularly “backdated repair requests, filed paperwork claiming false exemptions from response-time requirements, or closed out unfinished maintenance requests.”<sup>12</sup> The company also reportedly “issued broad instructions to employees to alter the books” creating and sanctioning a culture of fraud in its local housing offices. Balfour claims, a “single employee

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<sup>6</sup> Government Accountability Office, “Military Housing Privatization: DOD Should Take Steps to Improve Monitoring, Reporting, and Risk Assessment,” March 2018, <https://www.gao.gov/assets/700/690621.pdf>.

<sup>7</sup> Balfour Beatty Communities, Response to Senator Elizabeth Warren Regarding Private Military Housing Investigation Document Request, February 20, 2019, [on file with the Office of Senator Warren].

<sup>8</sup> CBS News, “Military housing contractor ignored dangerous filth and misled Air Force, investigation shows,” June 18, 2019, <https://www.cbsnews.com/news/balfour-beatty-mold-ant-infestations-and-leaks-inside-homes-managed-by-one-of-the-militarys-largest-housing/>; Reuters, “Air Force landlord falsified records to boost income, documents show,” M.B. Pell, June 18, 2019, <https://www.reuters.com/investigates/special-report/usa-military-maintenance/>.

<sup>9</sup> Office of Senator Elizabeth Warren, “Senator Warren Releases Her Investigation of the Pentagon's Substandard Military Base Housing Program,” May 01, 2019, <https://www.warren.senate.gov/oversight/letters/senator-warren-releases-her-investigation-of-the-pentagons-substandard-military-base-housing-program>.

<sup>10</sup> Balfour Beatty Communities, Response to Senator Elizabeth Warren Regarding Private Military Housing Investigation Document Request, February 20, 2019, [on file with the Office of Senator Warren].

<sup>11</sup> Air Force, Response to Questions for the Record, May 28, 2019, [on file with the Office of Senator Warren].

<sup>12</sup> Reuters, “Air Force landlord falsified records to boost income, documents show,” M.B. Pell, June 18, 2019, <https://www.reuters.com/investigates/special-report/usa-military-maintenance/>.

acted inappropriately” and that it fired that individual in mid-2016. Yet, it appears the company continued to modify its response-time reports to the Air Force after the firing. In one instance – after the firing – it informed the Air Force that “it completed between 96% and 98% of maintenance calls on time” when in fact “the company completed 12% of its maintenance calls late” – a failure rate that was three to six times higher than Balfour initially reported.<sup>13</sup>

These falsified documents allegedly went uncorrected and unchallenged for years because the Air Force Civil Engineering Center (AFCEC) – the unit tasked with overseeing and evaluating the Air Force’s privatized housing – blocked attempts to hold Balfour accountable and “sided” with the company. In the last few years alone, AFCEC officials allegedly ignored at least 18 specific warnings from local installation level Air Force housing employees, instead “giving the company high service marks and advising [the local officials] to drop their complaints.” When asked about the misleading recordkeeping practices found on Air Force installations, you said that you “trust [your] private sector partners to act in good faith” and that “we must hold those responsible accountable” when they fail to do so.<sup>14</sup> Yet, even after the Air Force became aware of this issue, it “never clawed back incentive fees paid to Balfour Beatty ... nor has AFCEC audited the maintenance records of any other base managed by” Balfour.<sup>15</sup> Moreover, in your response to my February 26 letter, you said “[t]he Air Force has not completely withheld a performance fee from any privatized military housing provider,” including Balfour.<sup>16</sup> This indicates a profound failure by the Air Force to use its oversight authority and its contractual authority to withhold incentive payments- and it requires an explanation.

It was deeply disturbing to learn that, members of our military and their families have been living in unsafe and unsanitary homes that fail to meet basic quality standards.<sup>17</sup> It is especially frustrating to discover now that Air Force servicemembers and their families have been living in these unsafe conditions while a private military housing company has been systematically falsifying its maintenance records in order to receive millions of dollars in incentive fees while the Air Force was looking the other way.<sup>18</sup>

In order to help me better understand the why the Air Force was unable to prevent the misleading practices alleged in the June 18, 2019 *Reuters* report, I ask that you provide answers to the following questions no later than July 9, 2019.

1. Has the Air Force confirmed the use of false or misleading maintenance or other logs by Balfour Beatty or any of its affiliated entities in the MHPI program?
2. Was the Office of the Assistant Secretary of the Air Force for Installations, Environment and Energy (SAF/IE) aware of the misleading maintenance log recordkeeping and reporting practices at Tinker Air Force Base or any other

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<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> Air Force, Response to Questions for the Record, May 28, 2019, [on file with the Office of Senator Warren].

<sup>17</sup> Reuters, “Children poisoned by lead on U.S. Army bases as hazards go ignored,” Joshua Schneyer and Andrea Januta, August 16, 2018, <https://www.reuters.com/investigates/special-report/usa-military-housing/>.

<sup>18</sup> Reuters, “Air Force landlord falsified records to boost income, documents show,” M.B. Pell, June 18, 2019, <https://www.reuters.com/investigates/special-report/usa-military-maintenance/>.


- installations or projects managed and operated by Balfour Beatty Communities, LLC and/or its affiliates before receiving any communication from news organizations? If so, when did SAF/IE first become aware of these practices?
- a. Did AFCEC inform SAF/IE or any other relevant senior Air Force units or departments if, and when they became aware that Balfour was systematically falsifying records at some installations?
  - b. Did SAF/IE conduct investigations into these allegations? If so, please provide complete copies of your findings. If not, what actions did SAF/IE take in response to these allegations?
3. Did SAF/IE have any communication with local Air Force housing officials, employees of Balfour, or any other Air Force units about the misleading practices outlined in the June 18, 2019 *Reuters* article, before the publication of the report? If so, please provide any emails, notes, or other written communications between your company and Air Force officials or Balfour staff regarding these practices.
4. Were you or anyone else at SAF/IE aware of the internal memos circulated to Balfour employees "instructing them on how to engage in" falsifying maintenance logs – through backdating repair requests, "claiming false exemptions from response-time requirements," closing out unfinished maintenance requests, or any other misleading recordkeeping and reporting practices? If so, when did you and others at SAF/IE first become aware?
- a. Did SAF/IE conduct investigations into these allegations? If so, please provide complete copies of your findings. If not, what actions did SAF/IE take in response to these allegations?
5. Are you aware if Balfour makes available uniform standard operating procedure manuals – outlining processes for maintenance work, inspections, recordkeeping and reporting – to property management staff? If so, please provide complete copies of these manuals in your possession. If not, are you aware what processes and guidelines Balfour has in place to guarantee that residents are living in "quality homes"?
6. In your response to my February 26 letter, you promised to provide "an electronic copy of the work logs for the last 12 months" from your project owner partners. Has Balfour made these documents available to your office? If so, please provide copies to my office. If not, when do you expect Balfour to provide you with copies of these documents?
7. In your response to my February 26 letter, you said that the AFCEC "provides a 2-hour one-on-one leadership orientation discussion tailored to each new installation commander and their leadership team" on a range of issues. Do you believe this is still the most effective form of training new installation commanders?
8. In your response to my February 26 letter, you said, "the Air Force can engage project owners at corporate levels to withhold performance incentive fees, engage enforcement agencies, issue cure notices, and take other formal dispute actions."

Which if any of these actions has the Air Force taken in the past three years to address the allegations made in the June 18, 2019 *Reuters* article? How much in incentive or other fees awarded due to false or misleading records has the Air Force clawed back from Balfour Beatty?

9. In your response to my February 26 letter, you said, “the Air Force has not had any formal findings of malfeasance and has therefore not taken any actions to alter or amend any agreement based on such a finding.” Has the Air Force made any informal findings of malfeasance? Do you believe, the allegations made in the June 18, 2019 *Reuters* article, merit an alteration or amendments to any agreements you have with Balfour?

Thank you for your attention to this matter.

Sincerely,



Elizabeth Warren  
United States Senator