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Costs Skyrocket As DHS Runs Up No-Bid Contracts

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$2 Million Security Project Balloons to $124 Million

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The project started in 2003 with a $2 million contract to help the new Department of Homeland Security quickly get an intelligence operation up and running.

Over the next year, the cost of the no-bid arrangement with consultant Booz Allen Hamilton soared by millions of dollars per month, as the firm provided analysts, administrators and other contract employees to the department's Information Analysis and Infrastructure Protection offices.

By December 2004, payments to Booz Allen had exceeded $30 million -- 15 times the contract's original value. When department lawyers examined the deal, they found it was "grossly beyond the scope" of the original contract, and they said the arrangement violated government procurement rules. The lawyers advised the department to immediately stop making payments through the contract and allow other companies to compete for the work.

But the competition did not take place for more than a year. During that time, the payments to Booz Allen more than doubled again under a second no-bid arrangement, to $73 million, according to internal documents, e-mail and interviews.

The arrangements with the McLean consulting firm, one of the nation's largest government contractors, illustrate a transformation in the way the federal government often gets its work done: by relying on private, sometimes costly consultants to fill staffing shortfalls in federal agencies.

Contracting specialists said companies are increasingly being called upon to handle duties once considered appropriate only for government workers. And because the number of federal procurement workers responsible for overseeing spending has not kept pace, the spending on such contracts often soars far beyond approved estimates, the specialists said.

Elaine C. Duke, the department's chief procurement officer, acknowledged the problems with the Booz Allen contract in a recent interview. She said that the "contracting officers were stretched thin" and that the managers running the program were unable to provide clear guidance about what they needed to buy. But Duke said those matters have been resolved. She defended a decision to issue a second no-bid contract in 2005 as necessary to keep an essential intelligence operation running until a competition could be held.

"It was the best out of the choices that we had on the table at the time," she said. "We couldn't have a gap in mission."

Booz Allen vice president Jack Mayer said his firm did quality work, followed federal rules and charged fair prices. Mayer said Booz Allen was prepared to compete with other companies for the work. He said the cost of the project ballooned because demands from the department's offices kept expanding.

"What happened was the hours that people were working," he said. "It wasn't Booz Allen's fault."

A review of memos, e-mail and other contracting documents obtained by The Washington Post show that in a rush to meet congressional mandates to establish the information analysis and infrastructure protection offices, agency officials routinely waived rules designed to protect taxpayer money. As the project progressed, the department became so dependent on Booz Allen that it lost the flexibility for a time to seek out other contractors or hire federal employees who might do the job for less.

The average annual cost of a contract employee is $250,000, almost twice that of a federal employee, according to an estimate recently cited by the Senate Select Committee on Intelligence.

In May 2003, the Department of Homeland Security was trying to organize itself following the merger of 22 agencies. It immediately began to rely heavily on contractors to staff its operations and outfit offices with computer systems and other technology.

One of the core tasks it faced was the creation of operations that would analyze potential threats and protect government facilities, power plants and other parts of the nation's infrastructure. The department's offices were to be responsible for supporting the anti-terrorism efforts of other local, state and federal agencies, as well as the private sector, by sharing information about possible threats, government documents show.

The newly created department, however, had only a skeleton procurement staff. So it turned to the Department of Veterans Affairs to handle the contract award. Veterans Affairs officials in turn hired Booz Allen through the General Services Administration. Booz Allen is one of the government's biggest contractors, with about $2 billion in federal revenue, and had done extensive work for defense and intelligence agencies. The GSA had preapproved Booz Allen to provide engineering and professional services to federal agencies at set labor rates.

Such inter-agency arrangements offer flexibility to government agencies. But audits have found they can lead to diminished oversight and accountability. That's because responsibility for monitoring spending and work is divided among agencies.

Auditors at the Government Accountability Office said Homeland Security officials acknowledged that they often used such arrangements for the "speed and convenience -- not total value including cost." The GAO report last year cited the contract with Booz Allen as an example where there was insufficient planning and "no assurance of good value."

As the work at the Homeland Security offices grew, spending on labor costs quickly surpassed the original estimate and mounted throughout 2003 and 2004.

One indication of the minimal oversight:

In fall 2004, while the contract was administered by Veterans Affairs, Booz Allen took on a variety of tasks without government approval for as long as seven weeks, according to an e-mail by a Homeland Security procurement official. "VA never Oked the work, by an order or verbally," contracting officer Paul Attorri wrote.

A Booz Allen spokesman said details about the apparent lapse were unavailable. But he said the firm had a valid contract during the period in question.

On Dec. 21, 2004, the Homeland Security Department decided it was time to take back control of the contract's management from Veterans Affairs. Department lawyers and procurement officials soon discovered that the deal "had grown many magnitudes beyond its original $2M,"Attorri wrote in an e-mail.

The discovery put Homeland Security officials in a hard place. The department had become so reliant on Booz Allen for support that contracting officials said the information analysis office "would not be able to function, let alone attempt to carry out their missions" without the firm's employees, a contracting official later wrote.

That support work included intelligence analysis, preparation of congressional reports, budget activities and other tasks crucial to the operation of the office, documents show.

To buy themselves time to solicit bids, agency officials decided they should award Booz Allen a temporary "bridge" contract through the GSA to keep the infrastructure and intelligence analysis offices running. As part of that move, the department used its authority to dispense with federal acquisition procedures that would have brought extra delays -- and more scrutiny -- to the project, according to memos, e-mail and interviews with procurement officials.

Throughout the spring of 2005, for instance, Booz Allen worked for months with only "verbal authorization" from Homeland Security officials, rather than a written contract, as the department continued working on the bridge contract, according to Duke, the department's procurement chief.

In March 2005, a senior agency procurement official asked for approval in an e-mail to waive a requirement that the department draw up a plan for spending the money. The reason: The bridge contract was "contemplated only as a short-term sole-source" arrangement. Ashley J. Lewis, the department's director of acquisition policy and oversight at the time, approved the request less than a day after he received it: "You've got it," Lewis said in a brief response.

Contracting officials did not create a statement of the work that would "require measurable performance and quality standards" from Booz Allen. A contracting specialist wrote that "the massive effort . . . was not feasible in this situation" because the bridge contract was considered temporary.

Officials did not require Booz Allen to provide a fixed price for the work they would be doing -- a standard way of preventing cost overruns; the government agreed to pay the firm by the hour on an open-ended basis. Officials used that approach because they did not know how much the project would eventually cost. Booz Allen's labor rates ran $42 to $383 an hour.

On May 25, 2005, Homeland Security approved the temporary contract that would keep the offices operating. The deal was projected to be worth $18 million, a third more than previously estimated.

Because its approval took so long, the arrangement was technically slated to end less than a week later, when the department hoped to allow other companies to bid for the work. But the "bridge contract" did not end, and costs continued to rise.

On June 1, 2005, the temporary contract was extended, as the agency approved the first of multiple modifications to the work that would increase spending by at least $25 million more.

When Booz Allen finally faced competition last year, Homeland Security had broken the work into five contracts. In total, those contracts were worth more than $50 million over a year's time.

Booz Allen won them all.

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