

In Washington, Contractors Take On Biggest Role Ever

By [SCOTT SHANE](#) and RON NIXON



Boeing won a contract for the Secure Border Initiative, which includes high-tech watchtowers in Arizona.

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[WASHINGTON](#), Feb. 3 — In June, short of people to process cases of incompetence and fraud by federal contractors, officials at the [General Services Administration](#) responded with what has become the government's reflexive answer to almost every problem.

They hired another contractor.

It did not matter that the company they chose, CACI International, had itself recently avoided a suspension from federal contracting; or that the work, delving into investigative files on other contractors, appeared to pose a conflict of interest; or that each person supplied by the company would cost taxpayers \$104 an hour. Six CACI workers soon joined hundreds of other private-sector workers at the G.S.A., the government's management agency.

Without a public debate or formal policy decision, contractors have become a virtual fourth branch of government. On the rise for decades, spending on federal contracts has soared during the Bush administration, to about \$400 billion last year from \$207 billion in 2000, fueled by the war in Iraq, domestic security and Hurricane Katrina, but also by a philosophy that encourages outsourcing almost everything government does.

Contractors still build ships and satellites, but they also collect income taxes and work up agency budgets, fly pilotless spy aircraft and take the minutes at policy meetings on the war. They sit next to federal employees at nearly every agency; far more people work under contracts than are directly employed by the government. Even the government's online database for tracking contracts, the Federal Procurement Data System, has been outsourced (and is famously difficult to use).

The contracting explosion raises questions about propriety, cost and accountability that have long troubled watchdog groups and are coming under scrutiny from the Democratic majority in Congress. While flagrant cases of fraud and waste make headlines, concerns go beyond outright wrongdoing. Among them:

¶ Competition, intended to produce savings, appears to have sharply eroded. An analysis by The New York Times shows that fewer than half of all "contract actions" — new contracts and payments against existing contracts — are now subject to full and open competition. Just 48 percent were competitive in 2005, down from 79 percent in 2001.

¶ The most secret and politically delicate government jobs, like intelligence collection and budget preparation, are increasingly contracted out, despite regulations forbidding the outsourcing of "inherently governmental" work. Scott Amey, general counsel at the Project on Government Oversight, a watchdog group, said allowing CACI workers to review other contractors captured in microcosm "a government that's run by corporations."

¶ Agencies are crippled in their ability to seek low prices, supervise contractors and intervene when work goes off course because the number of government workers overseeing contracts has remained level as spending has shot up. One federal contractor explained candidly in a conference call with industry analysts last May that "one of the side benefits of the contracting officers being so overwhelmed" was that existing contracts were extended rather than put up for new competitive bidding.

¶ The most successful contractors are not necessarily those doing the best work, but those who have mastered the special skill of selling to Uncle Sam. The top 20 service contractors have spent nearly \$300 million since 2000 on lobbying and have donated \$23 million to political campaigns. "We've created huge behemoths that are doing 90 or 95 percent of their business with the government," said Peter

W. Singer, who wrote a book on military outsourcing. “They’re not really companies, they’re quasi agencies.” Indeed, the biggest federal contractor, Lockheed Martin, which has spent \$53 million on lobbying and \$6 million on donations since 2000, gets more federal money each year than the Departments of Justice or Energy.

¶ Contracting almost always leads to less public scrutiny, as government programs are hidden behind closed corporate doors. Companies, unlike agencies, are not subject to the Freedom of Information Act. Members of Congress have sought unsuccessfully for two years to get the Army to explain the contracts for Blackwater USA security officers in Iraq, which involved several costly layers of subcontractors.

Weighing the Limits

The contracting surge has raised bipartisan alarms. A just-completed study by experts appointed by the White House and Congress, the Acquisition Advisory Panel, found that the trend “poses a threat to the government’s long-term ability to perform its mission” and could “undermine the integrity of the government’s decision making.”

The House Committee on Oversight and Government Reform, whose new Democratic chairman, [Representative Henry A. Waxman](#) of California, added the word “oversight” to signal his intentions, begins a series of investigative hearings on Tuesday focusing on contracts in Iraq and at the [Department of Homeland Security](#).

“Billions of dollars are being squandered, and the taxpayer is being taken to the cleaners,” said Mr. Waxman, who got an “F” rating last year from the Contract Services Association, an industry coalition. The chairman he succeeded, Representative Thomas M. Davis III, Republican of Virginia, earned an “A.”

David M. Walker, who as comptroller general of the United States leads the [Government Accountability Office](#), has urged Congress to take a hard look at the proper limits of contracting. Mr. Walker has not taken a stand against contractors — his agency is also dependent on them, he admits — but he says they often fail to deliver the promised efficiency and savings. Private companies cannot be expected to look out for taxpayers’ interests, he said.

“There’s something civil servants have that the private sector doesn’t,” Mr. Walker said in an interview. “And that is the duty of loyalty to the greater good — the duty of loyalty to the collective best interest of all rather than the interest of a few. Companies have duties of loyalty to their shareholders, not to the country.”

Even the most outspoken critics acknowledge that the government cannot operate without contractors, which provide the surge capacity to handle crises without expanding the permanent bureaucracy. Contractors provide specialized skills the government does not have. And it is no secret that some government

executives favor contractors because they find the federal bureaucracy slow, inflexible or incompetent.

Stan Soloway, president of the Professional Services Council, which represents government contractors, acknowledged occasional chicanery by contractors and too little competition in some areas. But Mr. Soloway asserted that critics had exaggerated the contracting problems.

"I don't happen to think the system is fundamentally broken," he said. "It's remarkable how well it works, given the dollar volume."

Blurring the Lines

Wariness of government contracting dates at least to 1941, when [Harry S. Truman](#), then a senator, declared, "I have never yet found a contractor who, if not watched, would not leave the government holding the bag."

But the recent contracting boom had its origins in the "reinventing government" effort of the Clinton administration, which slashed the federal work force to the lowest level since 1960 and streamlined outsourcing. Limits on what is "inherently governmental" and therefore off-limits to contractors have grown fuzzy, as the General Services Administration's use of CACI International personnel shows.

"Hi Heinz," Renee Ballard, a G.S.A. official, wrote in an e-mail message to Heinz Ruppmann, a CACI official, last June 12, asking for six "contract specialists" to help with a backlog of 226 cases that could lead to companies being suspended or barred from federal contracting. The CACI workers would review files and prepare "proposed responses for review and signature," she wrote.

Mr. Amey, of the Project on Government Oversight, which obtained the contract documents under the Freedom of Information Act, said such work was clearly inherently governmental and called it "outrageous" to involve contractors in judging the misdeeds of potential competitors. CACI had itself been reviewed in 2004 for possible suspension in connection with supplying interrogators to the Abu Ghraib prison in Iraq. The company was ultimately cleared, though the G.S.A. found that CACI employees had improperly written parts of the "statements of work" for its own Iraq contract.

The price of \$104 an hour — well over \$200,000 per person annually — was roughly double the cost of pay and benefits of a comparable federal worker, Mr. Amey said.

Asked for comment, the G.S.A. said decisions on punishments for erring contractors "is indeed inherently governmental." But the agency said that while the CACI workers assisted for three months, "all suspension/debarment decisions were made by federal employees." A CACI spokeswoman made the same point.

The G.S.A., like other agencies, said it did not track the number or total cost of its contract workers. The agency administrator, Lurita Doan, who previously ran a Virginia contracting firm, has actively pushed contracting. Ms. Doan recently clashed with her agency's inspector general over her proposal to remove the job of auditing contractors' proposed prices from his office and to hire contractors to do it instead.

On some of the biggest government projects, Bush administration officials have sought to shift some decision making to contractors. When Michael P. Jackson, deputy secretary of the Department of Homeland Security, addressed potential bidders on the huge Secure Border Initiative last year, he explained the new approach.

"This is an unusual invitation," said Mr. Jackson, a contracting executive before joining the agency. "We're asking you to come back and tell us how to do our business."

Boeing, which won the \$80 million first phase of the estimated \$2 billion project, is assigned not only to develop technology but also to propose how to use it, which includes assigning roles to different government agencies and contractors. Homeland Security officials insist that they will make all final decisions, but the department's inspector general, Richard L. Skinner, reported bluntly in November that "the department does not have the capacity needed to effectively plan, oversee and execute the SBInet program."

A 'Blended Work Force'

If the government is exporting some traditional functions to contractors, it is also inviting contractors into agencies to perform delicate tasks. The State Department, for instance, pays more than \$2 million a year to BearingPoint, the consulting giant, to provide support for Iraq policy making, running software, preparing meeting agendas and keeping minutes.

State Department officials insist that the company's workers, who hold security clearances, merely relieve diplomats of administrative tasks and never influence policy. But the presence of contractors inside closed discussions on war strategy is a notable example of what officials call the "blended work force."

That blending is taking place in virtually every agency. When Polly Endreny, 29, sought work last year with the National Oceanographic and Atmospheric Administration, she was surprised to discover that most openings were with contractors.

"The younger generation is coming in on contracts," said Ms. Endreny, who likes the arrangement. Today, only the "Oak Management" on her ID badge distinguishes her from federal employees at the agency's headquarters.

She said her pay was “a little higher” than that of comparable federal workers, and she gets dental coverage they do not. Such disparities can cause trouble. A recent study of one NOAA program where two-thirds of the work force were contractors found that differences in salary and benefits could “substantially undermine staff relations and morale.”

The shift away from open competition affects more than morale. One example among many: with troops short in Iraq, Congress in 2003 waived a ban on the use of private security guards to protect military bases in the United States. The results for the first \$733 million were dismal, investigators at the Government Accountability Office found.

The Army spent 25 percent more than it had to because it used sole-source contracts at 46 of 57 sites, the investigators concluded. And screening of guards was so lax that at one base, 61 guards were hired despite criminal records, auditors reported. Yet the Army gave the contractors more than \$18 million in incentive payments intended to reward good performance. (The Army did not contest G.A.O.’s findings and has changed its methods.)

A Coalition for Contracting

Mr. Soloway, of the contracting industry group, argues that the contracting boom has resulted from the collision of a high-technology economy with an aging government work force — twice as many employees are over 55 as under 30. To function, Mr. Soloway said, the government must now turn to younger, skilled personnel in the private sector, a phenomenon likely to grow when what demographers call a “retirement tsunami” occurs over the next decade.

“This is the new face of government,” Mr. Soloway said. “This isn’t companies gouging the government. This is the marketplace.”



Paul C. Light of New York University says hiring contractors lets the government claim it has

But Paul C. Light of [New York University](#), who has **trimmed its work force.** long tracked the hidden contractor work force to assess what he calls the “true size of government,” says the shift to contractors is driven in part by federal personnel ceilings. He calls such ceilings a “sleight of hand” intended to allow successive administrations to brag about cutting the federal work force.

Yet Mr. Light said the government had made no effort to count contractors and no assessment of the true costs and benefits. “We have no data to show that contractors are actually more efficient than the government,” he said.

Meanwhile, he said, a potent coalition keeps contracting growing: the companies, their lobbyists and supporters in Congress and many government managers, who do not mind building ties to contractors who may hire them someday. “All the players with any power like it,” he said.

That is evident wherever in Washington contractors gather to scout new opportunities. There is no target richer than the Homeland Security Department, whose Web site, in a section called “Open for Business,” displays hundreds of open contracts, including “working with selected cities to develop and exercise their catastrophic plans” (\$500,000 to \$1 million) and “Conduct studies and analyses, systems engineering, or provide laboratory services to various organizations to support the DHS mission” (\$20 to \$50 million).

One crisp morning in an office building with a spectacular view of the Capitol, Alfonso Martinez-Fonts Jr., the agency’s assistant secretary for the private sector, addressed a breakfast seminar on “The Business of Homeland Security.” The session drew a standing-room crowd.

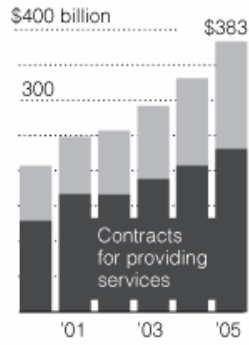
Mr. Martinez-Fonts, a banker before joining the government, said he could not personally hand out contracts but could offer “tips, hints and directions” to companies on the hunt.

Joe Haddock, a Sikorsky Helicopters executive, summed up the tone of the session. “To us contractors,” Mr. Haddock said, “money is always a good thing.”

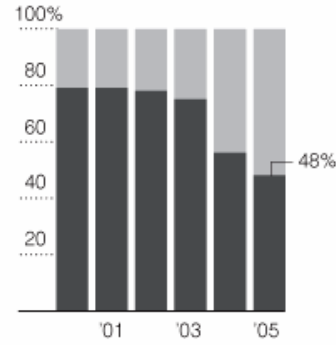
Outsourcing the Government

A boom in federal contracting has raised some concerns about propriety, cost and accountability. The percentage of contracts that are fully competitive has fallen, while spending on lobbying and campaign contributions has increased

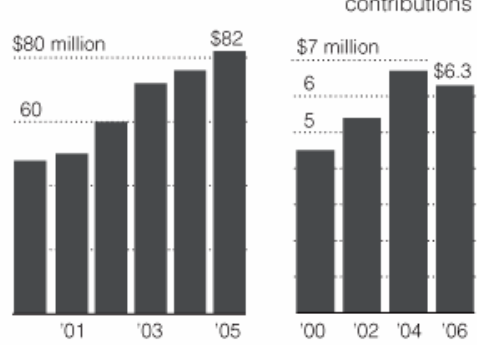
Spending on federal contracts



Contracts subject to full and open competition*



Spending by the top 20 service contractors ...



Sources: Federal Procurement Data Center; Center for Responsive Politics; Senate Office of Public Records

* Includes both new contracts and payments against existing contracts