



Is U.S. Government 'Outsourcing Its Brain'? Boom in Tech Contracts Sparks Complex Debate; A Mecca in Virginia

By Bernard Wysocki Jr.
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TYSONS CORNER, Va. -- The moment visitors arrive in the lobby of the campuslike headquarters of Mitre Corp., they're asked: Do you have a national-security clearance?

If the answer is yes, Mitre's receptionists tap a few computer keys to verify. If it's no, the visitor gets a special badge and a constant escort. It's the sort of scrutiny one might expect at the Defense Department or a U.S. intelligence agency.

Mitre is one step from that: a private company with one major client, the U.S. government. Mitre does high-tech engineering and other computer work for the Pentagon, various intelligence agencies and the Department of Homeland Security -- and business is booming.

"There is no doubt that post-9/11 there is more growth than we have experienced historically," says Chief Executive Alfred Grasso. In 2006, Mitre, a nonprofit that runs three federally funded research-and-development groups, says revenues topped \$1 billion for the first time.

Since the 2001 terrorist attacks and wars in Afghanistan and Iraq, the federal government's demand for complex technology has soared. But Washington often doesn't have the expertise to take on new high-tech projects, or the staff to oversee them. As a result, officials are increasingly turning to contractors, in particular the hundreds of companies in Tysons Corner and the surrounding Fairfax County that operate some of the government's most sensitive and important undertakings.

The risk of this approach, in the words of Warren Suss, a Jenkintown, Pa., consultant and expert on federal computer outsourcing, is that the government could wind up "outsourcing its brain." The number of private federal contractors has soared to 7.5 million, four times bigger than the federal civilian work force itself, according to Paul Light of New York University. Congress, meanwhile, is learning how hard it is to keep tabs on these activities.

As a Mecca for this sort of work, Tysons Corner has emerged as outsourcing central. Once known mostly for its shopping malls, it's now a land of glass towers, manicured office parks and Tiffany boutiques, where private-sector budget analysts, project managers and highly paid executives do the work that clock-punching civil servants in downtown D.C., 10 miles to the west, can't do.

The government still buys pencils and office furniture, but now relies on others for sophisticated technology work, especially what's known as "systems integration" -- pulling together complex information networks for the military, homeland-security personnel and others.

"Our ignorance is their gain," says Richard Skinner, inspector general at the Department of Homeland Security. Projects currently under way range from the design of next-generation military computer networks to the oversight of a \$30 billion electronic "fence" being built along the Mexican border.

Teaming Up

Outsourcing originally sprang from concerns about overspending and mismanagement by the government itself. Starting in the 1980s, agencies realized it was cheaper to buy certain services directly from companies. In the 1990s, teaming up with the private sector became a popular idea, in part as a way to reduce the number of federal employees on the books.

Today, the potential pitfalls are legion. Big contracts are notorious for cost overruns and designs that don't work, much of which takes place under loose or ineffective government scrutiny. Underlying this tension is the fundamental question of whether one system is better than the other.

Democratic Rep. Henry Waxman of California, new chairman of the House Oversight and Government Reform Committee, has castigated the Department of Homeland Security for lax oversight of the Coast Guard's \$24 billion fleet modernization, which is being run by two defense giants. He has also faulted its management of the

"fence" project, formally called the Secure Border Initiative, complaining that 60 of the 98 people overseeing the border project are contractors.

Outsourcing details to private contractors "can be a prescription for enormous fraud, waste and abuse," Rep. Waxman said during a February hearing on the issue.

Mr. Skinner, the Homeland Security inspector general, says his investigation into the Coast Guard project, known as Integrated Deepwater System, found inadequate management and oversight, resulting in delays, cost increases and design flaws.



Deepwater, awarded in 2002, is a 25-year program aimed at upgrading the Coast Guard's boats, aircraft and communications systems. The contract was awarded to a joint venture of Lockheed Martin Corp. and Northrop Grumman Corp. Unlike standard contractors, they were given a bigger role overseeing the project's many different strands.

Mr. Skinner says his office found that the top decision makers were contractors, not civil servants. The Coast Guard was relegated to the role of "adviser" on technical matters, and was essentially shut out of decisions on subcontracts. Partly as a result, he says, the cost of the first two large armed boats, called cutters, is expected to be well beyond the \$775 million original estimate.

During congressional hearings on the matter, a Lockheed Martin executive defended the program. The performance "has been closely supervised by the Coast Guard" with additional oversight by Homeland Security, Congress and the Government Accountability Office, he said.

The Coast Guard recently stripped some management work from the Northrop-Lockheed

venture, saying it could acquire 12 smaller cutters faster and at lower cost.

Mr. Skinner says Homeland Security is also trying to exert more oversight over its "fence" project. One problem is that the department, with 900 procurement officers, constantly battles turnover. He says the department is lucky if it can keep procurement personnel for three years before they bolt -- to places such as Tysons Corner.

Once a sleepy crossroads, the area has boomed in part because of its location halfway between downtown Washington and Dulles International Airport, straddling the Beltway that rings the capital.

The Tysons area and surrounding Fairfax County have enjoyed the boom in federal procurement in the post-9/11 era, with \$18 billion of work performed in the area in 2006, up from about \$10 billion in 2000. To economists such as Stephen Fuller of nearby George Mason University, Tysons is a natural anchor for outsourcing, close to the "honey," of the federal government, and attractive to young engineers and entrepreneurs.

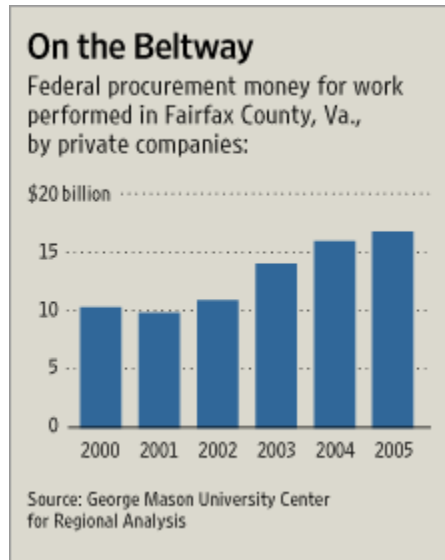
One flashpoint today is whether contractors hire other contractors without enough controls or competition. In March, Rep. Waxman introduced a bill that would put limits on contracts awarded without competitive bidding. It passed the House by a wide margin and is raising fears among contractors that it could dent their growth. Federal procurement is already expected to slow because of budget constraints and the slowing of the post-9/11 spending boom.

Rep. Waxman's staff, in a Feb. 8 memo, said that "at least one contractor hired to engage in contract oversight on the border project, Booz Allen Hamilton, may have a conflict of interest with Boeing Co.," the prime contractor. Booz Allen has done consulting work for Boeing and has been a member of the Boeing team on other contracts.

Ralph Shrader, chief executive at Booz Allen, flatly denies the charge. "I take the greatest exception to the idea of conflict of interest," Dr. Shrader says, adding that Booz Allen is doing "support" and "coordination" work on behalf of the government, and doesn't "oversee" Boeing. He adds that Booz Allen has for decades taken pains to avoid conflicts of interest, and has a rigorous process to avoid such conflicts. (Dow Jones & Co., publisher of The Wall Street Journal, has hired Booz Allen to help the company with its news strategy.)

Booz Allen epitomizes the successful, well-connected Tysons consultant-contractor on a giant scale. Once mostly a management consultant to corporations based in New York City, Booz Allen's government business now

accounts for more than 50% of its \$4 billion in revenue. In 1992, it moved its headquarters to Tysons Corner.



The firm's past three CEOs have come from the government side of the firm. Dr. Shrader, with a Ph.D. in engineering and CEO since 1999, had experience on the commercial side early in his career. Since 2000, Booz Allen's revenue has doubled in size. It plans to hire 4,000 people in 2007 alone, adding to an existing work force of 18,000 people.

Booz Allen has extensive government contracts - totaling more than \$2 billion a year -- with the Pentagon, intelligence services and various civilian agencies, including the Department of Homeland Security.

It employs numerous retired military officers and former intelligence-agency chiefs. Retired Navy Admiral J. Michael McConnell, former head of the National Security Agency, was a \$2 million-a-year Booz Allen executive until President Bush named him director of national intelligence in late 2006. James Woolsey, former head of the Central Intelligence Agency, is another rainmaker.

Booz Allen does so much business with the Department of Defense that it conducts brown-bag lunches for young civilian recruits dubbed "DOD 101," where it explains, among other things, the difference between the insignia of a captain and a general. Ex-military types attend a "forum" to learn the commercial ropes, as well as ways of working in less hierarchical environments.

The company argues that it can mobilize staff more quickly and cheaply than the government. As one example, Booz Allen cites its work on the Pentagon's communications network, which was damaged in the 9/11 attack. Booz Allen says it put together a special "surge" team to design what it calls "survivable telecom system." It turned the plans over to the Pentagon in just six weeks.

Grand Database

Among its more controversial projects was Total Information Awareness, a Defense Department plan for a grand database to thwart terrorists. It was conceived shortly after the 2001 terrorist attacks, and soon came under criticism from members of Congress and others as a privacy invasion, before being scrapped. "I really have no problems with the decisions we have made," says Dr. Shrader, who adds, without being specific, that "there are things we have chosen not to do."

Booz Allen has filled up its headquarters, which is technically located in McLean, Va. County zoning rules won't let the company add more people beyond its current 6,500, so Booz Allen has set up another campus near Dulles airport, which housed 1,700 people as of February.

Fueling the growth at Booz Allen and other big firms is a move toward giant, complex projects, awarded by Uncle Sam but pulled together by what's called a "lead systems integrator." Big contractors have become even more powerful in the post-9/11 era, some say, because the government has turned conservative, preferring to award contracts on critical national-security projects to proven players, especially as knowledgeable civil servants retire.

The U.S. government "is losing their system engineering, program management, acquisition expertise," said Kenneth Dahlberg, CEO of Science Applications International Corp., of San Diego, at a recent Wall Street investor conference. He vowed that his company, one of the biggest federal contractors with 44,000 employees, would be there to fill the void. SAIC recently formed a special team to go after big government contracts valued at \$100 million or larger.

Portraits at the Palm

The contracting industry has consolidated recently, with big guys buying up many midsize firms. That's apparent from the walls of the tony Palm restaurant in Tysons Corner. Unlike its downtown Washington, D.C., counterpart, which displays caricatures of people from the political world, the portraits at the Tysons Palm run

toward local technology entrepreneurs and founders of federal contracting companies, many of whom have made fortunes selling to big contractors. One is of Ed Bersoff. He founded BTG Inc., a government-contracting company, and sold it for \$174 million in 2002 to another contractor, which has itself since been acquired.

In this small neighborhood, big contractors have started bumping into each other. A few years ago, Booz Allen tangled with next-door neighbor SAIC after the road near the two companies' office towers was named "SAIC Drive." After some back and forth, that part of the road was given a new name: Solutions Drive.

Fairfax County is now home to 358 foreign-owned firms, some of which have been lured by the county's Economic Development Authority,

which has five overseas offices. Recently, Camero Inc., a unit of a Tel Aviv company, set up shop in Tysons Corner so it can better promote a radar system that can see through brick or concrete walls.

Robert Judd, the president, says he considered Arlington, Va., but the atmosphere seemed very Pentagon-centric. The office parks near Dulles seemed too commercial in nature. So he settled on Tysons, halfway between them, and a blend of the two.

The one drawback is the traffic. "We work 7 a.m. until 4 to avoid the worst of it," says Mr. Judd.

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Outsourcing Bonanza

A sampling of large federal contracts

Company	Value	Covers	Relevant agency
Electronic Data Systems Corp.	\$3.26 billion	Data processing and telecommunications	Defense Department/Navy
	\$1.66 billion	Electronic identification systems	Multiple agencies
	\$295.9 million	Defense enterprise services	Defense
Northrop Grumman Corp.	\$10.14 billion	Sustaining B-2 bomber	Defense/Air Force
	\$3.93 billion	Aircraft carriers	Defense/Navy
	\$3.9 billion	Amphibious assault ships	Defense/ Navy
Computer Sciences Corp.	\$2.2 billion	Engineering services	Defense/Air Force
	\$1.41 billion	Prime integration services	Treasury/Internal Revenue Service
Booz Allen Hamilton Inc.	\$1.29 billion	Information system design	Multiple agencies
	\$595.4 million	Management, organization improvement	multiple agencies
Science Applications International Corp.	\$1.95 billion	Computer aided design	Health and Human Services/ National Institutes of Health
	\$1.92 billion	Automated data-processing software	multiple agencies

Source: Eagle Eye Publishers, based on public federal data