



UNITED STATES HOUSE OF REPRESENTATIVES  
COMMITTEE ON GOVERNMENT REFORM  
JULY 2006

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**WASTE, ABUSE, AND MISMANAGEMENT IN  
DEPARTMENT OF HOMELAND SECURITY CONTRACTS**

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**PREPARED FOR REPS. TOM DAVIS AND HENRY A. WAXMAN**

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## EXECUTIVE SUMMARY

At the request of Reps. Tom Davis and Henry A. Waxman, this report examines procurement spending at the Department of Homeland Security. The report identifies 32 DHS contracts, collectively worth \$34.3 billion, that have experienced significant overcharges, wasteful spending, or mismanagement.

Key findings in the report include the following:

- **Contract Spending Is Growing Rapidly.** Procurement spending at DHS has surged 189% since the creation of the new Department, rising from \$3.5 billion in 2003 to \$10 billion in 2005. During this period, procurement spending at DHS has grown 11 times faster than the remainder of the discretionary federal budget.
- **Noncompetitive Contracts Have Soared.** Sole-source and limited-competition contracts have grown even faster than overall DHS procurement spending. In 2003, DHS awarded \$655 million in contracts without full and open competition. By 2005, this figure had ballooned to \$5.5 billion, an increase of 739%. In 2005, over 50% of the dollar value of DHS contracts was

awarded without full and open competition.

- **Contract Mismanagement Is Widespread.** The growth in DHS contracts has been accompanied by pervasive mismanagement. DHS has repeatedly failed to engage in responsible contract planning, including the determination of government needs and program requirements. Compounding this problem, the Department lacks both adequate trained contract officials to oversee its burgeoning spending on contracts and a coherent organization for acquisition management across the Department.
- **The Costs to the Taxpayer Are Enormous.** This report identifies 32 DHS contracts collectively worth \$34.3 billion that have been plagued by waste, abuse, or mismanagement. In the case of each of these 32 contracts, reports from GAO, Pentagon auditors, agency inspectors general, or other government investigators have linked the contracts to major problems in administration or performance.

## I. PURPOSE AND METHODOLOGY

At the request of Reps. Tom Davis and Henry A. Waxman, the Chairman and Ranking Member of the Government Reform Committee, this report examines contracting at the Department of Homeland Security. The report is based in large part on a review of over 350 reports from government auditors and investigators, many of which have not been publicly released. The audit reports reviewed by Committee staff include:

- 149 reports prepared by the Defense Contract Audit Agency, the agency responsible for performing contract audits for the Department of Defense and other government agencies;
- 112 reports prepared by the Government Accountability Office, the independent, nonpartisan auditors and investigators working for Congress; and
- 71 reports prepared by several agency inspectors general, who are charged by law with oversight of agency management and administration.

This report also reflects interviews with outside experts, as well as investigations into contract abuses conducted by Committee staff and investigative reporters.

The report relies on the Eagle Eye Federal Prime Contracts (FPC) Database, a federal procurement database application published by Eagle Eye, Inc., for data on trends in DHS contract spending. The FPC database contains data from 1999 to 2005 that is compiled from the Federal Procurement Data System (FPDS), the federal contract tracking system established by the General Services Administration.<sup>1</sup> GAO has identified problems with the completeness and accuracy of the FPDS, but according to GAO, the FPDS is “currently the only system providing information on over \$300 billion in annual government spending”<sup>2</sup> and is the best available data set for assessing “the impact that governmentwide acquisition policies and processes are having with respect to specific geographic areas, markets, and socio-economic goals.”<sup>3</sup>

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<sup>1</sup> Unless noted otherwise, data is given for the fiscal year, not the calendar year.

<sup>2</sup> Letter from Katherine Schinasi, Managing Director, Acquisition and Sourcing Management, U.S. Government Accountability Office, to Office of Management and Budget Director Joshua B. Bolten (Sept. 27, 2005) (online at [www.gao.gov/new.items/d05960r.pdf](http://www.gao.gov/new.items/d05960r.pdf)).

<sup>3</sup> Letter from William T. Woods, Director, Acquisition and Sourcing Management, U.S. General Accounting Office, to Office of Management and Budget Director Joshua B. Bolten (Dec. 30, 2003) (online at [www.gao.gov/new.items/d04295r.pdf](http://www.gao.gov/new.items/d04295r.pdf)).

## II. DHS CONTRACTING TRENDS

### A. Growth in Contract Spending

The Department of Homeland Security was established in 2003 by combining 22 different federal agencies and agency components into one new Department.<sup>4</sup> In the three years since the Department's creation, procurement spending has surged. Spending on federal contracts at DHS increased from \$3.5 billion in 2003 to \$10 billion in 2005, an increase of \$6.5 billion.<sup>5</sup> The total number of contracts entered into by DHS during this period grew from 14,000 in 2003 to 63,000 in 2005.

In percentage terms, DHS procurement spending increased by 189% between 2003 and 2005. In comparison, inflation increased by just 6% during this period.<sup>6</sup> The increase in DHS procurement spending also grew 11 times faster than the growth of the rest of the government. Between 2003 and 2005, other federal discretionary spending rose by 17%.<sup>7</sup>

### B. Growth in Noncompetitive Contracts

Competition in federal contracting protects the interests of taxpayers by ensuring that the government gets the best value for the goods and services it buys. Competition also discourages favoritism by leveling the playing field for competitors while curtailing opportunities for fraud and abuse.

Federal law recognizes that there are occasions when full and open competition is not feasible. Under the Competition in Contracting Act, agencies can award sole-source contracts in cases in which only one source can provide the needed goods or services. Agencies can also limit competition when emergency circumstances require immediate contract awards.<sup>8</sup> But these and the other permissible exceptions are intended to be limited. The Federal Acquisition Regulation provides that "contracting officers shall promote and provide for full and open competition in

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<sup>4</sup> Department of Homeland Security, *DHS Organization History* (online at [http://www.dhs.gov/dhspublic/interapp/editorial/editorial\\_0133.xml](http://www.dhs.gov/dhspublic/interapp/editorial/editorial_0133.xml)) (accessed July 24, 2006).

<sup>5</sup> Unless otherwise noted, data in this report comes from the Eagle Eye Federal Prime Contracts (FPC) Database, a federal procurement database application published by Eagle Eye, Inc.

<sup>6</sup> U.S. Department of Labor, Bureau of Labor Statistics, *Inflation Calculator* (online at <http://data.bls.gov/cgi-bin/cpicalc.pl>) (accessed July 25, 2006).

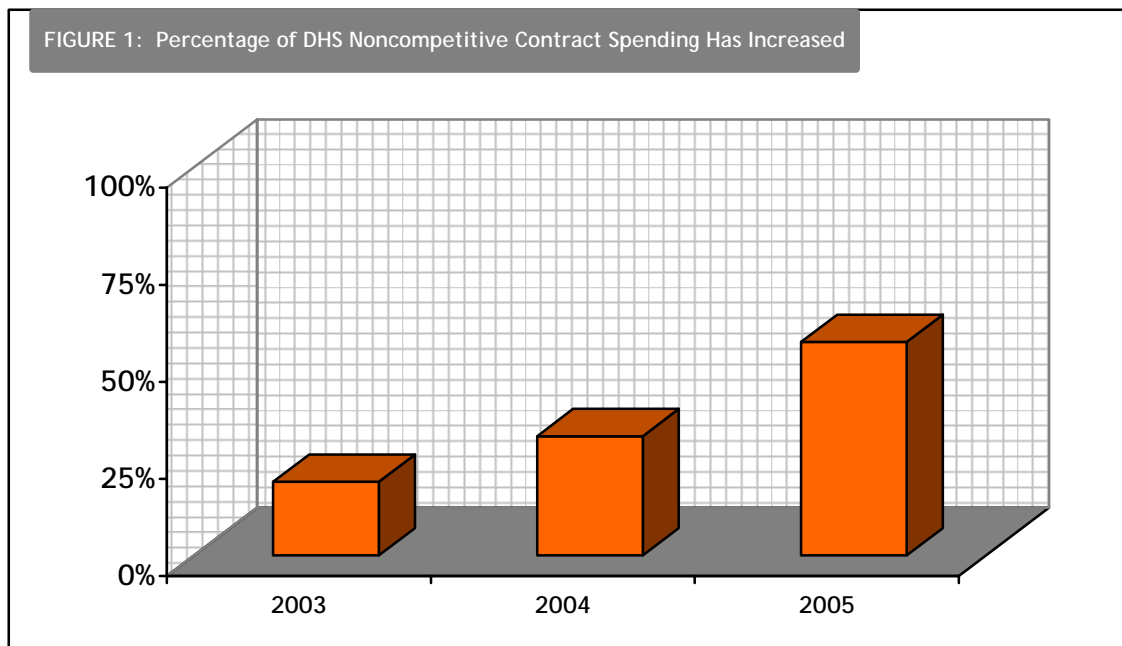
<sup>7</sup> Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2007, Historical Tables* (Feb. 2006) (online at [www.whitehouse.gov/omb/budget/fy2007/pdf/hist.pdf](http://www.whitehouse.gov/omb/budget/fy2007/pdf/hist.pdf)).

<sup>8</sup> See Congressional Research Services, *Iraq Reconstruction: Frequently Asked Questions Concerning the Application of Federal Procurement Statutes* (June 23, 2003); 10 U.S.C. § 2304(c); 40 U.S.C. § 253(c); 48 C.F.R. § 6.302.

soliciting offers and awarding Government contracts.”<sup>9</sup> Contracting officers using one of the exceptions must submit a written justification and, for procurements over \$500,000, gain the approval of a more senior official.<sup>10</sup>

Despite the advantages to the taxpayer of full and open competition, contracts awarded without full and open competition have grown rapidly at the Department of Homeland Security. In 2003, DHS spent \$655 million on these contracts.<sup>11</sup> By 2005, spending on contracts awarded without full and open competition had grown by \$4.8 billion to \$5.5 billion, an increase of 739%. By comparison, overall federal spending on contracts awarded without full and open competition increased 36% during the same time period.

This growth in sole-source and limited-competition contract spending significantly outstripped the growth in overall procurement spending at DHS, causing noncompetitive contract dollars to represent a rising share of contract dollars. In 2003, 19% of DHS contract dollars (\$655 million) was awarded without full and open competition. In 2005, 55% (\$5.5 billion) was awarded without full and open competition. See Figure 1.



Of the \$5.5 billion in contracts awarded by DHS without full and open competition in 2005, \$2.1 billion was awarded as sole-source contracts, without any competition. The remaining \$3.4

<sup>9</sup> 48 C.F.R. § 6.101. Unlike the rest of DHS, the Transportation Security Administration (TSA) is exempt from the requirements of the F.A.R. (P.L. 101-71 § 101).

<sup>10</sup> 48 C.F.R. § 6.303-6.304.

<sup>11</sup> For the purposes of this report, a “noncompetitive” contract is defined as a contract awarded without full and open competition.

billion was awarded under conditions of limited competition, under which only a small number of contractors were permitted to submit proposals.

### III. CONTRACT MISMANAGEMENT

The surge in contract spending at DHS has not been accompanied by responsible, competent contract management. To the contrary, government reports and audits have documented failures in many aspects of the Department's contract management.

#### A. Poor Contract Planning

Responsible procurement spending should begin with sound planning. But this has rarely occurred at DHS. The DHS Inspector General recently reported that DHS procurements have suffered because contract technical and performance requirements were not adequately defined. The Inspector General warned that “[b]y approving programs without adequately defined technical requirements, DHS risks likely adverse cost and schedule consequences.”<sup>12</sup>

The former Chief Procurement Officer of the Department of Homeland Security made similar comments when he met with Committee staff in September 2005. He was asked to explain a series of wasteful homeland security contracts, including the Transportation Security Administration contract to hire passenger screeners at airports. He said that in many cases, the primary problem lay in poor contract planning. Because Department officials did not properly define what they wanted to purchase, enormous sums were misspent on technologies and services that never achieved their objectives.<sup>13</sup>

Rather than learn from these mistakes, DHS officials are poised to repeat them. In March 2006, DHS issued a Request for Proposal (RFP) for *SBI<sub>net</sub>*, a new \$2 billion federal contract to design, build, test, and operate a massive border security system as part of the Secure Border Initiative. According to the RFP, the system's main substantive requirements are to be “highly reliable, available, maintainable, and cost effective solution(s) to manage, control, and secure the border using the optimal mix of proven current and next generation technology, infrastructure, personnel, response capabilities and processes.”<sup>14</sup>

In its RFP for *SBI<sub>net</sub>*, DHS makes exactly the same mistakes that expert auditors have cautioned against: the agency is launching a multi-billion dollar procurement program with only a vague

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<sup>12</sup> Department of Homeland Security, Inspector General, *Department of Homeland Security's Procurement and Program Management Operations* (Sept. 2005) (OIG-05-53).

<sup>13</sup> Briefing by Gregory D. Rothwell, Chief Procurement Officer, Department of Homeland Security, to House Government Reform Committee Staff (Sept. 19, 2005).

<sup>14</sup> *SBI<sub>net</sub>* Request for Proposal.

idea of its requirements. As DHS Deputy Secretary Michael Jackson told potential competitors for *SBI*net in January 2006: “We’re asking you to come back and tell us how to do our business. ... [T]his is an invitation to be a little bit, a little bit aggressive and thinking as if you owned and you were partners with the CBP.”<sup>15</sup>

The DHS Inspector General recently warned that the *SBI*net contract is a high-risk acquisition strategy. In July 2006, Chief Inspector Carlton Mann identified “loose contract requirements” and “unstable operational requirements” as two of the “tremendous challenges and risks” facing the implementation of *SBI*net. Mr. Mann added that the RFP’s “broadly defined Statement of Objectives approach coupled with undefined requirements leaves programs vulnerable to failure and cost overruns.”<sup>16</sup>

In an interview with Committee staff, former DHS Inspector General Clark Kent Ervin was astonished by the approach DHS is taking to *SBI*net and said:

Einstein said insanity is doing the same thing over and over again and expecting a different result. They never learn anything. It’s just crazy. It’s turning logic on its head. No wonder costs are out of control.<sup>17</sup>

## **B. Inadequate Contract Oversight**

Another persistent problem at DHS is the lack of a sufficient number of contract officials to oversee the surging spending on federal contracts, as well as the lack of a coherent organization for acquisition management across the Department. While spending on contracts has grown by 189% since 2003, the size of the acquisition workforce at DHS has increased by less than 20%, from 911 contracting officials at DHS in 2003 to 1,068 in 2005.<sup>18</sup> As a result, the average value of the contracts overseen by each official more than doubled during this time period.

In 2004, when the Office of Procurement Operations at the Department of Homeland Security handled approximately \$2 billion in federal contracts, each procurement officer in the office was

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<sup>15</sup> Department of Homeland Security, U.S. Customs and Border Protection, Statement of DHS Deputy Secretary Michael Jackson, *SBI*net Industry Day (Jan. 26, 2006).

<sup>16</sup> House Committee on Homeland Security, Subcommittee on Economic Security, Infrastructure Protection, and Cyber-Security, and House Committee on Government Reform, Subcommittee on Criminal Justice, Drug Policy, and Human Resources, Testimony of DHS Office of Inspector General Chief Inspector Carlton Mann, *Joint Hearings on Expanding the Border Fence* (July 20, 2006).

<sup>17</sup> Telephone interview between former DHS Inspector General Clark Kent Ervin and House Government Reform Committee Minority Staff (May 22, 2006).

<sup>18</sup> Office of Personnel Management, *Central Personnel Data File: Status File* (Sept. 2000). There is no clear definition for the acquisition workforce that is recognized by all agencies. This report defines the acquisition workforce as the following occupations: General Business; Contracting Series; Purchasing Officer; Procurement Clerical Support; and Industrial Specialist.



responsible for overseeing over \$100 million in federal procurement spending.<sup>19</sup> In an interview with staff, Clark Kent Ervin, the former Inspector General at DHS, said that taxpayers were “taken to the cleaners” because of the lack of sufficient experienced acquisition personnel.<sup>20</sup> Today, the office still remains understaffed, with only 58% of the contracting officers it is authorized to have.<sup>21</sup>

The lack of sufficient personnel has been aggravated by a lack of adequate training for many of the existing contract officials. The DHS Inspector General reported that the Department suffers from an acute lack of qualified program managers. The IG found that only half of the Department’s program managers are certified as having received the training in contract management required for their level of responsibility. In many of the Department’s constituent agencies, the lack of training is even more pronounced. The IG reported that only 3 out of 23 program managers at the Customs and Border Patrol are certified, as are only 6 out of 37 program managers in the Office of Procurement Operations. According to the Inspector General, “the need for effective department-wide standards for program management processes should not be underestimated.”<sup>22</sup>

The DHS IG also found that DHS contracting officers do not receive sufficient training in ethics. The IG raised concerns that the “close relationship” between procurement officials and the private sector rendered insufficient even the “minimal” ethical training received by DHS employees, and he recommended that program and procurement officials receive “expanded training and guidance on their procurement ethics responsibilities.”<sup>23</sup>

These deficiencies are magnified by the fact that DHS lacks a unified contract management structure. Despite a 2004 management directive delegating the management, administration, and oversight of acquisition across the Department to the Chief Procurement Officer, DHS still has no single official with responsibility for these functions. Instead, according to GAO, these responsibilities are spread throughout the Department’s disparate organizations, without centralized oversight or accountability. GAO also found that the various acquisition organizations within DHS lack guidance on department-wide policies and procedures.<sup>24</sup>

The consequences of the lack of trained contract officials and the lack of a coherent management structure that integrates the acquisition function across DHS under a single responsible official

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<sup>19</sup> *Amid Wider Procurement Woes, Rothwell Gets High Marks Upon His Departure*, CQ Homeland Security – Industry & Contracting (Dec. 1, 2005).

<sup>20</sup> Telephone interview between former DHS Inspector General Clark Kent Ervin and House Government Reform Committee Minority Staff (May 22, 2006).

<sup>21</sup> *Amid Wider Procurement Woes, Rothwell Gets High Marks Upon His Departure*, CQ Homeland Security – Industry & Contracting (Dec. 1, 2005).

<sup>22</sup> Department of Homeland Security Inspector General, *Department of Homeland Security’s Procurement and Program Management Operations* (Sept. 2005) (OIG-05-53).

<sup>23</sup> *Id.*

<sup>24</sup> U.S. Government Accountability Office, *Homeland Security: Successes and Challenges in DHS’s Efforts to Create an Effective Acquisition Organization* (March 2005) (GAO-05-179).

became particularly apparent during the response to Hurricane Katrina. At the time the hurricane hit, the Federal Emergency Management Agency had only 36 acquisition officials, far short of the minimum of 172 procurement officials that experts have recommended for the agency.<sup>25</sup> According to GAO, FEMA lacked sufficient personnel to perform adequate oversight on the contracts reviewed.<sup>26</sup> This lack of oversight put the agencies “at risk of being unable to identify and correct poor contractor performance ... [and] paying contractors more than the value of the services performed.”<sup>27</sup> The DHS Inspector General agreed, saying, “Inadequate contracting staff and a shortage of Contracting Officer Technical Representatives (COTRs) hampered FEMA’s ability to effectively monitor Katrina response contracts.”<sup>28</sup>

### C. Credit Card Abuse

In 1994, Congress passed legislation providing the basic authority for federal employees to use credit cards to buy small amounts of goods or services directly from vendors.<sup>29</sup> These charge card programs are designed to provide an easy, efficient means for government agencies to make small, routine purchases while avoiding the requirements of the contracting regulations.<sup>30</sup>

While the use of purchase cards can increase flexibility and streamline acquisition procedures, careful supervision to prevent abuse has been lacking at the Department of Homeland Security. A series of audits and investigations has found that the DHS’s failure to properly manage and oversee the use of the cards has resulted in the waste of millions of dollars.<sup>31</sup>

GAO has documented numerous instances of waste, abuse, and mismanagement with purchase cards. Examples include the unnecessary purchase of 2,000 sets of canine booties at a cost of more than \$68,000, the expenditure of \$7,000 for Apple iPods, tens of thousands of dollars for training at golf and tennis resorts, and the purchase of beer brewing equipment and ingredients for Coast Guard Academy parties. According to GAO, “fundamental breakdowns” in controls over purchase card transactions left DHS vulnerable to waste, fraud, and abuse. GAO also found

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<sup>25</sup> Select Bipartisan Committee to Investigate the Preparation for and Response to Hurricane Katrina, *A Failure of Initiative: The Final Report of the Select Bipartisan Committee to Investigate the Preparation for and Response to Hurricane Katrina* (Feb. 15, 2006).

<sup>26</sup> U.S. Government Accountability Office, *Agency Management of Contractors Responding to Hurricanes Katrina and Rita* (Mar. 16, 2006) (GAO-06-461R).

<sup>27</sup> *Id.*

<sup>28</sup> Senate Committee on Homeland Security and Governmental Affairs, Testimony of Matt Jadacki, Special Inspector General Gulf Coast Hurricane Recovery, *Hearings on Katrina and Contracting* (Apr. 10, 2006).

<sup>29</sup> Federal Acquisition Streamlining Act of 1994 (FASA), Pub. L. 103-355 § 4301.

<sup>30</sup> U.S. General Accounting Office, *Purchase Cards: Increased Management Oversight and Control Could Save Hundreds of Millions of Dollars* (Apr. 28, 2004) (GAO-04-717T).

<sup>31</sup> U.S. General Accounting Office, *Purchase Cards: Increased Management Oversight and Control Could Save Hundreds of Millions of Dollars* (Apr. 28, 2004) (GAO-04-717T); U.S. Government Accountability Office, *Purchase Cards: Control Weaknesses Leave DHS Highly Vulnerable to Fraudulent, Improper, and Abusive Activity* (July 19, 2006).

that DHS lacks adequate staffing, sufficient training, and effective monitoring of its purchase card program.<sup>32</sup>

## IV. WASTEFUL DHS CONTRACTS

Contract mismanagement at DHS has a steep cost for the taxpayer. Waste, abuse, and mismanagement have squandered hundreds of millions, if not billions, of dollars. The discussion below provides a summary of 11 wasteful contract programs at DHS and its predecessor agencies. An appendix to the report identifies 32 contracts that have been examined by government auditors and investigators and found to contain significant waste or abuse or to have been poorly managed. The total value of the costs incurred or projected to be incurred under the 32 problem contracts is \$34.3 billion.

### A. The Contracts for Private Airport Screeners

In February 2002, the Transportation Security Administration (TSA) awarded several contracts to private security firms for passenger and baggage screening at airports throughout the country. These contracts were to remain in place until late 2002, when TSA employees would begin conducting the screening themselves. The contracts ultimately were worth over \$788 million.

Federal auditors examining these passenger screening contracts identified substantial questioned and unsupported costs. DCAA audited 17 contracts and challenged significant costs under 11 of those contracts. The total amount of questioned and unsupported costs under the 11 contracts was \$127.4 million, or 21% of the total amount billed to TSA.

The auditors detected a variety of problems under these contracts, including overstated labor and overhead costs. When DCAA reviewed a contract with U.S. Airways, DCAA challenged \$5.6 million out of \$7.1 million in claimed costs, 79% of the total.<sup>33</sup> The auditors found that a major U.S. Airways subcontractor, Argenbright, “already had contracted with U.S. Airways to perform screening services at specified labor rates, [but] charged rates significantly higher on invoices submitted” under the TSA contract.<sup>34</sup> When DCAA “requested renegotiated screener contracts from U.S. Airways to reflect the higher labor rates, [they] were told that none existed.”<sup>35</sup>

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<sup>32</sup> U.S. Government Accountability Office, *Purchase Cards: Control Weaknesses Leave DHS Highly Vulnerable to Fraudulent, Improper, and Abusive Activity* (July 19, 2006).

<sup>33</sup> Defense Contract Audit Agency, *Application of Agreed-Upon Procedures* (No. 6331-2003D117900002) (Apr. 11, 2003).

<sup>34</sup> *Id.*

<sup>35</sup> *Id.*

Similarly, DCAA questioned \$331,000 out of \$536,000 in costs claimed by Sky Aviation Services under its contract. In addition to challenging 62% of the Sky Aviation’s costs, DCAA found the contractor’s accounting system to be “inadequate.”<sup>36</sup>

## B. The Contract to Hire Airport Screeners

In February 2002, TSA also awarded a \$104 million contract to NCS Pearson, Inc., to test and hire airport passenger and baggage screeners. In less than one year, the contract ballooned to \$741 million.<sup>37</sup> According to press accounts, despite this expenditure, the rate at which screeners fail to detect weapons has remained unchanged for over four years.<sup>38</sup>

Federal auditors examining the Pearson contract have reported multiple problems. According to the DHS Inspector General, TSA’s failure to develop a project management plan, an acquisition plan, or an acquisition baseline meant that the agency began the contract without having finalized the number of screeners, the schedule, or the budget.<sup>39</sup>

An audit by the Defense Contract Audit Agency questioned at least \$297 million of the \$884 million in costs identified by Pearson under the contract.<sup>40</sup> The DCAA audit called into question spending by Pearson on luxury hotels, long distance phone calls, and noncompetitive subcontracts. Among the disputed charges were \$526.95 for one phone call from the Hyatt Regency O’Hare in Chicago to Iowa City and \$8,100 for elevator operators at the Marriott Marquis in Manhattan.<sup>41</sup> One of the subcontracts challenged by DCAA paid the chief executive of an “event logistics” company — newly formed by two former travel agency employees — over \$5 million for just nine months of work.<sup>42</sup>

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<sup>36</sup> Defense Contract Audit Agency, Report on Audit of Time and Material Proposal (No. 6701-2002E21000005) (Oct. 31, 2002).

<sup>37</sup> Letter from Peter A. Iovino, Assistant Administrator for Legislative Affairs, Department of Homeland Security, to Rep. Henry A. Waxman (Sept. 2, 2005).

<sup>38</sup> *Contracting Rush for Security Led to Waste, Abuse*, Washington Post (May 22, 2005).

<sup>39</sup> Department of Homeland Security Inspector General, *Review of the Transportation Security Administration’s Management Controls Over the Screener Recruitment Program* (Dec. 2005) (OIG-06-18).

<sup>40</sup> Letter from Peter A. Iovino, Assistant Administrator for Legislative Affairs, Department of Homeland Security, to Rep. Henry A. Waxman (Sept. 2, 2005); Defense Contract Audit Agency, *Audit Report on Costs Recorded Through November 2, 2002 Contract No. D TSA20-02-C-00400* (May 3, 2004) (Audit Report No. 3541-2002A10100001).

<sup>41</sup> Defense Contract Audit Agency, *Audit Report on Costs Recorded Through November 2, 2002 Contract No. D TSA20-02-C-00400* (May 3, 2004) (Audit Report No. 3541-2002A10100001).

<sup>42</sup> Defense Contract Audit Agency, *Audit Report on Costs Recorded Through November 2, 2002 Contract No. D TSA20-02-C-00400* (May 3, 2004) (Audit Report No. 3541-2002A10100001).

A Pearson employee who supervised Pearson's hiring efforts at 43 sites in the United States admitted in a media interview: "There was abuse of the taxpayers' trust. We didn't get the bang for our buck."<sup>43</sup>

In December 2004, TSA agreed to pay Pearson \$741 million, withholding only \$143 of the \$297 million in costs challenged by DCAA.<sup>44</sup>

### C. The Contract to Screen Airport Luggage

In June 2002, TSA awarded a large cost-plus contract to Boeing for the installation and maintenance of luggage screening equipment at commercial airports. The contract was structured to allow Boeing to function as project manager while subcontracting over 90% of the work, mostly to two companies that made the baggage screening machines. TSA estimated the contract value to be \$508 million for an initial period of seven months. But the costs ballooned to at least \$1.2 billion and the performance period was extended by an additional 18 months.<sup>45</sup>

According to press accounts, the baggage screening equipment installed under the contract has suffered from high false alarm rates. After passengers and airline managers complained of delays due to the false alarms, the machines were calibrated to be less sensitive. Although this has lowered the rate of false alarms, the decreased sensitivity has also made the machines far less effective at detecting bombs.<sup>46</sup>

GAO testified that the screening machines also suffer from a variety of other operational "inefficiencies," including the fact that baggage must be moved manually from the conveyor belt to the machine and back again.<sup>47</sup> According to GAO, TSA will have to spend an additional \$3 billion to \$5 billion to upgrade to more efficient in-line machines that rely on the latest technology.<sup>48</sup>

Boeing's award fee evaluations also identified significant performance problems. In a January 2004, award fee memorandum, TSA discussed several Boeing "weaknesses."<sup>49</sup> TSA stated that "some costs were higher than initially estimated" and noted "a slower than expected start by

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<sup>43</sup> *The High Cost of a Rush to Security*, Washington Post (June 30, 2005).

<sup>44</sup> Letter from Peter A. Iovino, Assistant Administrator for Legislative Affairs, Department of Homeland Security, to Rep. Henry A. Waxman (Sept. 2, 2005).

<sup>45</sup> Department of Homeland Security Inspector General, *Evaluation of TSA's Contract for the Installation and Maintenance of Explosive Detection Equipment at United States Airports* (Sept. 2004) (OIG-04-44); *Contracting Rush for Security Led to Waste, Abuse*, Washington Post (May 22, 2005).

<sup>46</sup> *Contracting Rush for Security Led to Waste, Abuse*, Washington Post (May 22, 2005).

<sup>47</sup> U.S. General Accounting Office, *Aviation Security: Challenges Exist in Stabilizing and Enhancing Passenger and Baggage Screening Operations* (Feb. 12, 2004) (GAO-04-440T).

<sup>48</sup> U.S. General Accounting Office, *Aviation Security: Better Planning Needed to Optimize Deployment of Checked Baggage Screening Systems* (July 13, 2005) (GAO-05-896T).

<sup>49</sup> Transportation Security Administration, *Memorandum: Period 1 Award Fee Determination* (Jan. 13, 2004).

Boeing and some significant last-minute inefficiencies due to subcontractor work.” TSA also stated that “Boeing’s schedule reporting was often late, inaccurate, and subject to frequent change” and criticized Boeing for “late and inconsistent reporting of program status and progress information.” Despite these problems, Boeing received a rating of “good” for its first two award fee periods and award fees totaling \$54.6 million.<sup>50</sup>

The DHS Inspector General has been critical of the contract too. The IG found that TSA did not follow sound contracting practices in the award and management of the contract with Boeing. Until December 2003, according to the IG, TSA paid all of Boeing’s costs and based Boeing’s profit on a percentage of total costs, creating a prohibited “cost-plus-a-percentage-of-cost” contract.<sup>51</sup>

In addition, the IG found that TSA paid Boeing \$44 million in award fees without evaluating Boeing’s performance, removing any incentive to improve performance that the award fee might have provided. The IG also reported that TSA paid Boeing a disproportionate amount of profit compared to Boeing’s costs and risks. Under the contract, Boeing subcontracted 92% of the work but earned profits on all contract-related costs, including the subcontractors’ costs. In 2003, for example, Boeing itself incurred only \$39 million in direct costs, but the company received \$82 million in profit based on costs incurred by the subcontractors. The IG found at least \$49 million of Boeing’s profit to be “excessive.”<sup>52</sup>

#### D. The Contract to Upgrade Airport Computer Networks

In August 2002, TSA entered into a \$1 billion contract with Unisys Corp. to upgrade airport computer networks. This contract, however, has been marred by significant cost problems.<sup>53</sup>

According to published accounts, the Defense Contract Audit Agency found that Unisys “overbilled taxpayers for as much as 171,000 hours worth of labor ... by charging up to \$131 an hour for employees who were paid less than half that amount.” DCAA also found that Unisys had billed for 24,982 hours of overtime that may not have been appropriate under the contract.<sup>54</sup>

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<sup>50</sup> *Id.*; Transportation Security Administration, *Memorandum: Period 2 Award Fee Determination* (July 20, 2004).

<sup>51</sup> In a “cost-plus-a-percentage-of cost” contract, the contractor receives its profit as a percentage of the contractor’s actual costs. This type of contract is prohibited under federal law. See 10 U.S.C. §1306; 41 U.S.C. §254(b). This differs from a cost-plus-award-fee contract, in which the contractor’s fee may include both a base fee, fixed at the inception of the contract (often as a percentage of the estimated costs), plus an additional fee based on the contractor’s compliance with criteria set forth in the contract. See FAR § 16.3-16.4.

<sup>52</sup> Department of Homeland Security Inspector General, *Evaluation of TSA’s Contract for the Installation and Maintenance of Explosive Detection Equipment at United States Airports* (Sept. 2004) (OIG-04-44).

<sup>53</sup> Department of Homeland Security Inspector General, *Transportation Security Administration’s Information Technology Managed Services Contract* (Feb. 2006) (OIG-06-23).

<sup>54</sup> Department of Homeland Security Inspector General, *Transportation Security Administration’s Information Technology Managed Services Contract* (Feb. 2006) (OIG-06-23).

In a report released in February 2006, the DHS Inspector General reported that by September 2005, less than halfway through the contract period, TSA had already spent \$834 million on the Unisys contract, over 80% of the contract ceiling. An additional \$106 million had been spent by other DHS agencies on the project.<sup>55</sup>

An additional problem involving the Unisys contract is that it appears that DHS officials misled Congress about the true costs of the contract. According to the IG, contract officials at TSA estimated that the contract costs would reach \$3 billion to \$5 billion, but decided to set an artificial ceiling of \$1 billion.<sup>56</sup> According to press accounts, the former chief information officer at TSA said that he was instructed by senior administration officials to cite the \$1 billion cost figure to congressional officials, which was “a number out of the air” that “would be more palatable.”<sup>57</sup>

## E. The Contract for Radiation Detectors

In 2003, the Department of Homeland Security awarded an indefinite-delivery/indefinite-quantity contract to Science Applications International Corporation (SAIC) to manufacture radiation detection machines for the nation’s borders and ports. As of December 2005, the Office of Customs and Border Protection had bought 670 of the machines, called radiation portal monitors, at a cost of about \$286 million, approximately \$427,000 each.<sup>58</sup>

According to press accounts, the radiation portal monitors supplied by SAIC are so highly sensitive to radiation that they cannot distinguish between weapons-grade nuclear material and items that naturally emit radioactivity, including cat litter, granite, porcelain toilets, and bananas. As a result, the machines set off so many false alarms that customs officials were compelled to decrease the machines’ sensitivity levels.<sup>59</sup>

The Department of Homeland Security has conceded that the main problem with the radiation portals is their inability to discriminate among nuclear materials. According to Vayl Oxford, the acting director of the Domestic Nuclear Detection Office at the Department of Homeland Security: “today’s equipment lacks a refined capability to rapidly determine the type of radioactive materials it detects.” Moreover, Mr. Oxford testified that increasing the sensitivity

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<sup>55</sup> *Id.*

<sup>56</sup> *Id.*

<sup>57</sup> *Contractor Accused of Overbilling U.S.*, Washington Post (Oct. 23, 2005).

<sup>58</sup> U.S. Government Accountability Office, *Combating Nuclear Smuggling: DHS Has Made Progress Deploying Radiation Detection Equipment at U.S. Ports-of-Entry, but Concerns Remain* (Mar. 2006) (GAO-06-389); U.S. Government Accountability Office, *Combating Nuclear Smuggling: Challenges Facing U.S. Efforts to Deploy Radiation Detection Equipment in Other Countries and in the United States* (Mar. 28, 2006) (GAO-06-558T).

<sup>59</sup> *U.S. to Spend Billions More to Alter Security Systems*, New York Times (May 8, 2005).

level would not guarantee that the machines will recognize all potentially harmful materials because high-density shields made from lead or steel successfully block the machine's ability to detect uranium.<sup>60</sup>

DHS's failure to manage the detection system has further limited the machines' effectiveness. According to GAO, DHS allowed trucks to pass through the monitors in 2005 at speeds too high for accurate screening.<sup>61</sup> Moreover, the majority of cargo entering the United States is not screened at all. According to press reports, on an average day at the combined ports of New York and Newark, only 6% to 7% of the shipments are run through the radiation portals.<sup>62</sup>

According to press accounts, DHS recently awarded contracts valued at \$1.2 billion to Canberra Industries, Raytheon, and Thermo Electron to buy and install new radiation screening monitors at a cost of approximately \$500,000 each.<sup>63</sup> According to GAO, the new machines, called Advanced Spectroscopic Portals, have yielded mixed results in early tests. Although the new monitors were able to identify and dismiss most naturally occurring radioactive material, they were no better than the current monitors at detecting smaller amounts of radiation.<sup>64</sup>

## F. The Contract for Border Surveillance

The Office of Border Patrol has deployed thousands of cameras and sensors to monitor activity on the Mexican and Canadian borders through a program known as the Integrated Surveillance and Intelligence System (ISIS). The ISIS contract was awarded in 1997, but much of the spending under the contract has occurred over the last five years, with over \$429 million having been spent to date.<sup>65</sup> A typical surveillance site under the ISIS contract consists of a 60-foot pole mounted with seven to ten cameras and costs over \$300,000.<sup>66</sup> The contract was initially awarded to International Microwave Corporation, but is now held by L-3 Communications, which acquired IMC in 2003.

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<sup>60</sup> House Homeland Security Committee, Testimony of Vayl Oxford, Acting Director, Domestic Nuclear Detection Office, Department of Homeland Security, *Hearings on Detecting Nuclear Weapons and Radiological Materials* (June 21, 2005).

<sup>61</sup> U.S. Government Accountability Office, *Combating Nuclear Smuggling: Efforts to Deploy Radiation Detection Equipment in the United States and in Other Countries* (June 21, 2005) (GAO-05-840T).

<sup>62</sup> *On the Waterfront*, CBS News (Feb. 26, 2006).

<sup>63</sup> *U.S. to Spend \$1.2 Billion on Detecting Radiation*, New York Times (July 15, 2006).

<sup>64</sup> U.S. Government Accountability Office, *Combating Nuclear Smuggling: DHS Has Made Progress Deploying Radiation Detection Equipment at U.S. Ports-of-Entry, but Concerns Remain* (Mar. 2006) (GAO-06-389).

<sup>65</sup> Department of Homeland Security Inspector General, *A Review of Remote Surveillance Technology Along U.S. Land Borders* (Dec. 2005) (OIG-06-15).

<sup>66</sup> House Homeland Security Committee, Testimony of L-3 Communications President Joseph A. Saponaro, *Hearings on the Mismanagement of the Border Surveillance System and Lessons for the New America's Shield Initiative* (June 16, 2005).



In December 2003, the GSA Inspector General reported substantial problems with the ISIS contract. The auditors found cameras and other pieces of equipment that did not work and surveillance sites where no equipment had been delivered and no work performed.<sup>67</sup> According to press accounts, the auditors also reported substantial cost overruns, including \$13 million in potential overcharges by L-3 Communications.<sup>68</sup> According to press accounts, in one case, the Office of Border Patrol paid \$20 million for malfunctioning camera systems at eight border patrol zones and for poles, cameras, and gear that were never installed.<sup>69</sup> The GSA IG reportedly concluded that lack of oversight “placed taxpayers’ dollars and ... national security at risk.”<sup>70</sup>

A recent audit by the DHS Inspector General reported that the ISIS system is largely ineffective. Because the remote video surveillance cameras do not have the ability to detect movement automatically, illegal activity goes unnoticed unless border patrol personnel are monitoring the cameras at the time. The cameras are also vulnerable to power outages and many sites do not have back-up power sources. The cameras malfunction when exposed to snow, ice, humidity, and extreme temperatures. Moreover, the remote video surveillance system can cover only 5% of the border. As a result, the IG concluded that the surveillance system has hobbled field operations.<sup>71</sup>

The Office of Border Patrol has acknowledged that the existing system is inadequate. On January 5, 2006, DHS announced its plan to address these deficiencies with new “highly mobile detection systems.” The Office of Border Patrol reportedly described the ISIS system as “no longer state of the market” and several steps behind the current state of technology. As a result, the agency is “significantly challenged by the ever-changing threat environment.”<sup>72</sup>

## G. The Contract for US-VISIT

In June 2004, the Department of Homeland Security awarded a ten-year, \$10 billion contract to Accenture to implement US-VISIT, a program designed to collect and store personal, travel, and biometric information (fingerprints and photographs) from foreign nationals entering the United States.<sup>73</sup> Although DHS promised to create a “virtual border,” auditors and inspectors general have found serious and ongoing problems with the program.

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<sup>67</sup> House Homeland Security Committee, *Hearings on the Mismanagement of the Border Surveillance System and Lessons for the New America’s Shield Initiative* (June 16, 2005).

<sup>68</sup> *Probe Faults System for Monitoring U.S. Borders*, Washington Post (Apr. 11, 2005).

<sup>69</sup> *Id.*

<sup>70</sup> *Id.*

<sup>71</sup> Department of Homeland Security Inspector General, *A Review of Remote Surveillance Technology Along U.S. Land Borders* (Dec. 2005) (OIG-06-15).

<sup>72</sup> *Homeland Security Seeks Proposals for Border Technology*, Government Executive (Jan. 5, 2006).

<sup>73</sup> Department of Homeland Security Inspector General, *Implementation of the United States Visitor and Immigrant Status Indicator Technology Program at Land Border Ports of Entry* (Feb. 2005) (OIG-05-11).

According to GAO, US-VISIT lacks the “capability to track the entry and exit of persons entering the United States at air, land, and sea ports of entry.”<sup>74</sup> GAO concluded that “the program continues to invest hundreds of millions of dollars for a mission-critical capability under circumstances that introduce considerable risk that cost-effective mission outcomes will not be realized.”<sup>75</sup>

One cause of these repeated problems is US-VISIT’s reliance on out-of date and ineffective technologies. For example, US-VISIT uses a fingerprint identification system that is not fully integrated with the system used by the FBI. As a result, according to GAO, US-VISIT lacks full access to the FBI’s master criminal database. Moreover, because US-VISIT’s database of travel and biometric information is not linked to other law enforcement systems, border officials must search multiple systems to determine a foreign national’s identity and eligibility for entry.<sup>76</sup> DHS has announced its intention to address this lack of interoperability and integration in the coming months.<sup>77</sup>

A recent review of US-VISIT by the DHS IG found both technological and management issues that could compromise the program’s security and integrity. The IG reported that the system’s security has multiple weaknesses that leave it vulnerable to unauthorized access. The IG also found that the lack of communication and coordination between and among the US-VISIT program and other DHS branches has weakened information security and security management.<sup>78</sup>

Even when US-VISIT functions correctly, it may not prove to be an efficient or effective tool for securing the nation’s borders. According to GAO, the Department of Homeland Security has yet to demonstrate that US-VISIT is the “right solution” for immigration and border management.<sup>79</sup> GAO also found that DHS still has not approved a strategic plan for how US-VISIT will operate with other border and homeland security initiatives, nor performed cost-benefit analyses that justify the Department’s expenditures on the US-VISIT program.<sup>80</sup>

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<sup>74</sup> U.S. Government Accountability Office, *Homeland Security: Some Progress Made, but Many Challenges Remain on U.S. Visitor and Immigrant Status Indicator Technology Program* (Feb. 2005) (GAO-05-202).

<sup>75</sup> *Id.*

<sup>76</sup> Department of Homeland Security Inspector General, *Implementation of the United States Visitor and Immigrant Status Indicator Technology Program at Land Border Ports of Entry* (Feb. 2005) (OIG-05-11); U.S. Government Accountability Office, *Homeland Security: Visitor and Immigrant Status Program Operating, but Management Improvements Are Still Needed* (Jan. 25, 2006) (GAO-06-318T).

<sup>77</sup> Senate Committee on Appropriations, Testimony of Jim Williams, US-VISIT Program Director, Department of Homeland Security, *United States Entry/Exit Tracking: Is the United States Visitor and Immigrant Status Indicator Technology (US-VISIT) On Track for Success?* (Jan. 25, 2006).

<sup>78</sup> Department of Homeland Security Inspector General, *US-VISIT System Security Management Needs Strengthening* (Dec. 2005) (OIG-06-16).

<sup>79</sup> U.S. Government Accountability Office, *Homeland Security: Visitor and Immigrant Status Program Operating, but Management Improvements Are Still Needed* (Jan. 25, 2006) (GAO-06-318T).

<sup>80</sup> U.S. Government Accountability Office, *Recommendations to Improve Management of Key Border Security Program Need to Be Implemented* (Feb. 2006) (GAO-06-296).

## H. The Contract for the Transportation Security Operations Center

From February to April 2003, TSA entered into contracts to lease and renovate an empty facility to house its crisis management operations unit. The renovation was completed in July 2003, but an audit by the DHS Inspector General found that TSA's management and oversight of the building's renovation resulted in waste and abuse.<sup>81</sup>

The IG found that TSA spent over \$19 million to equip the facility lavishly. The building itself has 55 offices, 150 workstations, 12 conference rooms, 7 kitchens, and a fitness center, yet only 80 employees and 60 contract employees are expected to use the space. The project manager and facility operations officer paid \$500,000 to a tool company for artwork and decorative items, including \$29,032 for an art consultant and her assistant and \$30,085 for silk plants. Moreover, an unnecessary decision to accelerate the construction deadline cost TSA between \$400,000 and \$600,000, not including approximately \$575,000 in unjustified "approved construction change orders."<sup>82</sup>

In addition, two TSA employees spent over \$136,000 on purchase cards for personal convenience items such as leather briefcases without proper authorization. The employees also used the purchase cards to acquire tables, chairs, loveseats, and armoires for the office, despite TSA's express prohibition against the purchase of furniture with purchase cards.<sup>83</sup>

## I. The Contracts for Manufactured Homes and Trailers

In the aftermath of Hurricane Katrina, FEMA purchased 24,967 manufactured homes and 1,755 modular homes at a cost of \$915 million to provide housing and temporary office space for hurricane victims and relief workers.<sup>84</sup> But according to the DHS Inspector General, as of January 2006, only 4,600 manufactured homes and 100 modular homes had been used for housing or office space. Not one of the homes had been sent to the most ravaged parts of Louisiana and Mississippi because FEMA's own regulations prohibit the use of the homes in flood plains. More than 2,360 of the manufactured homes cannot be used by FEMA at all

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<sup>81</sup> Department of Homeland Security Inspector General, *Irregularities in the Development of the Transportation Security Operations Center* (Mar. 2005) (OIG-05-18).

<sup>82</sup> *Id.*

<sup>83</sup> *Id.*

<sup>84</sup> President's Council on Integrity and Efficiency, Executive Council on Integrity and Efficiency, *Oversight of Gulf Coast Hurricane Recovery: A Semiannual Report to Congress* (Apr. 30, 2006); Committee on Homeland Security and Governmental Affairs, Testimony of Department of Homeland Security Inspector General Richard L. Skinner, *Hearings on Hurricane Katrina: Waste, Fraud and Abuse Worsen the Disaster* (Feb. 13, 2006).

because they exceed FEMA's size specifications. Nearly 11,000 homes worth over \$301 million are sitting on the runways at one Arkansas airport.<sup>85</sup>

Similar mismanagement characterized the contracts to buy travel trailers. After Hurricane Katrina, FEMA spent \$1.7 billion to purchase 114,000 travel trailers.<sup>86</sup> FEMA bought at least 27,000 of those trailers "off the lot," without negotiating either price or specifications.<sup>87</sup> Yet over 23,700 of these travel trailers sit unused. Moreover, because FEMA has not maintained the trailers, they are losing their value as housing or for eventual resale.<sup>88</sup>

In December, FEMA's Federal Coordinating Officer in Louisiana for Hurricanes Katrina and Rita testified before the Senate that the entire concept of purchasing trailers for temporary housing was flawed. According to the official, Scott Wells, the cost to house a family for 18 months (the limit for FEMA-financed temporary housing) can reach \$90,000 to \$100,000 for housing in a mobile home or \$30,000 to \$40,000 for housing in a travel trailer. Mr. Wells testified that if FEMA had simply given the families \$26,200 in cash for housing, which is the maximum entitlement for hurricane victims, this would "allow them to quickly get on with rebuilding their lives and afford them a permanent housing solution" while saving the taxpayer hundreds of thousands of dollars.<sup>89</sup>

## J. The Contract with Carnival Cruise Lines

In September 2005, the Military Sealift Command, acting on behalf of FEMA, awarded Carnival Cruise Lines three contracts worth a combined \$236 million to provide temporary housing to Hurricane Katrina evacuees. These contracts proved wasteful for the federal taxpayer, costing more than \$50,000 to house a single person for six months, more than \$300 per person for each night's lodging.<sup>90</sup>

One reason for the high costs of the Carnival contracts was their terms. Under the contracts, Carnival received the same level of profit from the government contract as it would have received under normal operating conditions. Rather than being paid based on the cost of housing evacuees, this company was compensated for both the revenues the company would have earned

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<sup>85</sup> Senate Homeland Security and Governmental Affairs Committee, Testimony of DHS Inspector General Richard L. Skinner, *Hearings on Hurricane Katrina: Waste, Fraud and Abuse Worsen the Disaster* (Feb. 13, 2006).

<sup>86</sup> *Id.*

<sup>87</sup> President's Council on Integrity and Efficiency, Executive Council on Integrity and Efficiency, *Oversight of Gulf Coast Hurricane Recovery: A Semiannual Report to Congress* (Apr. 30, 2006).

<sup>88</sup> *Id.*; see also *FEMA's Trailer 'Boneyard' Blasted*, *The Sun Herald* (Dec. 13, 2005) (online at [www.sunherald.com/mld/sunherald/13394657.htm](http://www.sunherald.com/mld/sunherald/13394657.htm)).

<sup>89</sup> Senate Homeland Security and Governmental Affairs Committee, Testimony of Scott Wells, Deputy Federal Coordinating Officer, FEMA, *Hearings on Hurricane Katrina: Perspectives of FEMA's Operations Professionals* (Dec. 8, 2005).

<sup>90</sup> Letter from DHS Inspector General Richard L. Skinner to Rep. Henry A. Waxman (June 29, 2006).

under normal operations and any additional expenses that Carnival incurred under the contract. As a result, the taxpayer reimbursed the company for both the cost of housing the evacuees and the revenues the ships would have earned from their casino operations, liquor and drink sales, and on-shore excursions if they were operating normally. The \$236 million contract value also did not take into account all the cost savings that Carnival realized under the contract, such as avoided entertainment and navigational expenses.<sup>91</sup>

## K. The Contract for Base Camps

In September 2005, FEMA awarded an \$80 million contract to Clearbrook LLC to build and supply base camps for emergency workers responding to Hurricane Katrina.<sup>92</sup> In November, the government reportedly suspended payments on the contract.<sup>93</sup> The DHS IG reported a “complete lack of documentation supporting price reasonableness” and found that \$4.9 million had been paid for work performed before the effective date of the contract.<sup>94</sup> The IG also found that Clearbrook had billed FEMA for over \$3 million in overcharges based on mathematical error.<sup>95</sup>

## V. CONCLUSION

This report examines contracting at the Department of Homeland Security. It finds that that contract spending by DHS has surged since 2003, with spending on noncompetitive contracts growing by over 700%; that contract mismanagement has been widespread, due in part to shortages of trained contract officials and the lack of an acquisition management structure that provides for a single responsible acquisition official for all of DHS; and that the cumulative costs to the taxpayer are enormous. The report and its appendix identify 32 DHS contracts worth \$34.3 billion that have experienced waste, abuse, or mismanagement.

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<sup>91</sup> Carnival Cruise Lines Operating Company, *Financial Review* (Jan. 2002); see also Letter from Rep. Henry A. Waxman to Secretary of Homeland Security Michael Chertoff (Oct. 20, 2005).

<sup>92</sup> Department of Homeland Security Inspector General, *Clearbrook, LLC Billing Errors Under Contract Number HSFE-06-05-F-6232* (Nov. 2005) (GC-LA-06-07).

<sup>93</sup> *Payments on Katrina Contract Halted After Billing Questions*, Washington Post (Nov. 17, 2005).

<sup>94</sup> Department of Homeland Security Inspector General, *Clearbrook, LLC Billing Errors Under Contract Number HSFE-06-05-F-6232* (Nov. 2005) (GC-LA-06-07).

<sup>95</sup> *Id.*

## APPENDIX A: PROBLEM CONTRACTS

Total Number of Contracts: 32

Total Estimated Value: \$34.3 Billion

This Appendix lists 32 contracts that the U.S. Government Accountability Office, agency inspectors general, the Defense Contract Audit Agency, or other government investigators have found to involve waste, abuse, or mismanagement. In each case listed, auditors found that contract abuses or mismanagement occurred during the last five years.

The cumulative estimated value of these 32 contracts is approximately \$34.3 billion. Estimated value is defined as the total program cost or contract ceiling. When contracts have been completed and actual costs are known, or if total program costs or contract ceilings are unknown, value is estimated as the most recent contract costs cited by federal auditors.

In some cases, agency auditors have not publicly released the identity of contractors to which their audit reports refer. In these cases, this Appendix notes that the contractor's name is "Not Released." The Appendix provides citations to all listed audit reports, as well as electronic hyperlinks for all listed audit reports that are publicly available on the Internet.

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- Contractor:** Accenture (and partners).

**Sub-Department:** Border and Transportation Security.

**Estimated Value:** \$10 billion.

**Contract Description:** United States Visitor and Immigrant Status Technology (US-VISIT).

**Selected Audit Report(s):** Department of Homeland Security Inspector General, [Implementation of the United States Visitor and Immigrant Status Indicator Technology Program at Land Border Ports of Entry](#) (Feb. 2005) (OIG-05-11); Department of Homeland Security Inspector General, [US-VISIT System Security Management Needs Strengthening](#) (Dec. 2005) (OIG-06-16); U.S. Government Accountability Office, [Recommendations to Improve Management of Key Border Security Program Need to Be Implemented](#) (Feb. 2006) (GAO-06-296).

**Problem(s) with Contract:** Lack of Defined Requirements; Wasteful Spending; Mismanagement.
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2. **Contractor:** Aviation Safeguards.  
**Sub-Department:** Transportation Security Administration.  
**Estimated Value:** \$41.5 million.  
**Contract Description:** Airport screening.  
**Selected Audit Report(s):** DCAA, *Report on Audit of Definitization of TSA Letter Contract No. DTFA01-02-C-04008, No. 2201-2002B21000038* (Dec. 4, 2002).  
**Problem(s) with Contract:** Substantial challenged costs.
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3. **Contractor:** BearingPoint.  
**Sub-Department:** Not Available.  
**Estimated Value:** \$8.9 million.  
**Contract Description:** eMerge2.  
**Selected Audit Report(s):** U.S. Government Accountability Office, [\*Financial Management Systems: DHS Has an Opportunity to Incorporate Best Practices in Modernization Efforts\*](#) (Mar. 29, 2006) (GAO-06-553T); House Government Reform Committee, [\*Testimony of Scott Charbo, Chief Information Officer, Department of Homeland Security, and Eugene Schied, Deputy Chief Financial Officer, Department of Homeland Security, Hearings on eMerge2\*](#) (Mar. 29, 2006).  
**Problem(s) with Contract:** Lack of Defined Requirements; Wasteful Spending; Mismanagement.
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4. **Contractor:** Bechtel National, Inc.  
**Sub-Department:** FEMA.  
**Estimated Value:** \$100 million.  
**Contract Description:** Manage Temporary Housing for Katrina Evacuees.  
**Selected Audit Report(s):** Department of Homeland Security Inspector General, [\*Management Advisory Report on the Major Technical Assistance Contracts\*](#) (Nov. 2005) (OIG-06-02).  
**Problem(s) with Contract:** Mismanagement; Wasteful Spending.
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5. **Contractor:** Boeing Service Company.  
**Sub-Department:** Transportation Security Administration.  
**Estimated Value:** \$1.2 billion.  
**Contract Description:** Installation and Maintenance of Baggage Screening Machines.  
**Selected Audit Report(s):** Department of Homeland Security Inspector General, [\*Evaluation of TSA's Contract for the Installation and Maintenance of Explosive Detection Equipment at United States Airports\*](#) (Sept. 2004) (OIG-04-44).  
**Problem(s) with Contract:** Wasteful Spending; Mismanagement.
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6. **Contractor:** Carnival Cruise Lines.  
**Sub-Department:** FEMA.  
**Estimated Value:** \$82.7 million.  
**Contract Description:** Cruise Ship Housing for Katrina Evacuees (Ecstasy).  
**Selected Audit Report(s):** Naval Audit Service, [Chartered Cruise Ships](#) (Feb. 2006) (Audit Report N2006-0015); Department of Homeland Security Inspector General, [Management Advisory Report on the Acquisition of Cruise Ships for Hurricane Katrina Evacuees](#) (Feb. 2006) (Report No. GC-HQ-06-11).  
**Problem(s) with Contract:** Wasteful Spending.
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7. **Contractor:** Carnival Cruise Lines.  
**Sub-Department:** FEMA.  
**Estimated Value:** \$62.2 million.  
**Contract Description:** Cruise Ship Housing for Katrina Evacuees (Holiday).  
**Selected Audit Report(s):** Naval Audit Service, [Chartered Cruise Ships](#) (Feb. 2006) (Audit Report N2006-0015); Department of Homeland Security Inspector General, [Management Advisory Report on the Acquisition of Cruise Ships for Hurricane Katrina Evacuees](#) (Feb. 2006) (Report No. GC-HQ-06-11).  
**Problem(s) with Contract:** Wasteful Spending.
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8. **Contractor:** Carnival Cruise Lines.  
**Sub-Department:** FEMA.  
**Estimated Value:** \$91.1 million.  
**Contract Description:** Cruise Ship Housing for Katrina Evacuees (Sensation).  
**Selected Audit Report(s):** Naval Audit Service, [Chartered Cruise Ships](#) (Feb. 2006) (Audit Report N2006-0015); Department of Homeland Security Inspector General, [Management Advisory Report on the Acquisition of Cruise Ships for Hurricane Katrina Evacuees](#) (Feb. 2006) (Report No. GC-HQ-06-11).  
**Problem(s) with Contract:** Wasteful Spending.
- 
9. **Contractor:** CH2M Hill Constructors, Inc.  
**Sub-Department:** FEMA.  
**Estimated Value:** \$100 million.  
**Contract Description:** Manage Temporary Housing for Katrina Evacuees.  
**Selected Audit Report(s):** Department of Homeland Security Inspector General, [Management Advisory Report on the Major Technical Assistance Contracts](#) (Nov. 2005) (OIG-06-02).  
**Problem(s) with Contract:** Mismanagement; Wasteful Spending.
-



10. **Contractor:** Clearbrook, LLC.  
**Sub-Department:** FEMA.  
**Estimated Value:** \$80 million.  
**Contract Description:** Food and Lodging at Base Camps for Hurricane Katrina.  
**Selected Audit Report(s):** Department of Homeland Security Inspector General, [Clearbrook, LLC Billing Errors Under Contract Number HSFE-06-05-F-6232](#) (Nov. 2005).  
**Problem(s) with Contract:** Lack of Defined Requirements; Wasteful Spending; Mismanagement.

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11. **Contractor:** Delta Air Lines.  
**Sub-Department:** Transportation Security Administration.  
**Estimated Value:** \$17.7 million.  
**Contract Description:** Airport screening.  
**Selected Audit Report(s):** DCAA, *Report on Audit of Proposal for Definitization of Transportation Security Administration's Letter Contract No. DTFA01-02-C-04014, No. 1101-2002L21000006* (Nov. 22, 2002).  
**Problem(s) with Contract:** Substantial Challenged Costs.

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12. **Contractor:** Fluor Enterprises, Inc.  
**Sub-Department:** FEMA.  
**Estimated Value:** \$100 million.  
**Contract Description:** Manage Temporary Housing for Katrina Evacuees.  
**Selected Audit Report(s):** Department of Homeland Security Inspector General, [Management Advisory Report on the Major Technical Assistance Contracts](#) (Nov. 2005) (OIG-06-02).  
**Problem(s) with Contract:** Mismanagement; Wasteful Spending.

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13. **Contractor:** Globe Aviation Services Corporation.  
**Sub-Department:** Transportation Security Administration.  
**Estimated Value:** \$255.8 million.  
**Contract Description:** Airport screening.  
**Selected Audit Report(s):** DCAA, *Report on Audit of Price Proposal for Airport Screening Services, No. 3511-2003P21000002* (Feb. 12, 2003).  
**Problem(s) with Contract:** Substantial Challenged Costs.

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14. **Contractor:** Jackson Hole Airport Board.  
**Sub-Department:** Transportation Security Administration.  
**Estimated Value:** \$850,000.  
**Contract Description:** Airport screening.  
**Selected Audit Report(s):** DCAA, *Report on Incurred Costs for Fiscal Year Ended 6-30-2004, No. 3121-2004J10100002* (Sept. 23, 2005).  
**Problem(s) with Contract:** Substantial Challenged Costs.
- 
15. **Contractor:** L-3 Communications.  
**Sub-Department:** Office of Border Patrol.  
**Estimated Value:** \$429 million.  
**Contract Description:** Integrated Surveillance Intelligence System (ISIS).  
**Selected Audit Report(s):** Department of Homeland Security Inspector General, [A Review of Remote Surveillance Technology Along U.S. Land Borders](#) (Dec. 2005) (OIG-06-15); U.S. Government Accountability Office, [Border Security: Key Unresolved Issues Justify Reevaluation of Border Surveillance Technology Program](#) (Feb. 2006) (GAO-06-295).  
**Problem(s) with Contract:** Wasteful Spending; Mismanagement.
- 
16. **Contractor:** Lockheed Martin Northrop Grumman Joint Venture.  
**Sub-Department:** Coast Guard.  
**Estimated Value:** \$17 billion.  
**Contract Description:** Deepwater.  
**Selected Audit Report(s):** U.S. Government Accountability Office, [Department of Homeland Security: Financial Management Challenges](#) (Jul. 8, 2004) (GAO-04-945T).  
**Problem(s) with Contract:** Wasteful Spending; Mismanagement.
- 
17. **Contractor:** Multiple Contractors.  
**Sub-Department:** FEMA.  
**Estimated Value:** \$915 million.  
**Contract Description:** Manufactured/Modular Homes for Katrina and Rita Evacuees.  
**Selected Audit Report(s):** Department of Homeland Security Inspector General, [Mobile Homes and Modular Homes at Hope and Red River](#) (Feb. 2006) (Report No. GC-HQ-06-12); Department of Homeland Security Inspector General, [Oversight of Gulf Coast Hurricane Recovery, A Semiannual Report to Congress](#) (Apr. 30, 2006); Senate Committee on Homeland Security and Governmental Affairs, [Testimony of Department of Homeland Security Inspector General Richard L. Skinner](#) (Feb. 13, 2006).  
**Problem(s) with Contract:** Lack of Defined Requirements; Wasteful Spending; Mismanagement.
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18. **Contractor:** Multiple Contractors.  
**Sub-Department:** FEMA.  
**Estimated Value:** \$1.7 billion.  
**Contract Description:** Travel Trailers for Katrina Evacuees.  
**Selected Audit Report(s):** Department of Homeland Security Inspector General, [Oversight of Gulf Coast Hurricane Recovery, A Semiannual Report to Congress](#) (Apr. 30, 2006); Senate Committee on Homeland Security and Governmental Affairs, [Testimony of Department of Homeland Security Inspector General Richard L. Skinner](#) (Feb. 13, 2006).  
**Problem(s) with Contract:** Wasteful Spending; Mismanagement; Lack of Competition.
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19. **Contractor:** NCS Pearson, Inc.  
**Sub-Department:** Transportation Security Administration.  
**Estimated Value:** \$741 million.  
**Contract Description:** Test and Hire Passenger Screeners for Airports.  
**Selected Audit Report(s):** Department of Homeland Security Inspector General, [Review of the Transportation Security Administration's Management Controls Over the Screener Recruitment Program](#) (Dec. 2005) (OIG-06-18).  
**Problem(s) with Contract:** Lack of Defined Requirements; Wasteful Spending; Mismanagement.
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20. **Contractor:** Not Released.  
**Sub-Department:** Transportation Security Administration.  
**Estimated Value:** \$19 million.  
**Contract Description:** Transportation Security Operations Center.  
**Selected Audit Report(s):** Department of Homeland Security Inspector General, [Irregularities in the Development of the Transportation Security Operations Center](#) (March 2005) (OIG-05-18).  
**Problem(s) with Contract:** Wasteful Spending; Mismanagement.
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21. **Contractor:** Olympic Security Services, Inc.  
**Sub-Department:** Transportation Security Administration.  
**Estimated Value:** \$34.9 million.  
**Contract Description:** Airport screening.  
**Selected Audit Report(s):** DCAA, *Report on Audit of Definitization Proposal Letter Contract No. DTFA01-02-C-04037, No. 4261-2003S21000002* (Dec. 20, 2002).  
**Problem(s) with Contract:** Substantial Challenged Costs.
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22. **Contractor:** Prospect Airport Services, Inc.  
**Sub-Department:** Transportation Security Administration.  
**Estimated Value:** \$16.6 million.  
**Contract Description:** Airport screening.  
**Selected Audit Report(s):** DCAA, *Report on Audit of T&M Proposal Submitted Under Letter Contract No. DTFA01-02-C-04039, No. 3141-2002B21000009* (Dec. 31, 2002).  
**Problem(s) with Contract:** Substantial Challenged Costs.
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23. **Contractor:** Scotia Prince Cruise Line.  
**Sub-Department:** FEMA.  
**Estimated Value:** \$13 million.  
**Contract Description:** Cruise Ship Housing for Katrina Evacuees.  
**Selected Audit Report(s):** Naval Audit Service, [\*Chartered Cruise Ships\*](#) (Feb. 2006) (Audit Report N2006-0015); Department of Homeland Security Inspector General, [\*Management Advisory Report on the Acquisition of Cruise Ships for Hurricane Katrina Evacuees\*](#) (Feb. 2006) (Report No. GC-HQ-06-11).  
**Problem(s) with Contract:** Wasteful Spending.
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24. **Contractor:** Shaw Environmental, Inc.  
**Sub-Department:** FEMA.  
**Estimated Value:** \$100 million.  
**Contract Description:** Manage Temporary Housing for Katrina Evacuees.  
**Selected Audit Report(s):** Department of Homeland Security Inspector General, [\*Management Advisory Report on the Major Technical Assistance Contracts\*](#) (Nov. 2005) (OIG-06-02).  
**Problem(s) with Contract:** Mismanagement; Wasteful Spending.
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25. **Contractor:** Sky Aviation Services, Inc.  
**Sub-Department:** Transportation Security Administration.  
**Estimated Value:** \$536,000.  
**Contract Description:** Airport screening.  
**Selected Audit Report(s):** DCAA, *Report on Audit of Time and Material Proposal, No. 6701-2002E21000005* (Oct. 31, 2002).  
**Problem(s) with Contract:** Substantial Challenged Costs.
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26. **Contractor:** STC Constructors, LLC.  
**Sub-Department:** Customs and Border Patrol.  
**Estimated Value:** \$1.5 million.  
**Contract Description:** Construction at Corpus Christi Naval Air Station.  
**Selected Audit Report(s):** DCAA, *Report on Audit of Price Adjustment Claim, No. 3521-2003V17200003* (Feb. 20, 2004).  
**Problem(s) with Contract:** Substantial Challenged Costs.
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27. **Contractor:** Summit Security Services, Inc.  
**Sub-Department:** Transportation Security Administration.  
**Estimated Value:** \$16.5 million.  
**Contract Description:** Airport screening.  
**Selected Audit Report(s):** DCAA, *Report on Audit of Definitization of TSA Letter Contract No. DTFA01-02-C-04042, No. 2201-2002-G21000008* (Nov. 26, 2002).  
**Problem(s) with Contract:** Substantial Challenged Costs.
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28. **Contractor:** U.S. Airways.  
**Sub-Department:** Transportation Security Administration.  
**Estimated Value:** \$7.1 million.  
**Contract Description:** Airport screening.  
**Selected Audit Report(s):** DCAA, *Application of Agreed-Upon Procedures, No. 6331-2003D17900002* (Apr. 11, 2003).  
**Problem(s) with Contract:** Substantial Challenged Costs.
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29. **Contractor:** Unisys.  
**Sub-Department:** Transportation Security Administration.  
**Estimated Value:** \$1 billion.  
**Contract Description:** Airport Telecommunications.  
**Selected Audit Report(s):** Department of Homeland Security Inspector General, [\*Transportation Security Administration's Information Technology Managed Services Contract\*](#) (Feb. 2006) (OIG-06-23).  
**Problem(s) with Contract:** Lack of Defined Requirements; Wasteful Spending; Mismanagement.
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30. **Contractor:** Wackenhut Corporation.  
**Sub-Department:** Transportation Security Administration.  
**Estimated Value:** \$106.6 million.  
**Contract Description:** Airport screening.  
**Selected Audit Report(s):** DCAA, *Report on Audit of Review of Letter Contract No. DTAf01-02-C-04112, No. 1271-2002P21000007* (Oct. 25, 2002).  
**Problem(s) with Contract:** Substantial Challenged Costs.
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31. **Contractor:** Worldwide Flight Services.  
**Sub-Department:** Transportation Security Administration.  
**Estimated Value:** \$20.8 million.  
**Contract Description:** Airport screening.  
**Selected Audit Report(s):** DCAA, *Supplement to Report on Indefinite Delivery Indefinite Quantity Proposal, No. 3511-2002M21000017S1* (Nov. 13, 2003).  
**Problem(s) with Contract:** Substantial Challenged Costs.
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32. **Contractor:** Worldwide Security Associates, Inc.  
**Sub-Department:** Transportation Security Administration.  
**Estimated Value:** \$82.6 million.  
**Contract Description:** Airport screening.  
**Selected Audit Report(s):** DCAA, *Audit of T&M Proposal to Definitize Letter Contract, No. 4181-2003A21000001* (Nov. 22, 2002).  
**Problem(s) with Contract:** Substantial Challenged Costs.
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