

Spilled Secrets

James L. Horton

Karsai Holdings (NYSE: KSIH) is a conglomerate defense contractor that provides information technology services for the intelligence community. Sixty percent of KSIH's engineers have top secret clearances and work on five "black" contracts. While the CEO and CFO know some elements of the secret government work, they are not privy to details. Both have become practiced at warding off financial analysts' questions related to the contracts, which represent 40 percent of the company's gross revenues. The CEO and CFO cannot even name publicly the departments with whom the contracts have been made. They can only tell analysts when contracts have been renewed and whether they are going well.

KSIH's corporate communications officer, Susan Held, was thunderstruck when she took a call from a *Washington Post* reporter who said he had top secret documents belonging to KSIH, and he was about to publish a story about them. He asked for confirmation of the names of several KSIH managers and executives whom he said had been mentioned in the documents. Held refused comment and dialed the CEO.

The CEO swore as she told him what the reporter said. He called the Department of Defense on a secure phone line and told his liaison, Lieutenant General Cogint, the news. Cogint declared an emergency. The CEO ordered an immediate internal investigation into how Top Secret files left KSIH's control.

The CEO told Held and the general counsel to call the reporter back, to inquire about the documents and to warn the *Post* there are legal consequences for spilling national secrets. Their call was routed to a conference room where the reporter was meeting with the executive editor and legal counsel. The *Post's* legal counsel assured them that the newspaper was sensitive to national secrets, and the papers would be returned to KSIH promptly. The newspaper's story would not be about the documents but of their appearance.

The general counsel inquired how the *Post* obtained the papers. The reporter said they were found at a used furniture store in the bottom drawer of a locked filing cabinet. The cabinet had come from an office KSIH had recently closed in Arlington, VA. The used furniture store had purchased cabinets, desks and room dividers. When workers at the store were reconditioning the cabinets, they discovered three inches of files they turned over to the store owner. The store owner had turned them over to the newspaper. It was unclear why the furniture store owner had failed to contact KSIH.

The *Post's* legal counsel said the documents appeared to be from three to five years before the present. Each was stamped Top Secret, but code names

appeared to reference spy satellites. The documents were disparate and not meaningful in themselves, but there was a discussion in one memo about a technical problem in intelligence gathering. The counsel said the *Post* would hold the documents in a secure filing cabinet pending KSIH's arrival to pick them up. Held and the general counsel reported this to the CEO and LTG Cogint who sent two military policemen to bag the files and carry them to the DoD.

Held, the CEO and general counsel met into the evening on how to handle the crisis. A *Post* story could jeopardize the contracts. Held said there was no way to stop the story. The general counsel sided with her and stressed the need to learn exactly how the files left KSIH's possession.

An above-the-fold story on the front page of the *Post* the next morning was about the Top Secret files. There were pictures of the cabinet, the worker who found the files, the furniture store owner and the files themselves with only the "Top Secret" stamp showing. It was an embarrassment for KSIH and a chore for Held to speak to TV and radio reporters. She did not comment on how the files had been lost. She said only that KSIH was investigating whether the files came from the company, and there would be a full report after the completion of an investigation. Held hoped that would satisfy the electronic media, and they would move on. The *Post* reporter was another matter. He was looking for a full explanation of how the files had left company control, and he checked back with Held every week to find out if the investigation had been completed.

The investigation revealed that the office manager and supervisors had followed procedures for the transport and destruction of secret and top secret files. They had moved files to be kept in a secure manner to the new office space. They had disposed of old files using a mobile shredder that cut paper into confetti. Fifty filing cabinets had been checked and labeled as empty before they were turned over to the used furniture store. All 100 desks and drawers had been emptied and double-checked. Computers had been accounted for, as well as hard drives. Since computers were isolated from external networks and storage media such as thumb drives were banned, there was little chance of leakage from that source. In the end the office manager and supervisors were baffled how one file drawer had been overlooked in cleaning.

The issue now was how to handle the DoD and its independent investigation into the missing files. The DoD investigator found instances of poor document handling, but they were not out of the ordinary. He found no violation of procedures that would have caused the oversight. The investigator had to find something wrong and did but his recommendations for retraining were mild by comparison to the security breach.

The *Post* reporter kept in touch with Held through the six weeks of the investigations. When Held had the results of the investigation in hand, she met with the general counsel to determine what to say to the reporter. Held favored a

transparent approach because the reports could have been far worse and were not. The general counsel did not want to reveal the reports because he said they could be misinterpreted. They agreed to disagree and to let the CEO make the final decision.

The CEO was worried about renewal of the “black” contracts based on the security breach. He said LTG Cogint had told him not to worry because it was an honest mistake and the documents weren’t revelatory. On the other hand, KSIH’s competitor for the “black” contracts was using the breach to demonstrate its “nearly foolproof” way of accounting for and handling top secret documents. The CEO knew their process was better than KSIH, and it would be difficult for KSIH to catch up with the security measures the competitor had in place. The CEO preferred that there not be a story. He told Held not to cooperate with the reporter. Held told him that the reporter was likely to find out anyway and could go to the competitor for comment.

“If that happens, the competitor will show off its system. We’ll be judged by it,” she said.

“But if we don’t cooperate, there is nothing to judge,” the CEO responded. The general counsel agreed.

Held wasn’t put off. “This is Washington. Everything leaks here. I’ll bet the competitor has already talked to the reporter.”

“Let them,” said the CEO.

Held told the reporter that KSIH was not going to release the reports and would talk no further about the security breach. The reporter pushed her, but she remained adamant. He said he knew the process for handling classified documents, and it was obvious KSIH had violated it. He would write the story without KSIH if he had to. Held told him she could not stop him from doing so. She hung up and was in misery. The story would almost certainly be worse because KSIH wasn’t cooperating.

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Questions for discussion:

1. Should Held go back to the CEO and try again?
2. Should Held leak the reports to the *Post* reporter without telling her boss?
3. Was the CEO right in trying to quash the story?
4. Should Held quietly direct the reporter to the DoD investigator?
5. What would you do?