

Statement of
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Before the
Commission on Wartime Contracting
For Iraq and Afghanistan
August 12, 2009

Introduction

Chairman Thibault, Chairman Shays and distinguished members of the Commission on Wartime Contracting. My name is John Isgrigg and I am the Deputy Director of the U.S. Army Intelligence and Security Command (INSCOM) Directorate of Contracting. I appreciate the opportunity to appear before you to discuss the INSCOM contract with Global Linguist Solutions (GLS). As requested, I will discuss the history of INSCOM's involvement and efforts in managing this contract.

Discussion

The United States Army Intelligence and Security Command (INSCOM) contracts for the majority of the translator/interpreter services required by the Department of Defense (DoD) utilizing four different contract vehicles. The largest of these contracts supports the contingency effort in Iraq and other areas as required. This \$4.65B contract was awarded in 2007 as a single award, indefinite delivery-indefinite quantity (IDIQ) contract to Global Linguist Solutions (GLS), a wholly owned joint venture of DynCorp International and McNeill Technologies.

The INSCOM linguist services contract history dates back to at least 1999, when the original award was made to BTG Incorporated with a contract value of \$4.5M for a 5-year period (Base + 4 Option Years). BTG was subsequently purchased by Titan Corp in 2001 just prior to the explosion in linguist requirements resulting from the Global War on Terror (GWOT). With the increased contract value, Titan became an attractive take-over

target and was subsequently purchased by L-3 Corporation in 2005 and ingested into L-3's Linguist Operations and Technical Support Division (LOTSD).

In 2005, with the current contract nearing its maximum dollar ceiling, INSCOM attempted a recompetition which was prevented as a result of a protest submitted to the GAO under the Competition In Contracting Act (CICA). In an effort to take corrective action in the face of the GAO protest, INSCOM broke out what had previously been issued as a single award, into four separate contract efforts, three of which were set aside for small businesses and one full and open competition for the Iraq effort. For the full and open competition, subcontracting goals were set at 35% of the total dollar value in accordance with the Army small business goals for large business awards.

Three companies were in the competitive range for the large award, two of which were the incumbent, L-3 (LOTSD) and GLS. On December 15, 2006, GLS was awarded the contract for Iraq linguist services. Upon award, LOTSD submitted a series of four GAO level protests in an effort to reverse the award decision. The award to GLS was ultimately upheld in early 2008 when the final LOTSD protest was withdrawn after LOTSD and GLS reached a subcontracting work share arrangement. INSCOM had no objection to the subcontracting agreement as LOTSD had been performing under the previous contract in a satisfactory manner.

Following a 90 day transition between contractors and while still coming to grips with the magnitude of the effort, GLS experienced an intense period of operationally driven

contract activity. Linguist requirements escalated in conjunction with the military build-up in Iraq. As a result, in August 2008, INSCOM entered into negotiations with GLS to modify the contract level of effort to increase the linguist requirements. At about the same time, INSCOM noted GLS had only provided approximately 80% of the contract requirement for linguists. This “over burn” signaled a significant problem with GLS’ spending which triggered the Contracting Officer’s Representative (COR), and Deputy Linguist Program Manager, to consult the Contracting Officer (KO) with concerns over GLS’ indirect cost pools as well as subcontracting costs.

The KO contacted the Defense Contract Audit Agency (DCAA) on September 10, 2008 (attachment 1) regarding indirect cost pools, which included a DynCorp International Overhead Allocation (DI Allocation), and again on September 12, 2008 regarding incurred costs (attachment 2). Concurrently, the COR and KO had discussions with DCAA regarding GLS’ direct billing authority (attachment 3) due to concerns over GLS’ perceived over-billing. Additionally, contract negotiations for increased linguist requirements took a turn for the worse as GLS proposed a dramatic increase in costs. The KO engaged GLS (attachment 4) regarding cost escalation seeking information on proposed costs and the potential for cost savings. Concurrently, GLS had inundated the KO with requests (attachment 5) to subcontract to various businesses thereby increasing proposed costs via subcontracting pass-through costs.

The KO and COR surmised GLS was increasing contract costs approximately 15-18% by using a subcontracting business model which had the effect of inflating billings

thereby increasing award fee payouts. Concerned with rising subcontractor costs and due to inadequate competitor and market research, the KO rejected a request to subcontract to SOSI International (attachment 6). Concurrently, the KO continued his efforts to interpret information contained in cost proposals in order to determine the magnitude of cost increases proposed by GLS. While the INSCOM has privity of contract with the prime contractor, INSCOM has no direct contractual relationship with subcontractors, thereby the KO had to await the requested DCAA incurred cost audits to obtain critical cost information critical to negotiations.

In late September 2008, GLS flooded the INSCOM contracting team with proposals, counter proposals, and other documentation (attachment 7) which quickly overwhelmed the sparse contracting staff with cost analysis. Since TO 1 expired December 7, 2008, and it was imperative linguist services be continued, it appeared the contractor was attempting to forestall the Government's ability to negotiate a fair and reasonable price for the TO 1 option, thereby pressing the Government to accept the TO 1 proposal without proper due diligence. The KO, while understaffed and inundated with proposals, realized he could not manage line-by-line costs and negotiate forward pricing concurrently. Instead he shifted to a strategy intended to control the extremely high costs proposed by requesting a price proposal from a competing linguist provider. This strategy afforded the Government significant leverage and drove down the contractor proposed costs significantly. The strategy shift left the cost issues to be sorted out via DCAA incurred cost audits and Form 1 recovery of unallowable costs. The outcome of the TO1 negotiations was largely successful, with GLS agreeing to a TO 1 cost of \$776M

instead of their original TO 1 option year proposal of \$1.03B. The negotiated cost represented a slightly greater than 4% annual increase in unit cost.

While the INSCOM Headquarters contracting team was decisively engaged in extremely contentious negotiations, INSCOM's deployed Assistant Contracting Officer's Representatives (ACORs) in the field scoured Iraq for cost savings opportunities. The ACORs identified approximately \$5M in spending in Kuwait in the form of:

- Private housing for vendor management and administrative personnel (i.e. private 3 bedroom apartments for individual employees)
- An isolated instance of a contractor with deployed dependents at Government expense
- Automobile densities of a 1:1 ratio for management personnel
- Lost productivity due to less than expedient transit of linguists into Iraq

In January 2009, the KO travelled to Kuwait to observe the GLS operation. The KO corroborated the ACOR-identified issues. Subsequent Government demands for cost cutting measures resulted in GLS implementation of over \$5M in cost savings.

During the timeframe of the KO's Kuwait site visit, GLS management embarked on a media campaign whereby "linguist salary cuts" were blamed on INSCOM's having reduced the value of GLS Contract. This was absolutely not true. It appears that GLS used this tactic to reduce linguist salaries and associated deployment incentives approximately 25% following the TO 1 negotiations. The GLS CEO briefed Multi National Force Iraq (MNF-I) leadership of the alleged INSCOM contract reductions to

shift linguist discontent and blame on the “difficult KO”. The GLS media campaign triggered MNF-I leadership queries as well as a flurry of Congressional Inquiries which again inundated the KO and COR forcing them to respond to numerous, time sensitive requests. INSCOM, however, ensured further cost increases were minimized.

In theater, misperception continued until March 2009 when both the KO and COR again traveled to Iraq to meet with MNF-I leadership, explaining the GLS salary situation and rebutting the vendor’s allegations against the INSCOM contract team. During that time the KO and COR observed multiple layers of in-theater management and inadequate security procedures. These issues combined with a substandard linguist fill rate triggered the KO to issue a series of cure notices (attachment 8) in an attempt to improve performance. GLS failed to improve their performance resulting in a partial termination for default. In order to increase support to an Armored Cavalry unit which was non-mission capable with respect to linguist support, a subsequent task order was placed with a competing contractor. Linguist support in Iraq is now at 97% and the Armored Cavalry unit became mission capable within 50 days as a result of the support from the small business competitor.

During the termination procedures, GLS again tried to influence the INSCOM contracting team by engaging the MNF-I leadership in an attempt to dissuade INSCOM from bringing another prime contractor into Iraq MNF-I. MNF-I leadership did not inject itself into a contractor dispute and supported the Government position.

Following termination, sweeping changes were made in GLS management. The DynCorp and McNeill CEOs instituted dramatic changes in an effort to improve performance and cut costs. Performance, with respect to linguist fill rates has improved, primarily because the introduction of another vendor reduced GLS' aggregate requirements and GLS was able to consolidate their remaining linguists towards their contracted requirements. However, GLS cost pressures continued as evidenced by the two month time period required to accomplish the termination negotiations.

Answers to the Commissions Questions

To directly address the Commission's questions, answers are listed numerically as follows:

1. The contract requirements for small business subcontract participation were set by adhering to the Department of The Army's small business subcontracting goal guidance. The SBA publishes the guidance annually. The goal for the contract was set at 35% in accordance with the prevailing goal for FY 06. The subcontracting requirement has since increased to 37.5% for 2009.
2. The INSCOM KO and COR anecdotally estimate there are excessive pass-through costs due to compounding indirect costs and fee, however, a thorough analysis of indirect costs is pending . While GLS maintains around 50% of the contracted work share, it subcontracts approximately 92% of all contract dollars.
3. INSCOM used existing Federal Acquisition Regulation procedures to grant approval to subcontract and to evaluate subcontractor eligibility. INSCOM requested subcontracting files and cost information but the volume of information

submitted, lack of adequate contracting staff and GLS efforts to overwhelm (i.e. paper) the INSCOM team in contract negotiations forced the KO to abandon the strategy of active subcontracting effort analysis and instead adopt an overall cost control strategy. The KO estimated cost control efforts were the primary means by which he could protect the Government's best interests in the short term with DCAA audits and Form 1 procedures being relied upon to recover unallowable costs in the long term.

4. The Government does not have sufficient information to adequately determine a rationale for the subcontracting decision.
5. We believe GLS lost control of their subcontractors and associated costs due to their business practices and management decisions. The GLS business model appears to now focus on maximizing invoiced costs through use of subcontractors, thereby inflating pass-through costs and ultimately increasing overall expense to the Government. At times, the use of foreign businesses is mandated, such as the use of sponsors in Kuwait. Expenses are compounded when GLS uses subcontractors to procure goods and services. A thorough audit of overseas costs is imperative as problems identified in the predecessor contract resulted in Form 1 recovery of over \$6M from LOTSD.
6. INSCOM's understanding of the business relationship existing between DynCorp International (DI) and GLS is that of DI as a parent company and GLS as a wholly owned joint venture.
7. All available resources were applied to Government oversight, however, the numbers and skill levels were inadequate given the size and complexity of the

contract. Both DCAA and INSCOM contracting are inadequately staffed to sufficiently and actively oversee the contract. The INSCOM Directorate of Contracting had an average of 4.5 persons working the breadth of the four contracted linguist efforts. Each of these employees have further additional duties encompassing other large contract efforts. The INSCOM linguist contracting team was the most experienced and best trained available at INSCOM, but were only 25% of the personnel infrastructure required to actively manage the linguist contract portfolio, notwithstanding other contracts managed. The increased contracting team for Iraq should include one additional contracting officer, one additional contract specialist, and two deployed Administrative Contracting Officers (ACOs) to actively oversee costs and business practices in theater. Additional requirements for the Afghanistan contract effort are one more contracting officer, one contract specialist and two deployed ACOs. On the operational side of the program, INSCOM needs 10 more ACORS deployed to actively oversee contractors.

Conclusion

Thank you for this opportunity to appear before this Commission to address INSCOM's role with the Global Linguist Solutions contract. I look forward to answering any additional questions the Commission may have. We would like to assure the Commission that INSCOM remains committed to excellence in all of our contracting efforts. We shall remain vigilant in our efforts to improve the way we do business by continuing to collect and apply lessons learned and make adjustments along the way.

Through these efforts we will ensure success for our Warfighter while controlling costs to the U.S. Government and taxpayer.