

LINGUIST SUPPORT SERVICES IN THEATER

WEDNESDAY, AUGUST 12, 2009
Commission on Wartime Contracting in,
Iraq and Afghanistan,
Washington, D.C.

The Commission met, pursuant to notice, at 9:29 a.m., in Room 342, Dirksen Senate Office Building, Michael J. Thibault, Co-Chair of the Commission, presiding.

Present: Commissioners Thibault, Ervin, Green, Gustitus, Henke, Tiefer, and Zakheim.

OPENING STATEMENT OF CHAIRMAN THIBAULT

Chairman Thibault. Good morning. My name is Mike Thibault. I am the co-chair of the Commission on Wartime Contracting in Iraq and Afghanistan.

I want to thank you, all, for attending this hearing on linguist support services in theater. I am going to be making the opening statement on behalf of my co-chair, Christopher Shays and myself and the other commissioner members who are the dais here. I will read it in this order rather than the order presentation, otherwise, I am going to get confused, and it is Clark Ervin, Grant Green, to my left, Linda Gustitus, Robert or Bob Henke, Charles Tiefer, and Dov Zakheim. Welcome to all commission members.

Yesterday's hearing was a broad-gauged approach to the problems of effectively monitoring contractor performance controlling payments and auditing results when contractor business systems have significant inadequacies. Today, we are taking a case study approach to gather information on a different topic. We will hear testimony about the Army's Intelligence and Security Command or what is referred to and what we will refer to here as INSCOM, their contract for global linguistic services in Iraq.

The contract began in December 2007 and could run five years at ultimate cost approaching \$5 billion. This hearing will feature government and industry testimony about the structure, operation, and oversight of this contract, which involves extensive subcontracting. Therefore, the potential for significant added cost that may or may not reflect proportional added value. That will be a focus of this hearing.

I want to stress this is not an accusatory proceeding. The prime contractor, Global Linguist Solutions or GLS -- again, we may refer to them throughout the hearing as GLS -- and subcontractors including L-3 Services and Northrop Grumman and providing vital support, critical support for U.S. operations in Iraq by fielding and managing about 9,000 translators and interpreters who are native speakers of Arabic or Kurdish. Our war-fighters, diplomats, reconstruction officials, and others depend heavily on linguist support to interact effectively with

the Iraqi Government, military, local officials, and civilian populations. Said in a simple way, wherever our military, at the very point of the spear, the platoon level goes forward, they have interpreters with them. This is a critical support contract that has absolutely everything to do with the mission, as well as the safety of our war-fighters.

Our hearing focuses on other issues, including our policies for determining that subcontracting arrangements are providing value commensurate with costs and our methods for providing effective monitoring of contractor performance.

We have two panels of witnesses here today. The first comprises federal officials involved with the contract and its oversight. They are John Isgrigg, Deputy Director of Contracting at INSCOM. Forrest Evans, Deputy Program Manager and Contracting Officer Representative at INSCOM. And April Stephenson, Director of the Defense Contract Audit Agency.

Our second panel represents some of the companies working under the linguistic services contractor. These witnesses are John Houck, Global Linguist Solutions, the President, Thomas Miller, General Counsel, L-3, and Gregory Schmidt, Vice President, Northrop Technical Services. Again, I want to reaffirm and state thank you all of you for attending.

Before we hear from the witnesses, I want to offer some background to illustrate why the GLS contract makes a good case study for some of the myriad of questions that Congress has directed this commission to tackle.

As noted, the GLS contract is a five-year contract of the indefinite quantity, indefinite deliver type that the government uses when precise forecasts cannot be made of the scale or the timing of the needs. This is a cost-type award fee arrangement that is used throughout theater whenever there is significant uncertainty about the scale or the timing of the needs. The contractor can recover supported costs plus an award fee determined by the government within a proposed range that is largely key to contractor performance.

One of the aspects of the GLS contract that will receive attention today, as I said before, is the cost impact of its subcontracting, the cost impact of its subcontracting.

As I outlined, the contract arrangements involve very heavy use of subcontractors, even though GLS does all of the recruiting, all of the vetting, all the hiring, all the training, and the field management of linguists. That, in the simplest terms, every linguist out there, "out there" being in theater in Iraq, wears a GLS badge and is managed and supervised by GLS employees, regardless of who is doing their payroll.

There are indirect costs and fees, plus the prime contractor's administrative costs and fees all become add-ons. So, there is total cost of this contract, and we are going to explore this today and try to understand it. That is why it is a great case study.

In the year-and-a-half since the GLS contract took effect, these add-on costs may account for \$100 million. And I said "may account" because we are going to have testimony from the director of the Defense Contractor Audit Agency and we asked Director Stephenson to provide us her best estimate of the premium and the process that she went through presently, and I find it interesting, Director Stephenson, that in your testimony you then the natural fallout is okay, if we have spent \$800 million so far and it approaches \$5 billion, the nature consequence of any question is how much might that be, that premium, and you provided your best estimate with the proper qualifiers of \$556 million, but before I read yours, I did my own pencil. It shows maybe my accountant's obsessive compulsive behavior, and I came up to 570. So, I felt good on a good that on a quick assessment you had a much more precise, and we look forward to that.

But anyway you look at it, the point I want to make is the difference between the \$100 million and \$175,000 that you presently put on your schedule, we have well over approaching \$500 million more that are likely to be incurred in this process, and we want to focus on that because one of the great things about this hearing is we are looking back only so far as lessons learned in the present and contracting in the present, but the bulk of the dollars, and maybe the opportunity in this \$5 billion program in this area, if it makes sense, is looking forward, and that is why we are so keenly interested in holding this hearing now, and that is the importance of this hearing.

There is certainly nothing wrong with a prime contractor calling in subcontractor assistance for insurgent work, special skills, capabilities, or support. Do this all the time.

In most cases, subcontractors are crucial team members who provide invaluable contract support. In most cases, they do not look and sound and walk like a prime contractor employee doing the same exact mission of a prime contractor employee. In the case of GLS, there is a question whether the contract extensive outsourcing of administrative work represents business necessity or some other consideration. And we are going to explore the reasons and try to understand them better.

Other questions will also emerge and are of interest. L-3 Services filed three bid protests of the contract award to GLS over an extended period upon the initial award to GLS, and, again, after the government accountability office reaffirmed its decision in favor of GLS. L-3 withdrew its protest after reaching agreement that it would be a GLS subcontractor. L-3 in fact now accounts for more than 20 percent of the total contract value.

So the predecessor contractor, multiple bid protest, now, in terms of the costs, a critical subcontractor providing linguists.

Today, we will explore the GLS and the L-3 relationship and any impact from the bid protest, and it is really critical that we listen to all the testimonies as we try to gather and understand this. This point is important to explore. GLS identifies and hires 100 percent of the

linguists. We need to understand as they assign linguists to subcontractors how this process works.

On the contract management and oversight front, we will also probe the question of whether service users like INSCOM are taking full advantage and maintain effective coordination with DCMA and the Defense Contract Audit Agency. DCMA is the Defense Contract Management Agency.

We may also ask how proper monitoring of contractor performance can be maintained in cases where, as in this instance, the Army across the board is not only short of Contracting Officer Representatives and subject matter experts, but has minimal or none assigned to the GLS contract who can speak Arabic or Kurdish, a critical part of, obviously, and interpreter in understanding the role.

The implication of these issues extends far behind a linguist services contract, but they can be brought to a sharp focus in this case study. We can seek to identify whether and what contracting alternatives, a critical part of this hearing, alternatives, are possible to reduce costs. As I said before, our objective today is to ask questions, discuss alternatives, even if everyone involved in awarding, structuring, executing, monitoring, and auditing the GLS contract is doing every task by the book, by the current regulations, by the current calculations, it seems clear, and, based on testimony, I think we are going to hear it is not all by the book, but it seems clear that this example raises some issues that should concern policymakers and taxpayers.

Again, we thank our witnesses for participating and what promises to be a very informative session. The hearing record will remain open for 10 business days to gather response to any questions for the record.

[The prepared statement of Chairman Thibault and Chairman Shays follows:]

Chairman Thibault. Now, we turn to our first panel. And what I would like to do is to ask all three of you before I introduce you and set out the order to stand, if you would, please, and I would like to swear you in.

Do you solemnly swear or affirm that the testimony you give before this commission is the truth, the whole truth, and nothing but the truth?

Ms. Stephenson. Yes.

Mr. Isgrigg. Yes.

Mr. Evans. Yes.

Chairman Thibault. Thank you. Let the record show that.

So, and the testimony that is being provided, INSCOM has a singular testimony, as I understand that, and Mr. Isgrigg, you are going to provide that testimony as the procurement organization, the organization responsible for it. We would ask you to go first, sir. Mr. Isgrigg?

TESTIMONY OF JOHN ISGRIGG, DEPUTY DIRECTOR FOR CONTRACTING, UNITED STATES ARMY INTELLIGENCE AND SECURITY COMMAND

Mr. Isgrigg. Thank you, sir. Chairman Thibault and distinguished members of the Commission on Wartime Contracting, to my left is Mr. Forrest Evans, Deputy Program Manager and Senior Contracting Officer's Representative for the contract linguist program, and I am John Isgrigg, the Deputy Director for Contracting for the United States Army Intelligence and Security Command for INSCOM.

We appreciate the opportunity to appear before you to discuss the INSCOM contract with Global Linguist Solutions, or GLS. It is also our privilege to be here representing INSCOM, as well as the soldiers, sailors, airmen, and marines who are supported by this contract.

As requested, I will briefly discuss the history of INSCOM's involvement and our efforts in managing this contract. INSCOM contracts for the majority of translator and interpreter services required by the Department of Defense utilizing four different contracts vehicles, these largest of these contract vehicles supports the contingency effort in Iraq and other areas as required. This \$4.65 billion contract was awarded in 2007 as a single award, indefinite delivery, indefinite quantity contract to GLS, a wholly-owned joint venture of DynCorp International and McNeil Technologies.

INSCOM linguist services' contract history dates back to 1999, when INSCOM Contracting Office awarded a \$4.5 million, 5-year contract award to BTG, a series of corporate acquisitions followed, culminating with L-3 Corporation, purchasing the Titan Corporation in 2005. L-3 assigned management of this contract to its Linguist Operations and Technical Support Divisions known as LOTSD.

In 2005, with the current contract nearing completion, INSCOM re-competed the contract. However, a final award decision was delayed as a result of a series of GAO level protests brought by L-3 or LOTSD and other companies. Three companies were in the competitive range for contract award, two of which were the incumbent, L-3 or LOTSD, and GLS, the ultimate awardee.

The awarded GLS was ultimately upheld in early 2008, when the final LOTSD protest was withdrawn after LOTSD and GLS reached a subcontracting work share agreement. INSCOM had no objection to the subcontracting agreement, as LOTSD had been performing under the previous contract in a satisfactory manner.

During 2008, linguist requirements escalated in conjunction with the military buildup in Iraq. As a result, in August 2008, INSCOM entered into negotiations with GLS to modify contract level of effort in order to increase linguist contract requirements. About the same time, INSCOM noted GLS had only provided approximately 80 percent of the contract requirement for linguist, but were burning funds at a rate congruent with 100 percent fill rate. This over burn signaled a possible significant

problem with GLS's spending. INSCOM contacted DCAA in September 2008 for audit support.

Negotiations for increased linguist requirements were contentious. INSCOM was inundated with revised proposals requiring analysis, as well as numerous subcontracting requests. Realizing we were understaffed for a direct oversight strategy, INSCOM shifted strategy whereby costs would be controlled via contract negotiations, leaving incurred costs and subcontracting cost recovery until after the DCAA audits were completed.

This strategy shift allowed INSCOM to focus on contract negotiations and active cost control measures and leave the DCAA Form 1 efforts as a passive incurred cost strategy. In January of 2009, following negotiations, INSCOM shifted back to active cost control. The INSCOM team made three trips to Iraq to observe GLS's operation and gauge performance. There were significant findings, which ultimately resulted in a partial termination of one task order for default.

The termination for default was later converted to a no-cost termination for convenience when an acceptable get well plan was submitted by GLS.

In accordance with the get well plan, sweeping plans were made in GLS management. DynCorp-McNeil CEOs instituted dramatic changes in an effort to improve performance and cut costs. Performance with respect to linguist fill rates has improved, however, GLS cost pressures continue.

In conclusion, thank you for this opportunity to appear before this commission to address INSCOM's role with the GLS contract. I look forward to answering any additional questions the commission may have, and 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. These efforts will ensure success for our war-fighter, while controlling cost to the United States Government and the taxpayers.

Thank you.

[The prepared statement of Mr. Isgrigg follows:]

Chairman Thibault. Thank you, Mr. Isgrigg. I will probably get reminded to turn my mic on a lot. But thank you. It is something I forget to do.

I appreciate one thing, is that I forgot to tell witnesses that we would like you to hold it to about five minutes, and you did exactly that on your own. So, I am very impressed and very appreciative. Thank you.

Director Stephenson, I would like to kind of say for the record you spent so much time up on the Hill, and we appreciate it, that I do not know how you are managing DCAA. And, so, I appreciate your testimony,

look forward to your testimony, and may we can give you a break down the road. Thank you, Director.

TESTIMONY OF APRIL STEPHENSON, DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

Ms. Stephenson. Well, I do have a great staff. So, they hold the fort down while I am not there.

All right. Mr. Thibault, Members of the Commission, thank you for the opportunity to appear before you today. As always, I am pleased to be here.

As requested, I will describe the audit effort performed by DCAA on the linguist contract with emphasis on the costs and functions of subcontractors and the business relationship of DynCorp International. A more detailed account is provided in the statement that I request be submitted for the record.

Chairman Thibault. It will.

Ms. Stephenson. The contract that is the subject of the hearing today was awarded in December 2007, as was previously described. It is being performed by DynCorp Global Linguist Solutions, which I will hereafter refer to as GLS. GLS is located in Forth Worth, Texas.

After several reorganizations of GLS, in April 2009, it became its own segment, reporting directly to the corporate home office of DynCorp International.

GLS uses DynCorp International's business systems, which are all operated out of its Fort Worth location. Of the current value of the contract of \$4.64 billion, just over \$1 billion has been funded as of June 2009. The contract provides for about 9,000 linguists in Iraq, Kuwait, and Qatar. Linguists for Afghanistan are provided under a separate prime contract awarded to a contractor in Ohio.

During the conflict in 2002, INSCOM used an existing contract for linguist services as what was previously described, and as was previously described, there was a series of bid protests, which led to March of 2008, when L-3 withdrew its one of probably about three protests in an agreement with GLS and did become a subcontractor of about \$1 billion of the \$4.64 billion contract value.

Of the \$4.64 billion, GLS has awarded \$2.9 billion or 64 percent to 18 subcontractors. As of the date of this testimony, the primary function of 12 of those 18 subcontractors totally \$2.8 billion is payment of payroll for the GLS linguists.

For example, the subcontractor Shee Atika, an Alaska native corporation, pays the linguists with the exception of local nationals in theater based on payroll information that is provided by GLS. For local nationals, Shee Atika provides GLS a check, and GLS then pays the local nationals in theater in cash.

These 12 subcontractors do not hire, manage, or interact with the linguists other than to pay the amount stipulated by GLS. Of the 12 subcontractors, 9 are small businesses, for a total value of \$1.6 billion. The remaining six subcontractors for \$136 million perform various functions, such as recruiting, medical care, and logistical support.

Of the \$4.64 billion contract, \$816 million has been billed to the government as of June 30. Of the \$816 million, \$81.8 million represents add-on costs of the subcontractors. We have categorized add-on costs to mean indirect costs to mean indirect cost of fringe, overhead, G&A, along with profit and fee.

Of the \$81.8 million has increased to \$199 million when applying GLS's G&A and fee percentages. The add-on costs for the total contract value of \$4.64 billion were not available. However, in applying a percentage of the add-on cost billed to date, of the \$101 million to the total contract value of \$816 million, one could conclude that about 12 percent of the \$4.64 billion or \$556 million could represent the add-on cost for subcontracting the payroll effort on this contract.

GLS uses the same business systems as DynCorp International for all of its functions, including accounting, billing, purchasing, and as discussed at the hearing yesterday, three of DynCorp's systems are inadequate. We have identified various issues related to the purchasing system and issued a flash report in June 2009 as a early alert of an issue that, if left uncorrected, could result in an increased risk of overpayments to the government. That primary issue has to involve the adequate price competition of its subcontractors.

For example, on GLS, no price analysis was performed when it become a subcontractor, and I realize I am coming on my five minutes; I am wrapping up.

As GLS felt that it was needed to quickly execute the contract with L-3 in order to withdraw the bid protests, the parties agreed that L-3 would offer comparable rates and benefits. Again, L-3 represents about 22.5 percent of the contract.

In closing, I would like to say that DCAA and INSCOM have had a very good relationship since inception of the war on this contract. INSCOM has been responsive to DCAA's audit findings and the predecessor company, Titan Corporation, was the first company that was performing war-related effort that had a withhold due to an inadequate system. And that was partially due to DCMA's effort, but also INSCOM's effort in being very supportive in trying to get the labor system deficiencies corrected. So, I would like to give a lot of credit to INSCOM for the effort in which they have been with DCAA. We have a very good working relationship, and I anticipate that will continue into the future.

I am pleased to take your questions.

[The prepared statement of Ms. Stephenson follows:]

Chairman Thibault. Thank you, Director Stephenson, and it is refreshing, I might say, to hear after yesterday's initial panel that the government in this case is working so well and closely on such an important contract. So, I tell you both thank you.

We have swapped the order around a little bit, a lot, to sort of reflect the way that we are yesterday's, present commissioners and today's, and, so, we are going to start with Commissioner Grant Green with his questions. We are going to take five minutes on the first round and three on the second round, and we will see how it goes. Commissioner Green?

Commissioner Green. Thank you, Commissioner Thibault. Let me pick up on a theme that Commissioner Thibault has in his opening statement and Director Stephenson expanded on, and that is the contract with GLS.

This integrated team management approach, as we have all heard, really requires that GLS retain a majority of the linguist management capabilities. As we have heard, they do all of the recruiting, the hiring, the training, and, essentially, the management on the ground. The subcontractors are responsible for seemingly very little.

As I believe the chart over here shows and we have heard it in the testimony, that over \$100 million in the first 19 months of this contract are considered add-on costs associated with this contract. I would like to hear first from you, Director Stephenson, specifically your concerns with the subcontracting arrangements used by GLS and then, Mr. Isgrigg, I would like your comments on the same question.

Ms. Stephenson. Well, we are in the process of auditing the costs on this contract, and we are not in the position to conclude whether the costs are excessive, unallowable, un-allocable, et cetera. They do appear to be legitimate costs for payroll preparation purposes. However, one would ask is it the appropriate add-on level for payroll processing or is there a more efficient way to process the payroll, and is the add-on cost as we have in the chart and as I mentioned in my testimony, is that an amount that we are comfortable from a public policy perspective of paying for engaging subcontracts? But, from an allowability perspective and an allocability perspective, those audits are still in process, but, at this point, it appears to be for legitimate payroll processing purposes, but the efficiency is what may come into question.

Commissioner Green. Mr. Isgrigg?

Mr. Isgrigg. Yes, sir. With respect to concerns about subcontracting, first, please let me say that our privity as a contracting entity is with the prime. While we do not try to help choose a company's business model or tell them how many primes or how many subs they can and cannot have, we do hold them to the terms of their contract with respect to whenever they subcontract, they must subcontract with respect to the terms and conditions of the contract that they have with the U.S. Government and INSCOM.

And, with that, we had significant cost concerns with cost pressures. When we would get a revised proposal, or an initial proposal on an increased level of effort, we would see dramatic proposed cost increases that we would enter into these very contentious negotiations with GLS in order to hold costs at parity with what was previously awarded under competitive conditions.

Commissioner Green. Okay. I will leave this question because I know that the other commissioners will have follow on questions related to this.

Let me ask you one other what I hope will be a brief question and answer. That INSCOM claims that they delegated ACO functions for GLS contract to DCMA over a year ago.

Could you tell me the status of that?

Mr. Isgrigg. Yes, sir. At time of award, we included the delegation on the contract award document, but I did not follow-up actively to ensure that DCMA had the mission, and I do not know whether they picked it up on time, but they are engaged now.

Commissioner Green. Thank you.

Chairman Thibault. Thank you, Commissioner Green. Commissioner Gustitus?

Commissioner Gustitus. Thank you. With five minutes, I am going to speak fast. You had a lot of negative things in your written testimony to say about this contract more so than you said in your oral testimony, and, to me, you sound like a firefighter who sees a house blazing, but you do not really have equipment to put the fire out. I mean, it sounds like you are somewhat overwhelmed in the management of this contract.

In September 2008, you said you had concerns about over-billing. Then GLS sought a dramatic increase in costs, and when the contracting officer challenged the increase costs, you say, "GLS inundated the contracting officer with requests to subcontract to various business, thereby increasing proposed costs through the pass through."

It sounds like in the way you write that is that you think it was almost a tactic on the part of GLS. You said, GLS had an 80 percent fill rate, so, you terminated a portion of the contract because you were also afraid of over-billing, and they were not meeting the conditions of the contract.

You said your negotiations with GLS were "extremely contentious," and at another point you say that GLS employed a media campaign to suggest that INSCOM was trying to reduce the linguists' salaries.

You have a pretty hard-hitting written statement here. When you read GLS's statement, it basically sounds like this is a great contract, and L-3 thinks it is terrific.

So, how do you rationalize or explain the difference between your perception of this contract and their perception of this contract?

Mr. Isgrigg. Well, ma'am, from my point of view, we had very few people working the contract. In the contract shop, it was one-and-a-half contract professionals on the government side, three -

Commissioner Gustitus. And that is for a \$4.5 billion contract?

Mr. Isgrigg. Yes, ma'am. And we worked three contract support people who are very, very qualified, very efficient. Thankfully, we had them because they frankly worked right alongside with us. But, as a government steward of taxpayer funding, I take it very, very personal that if I award a contract and I awarded this contract under competitive conditions, and then, immediately, we have cost concerns and cost pressures, I am going to hold that vendor to what they proposed. They are the experts of their own business. They should be held accountable for their business practices, and that is what I do, and we had numerous discussions. Every revised proposal that I got was different, and it would require a completely new analysis in order to tell what the changes were. It was a moving target that, frankly, we did not have the people or the staff to chase. And so, it was very frustrating for me with respect to trying to hold them accountable for costs. But I could not keep up with the bogey.

Commissioner Gustitus. And it sounds like then, at some point, because you used the word "inundated" and "flooded" a couple of times, that the contracting officers said they could not manage the line-by-line costs, so, they decided to compete a portion of it, and then let DCAA figure out all these costs afterwards. It was kind of giving up in a way. I mean, it was a clever way to do it because you did it, and that competition brought down some of the costs.

Mr. Isgrigg. Yes, ma'am.

Commissioner Gustitus. But you were literally, as you say, "inundated."

Mr. Isgrigg. Yes, ma'am. The active line-by-line negotiation strategy is the best way to do this to manage these costs, but, as we got overwhelmed, as I got overwhelmed, I knew that DCAA and INSCOM worked really well on the previous contract with the withholds and the Form 1s. We recovered money from the previous contract. DCAA is an expert in audits, they know what they are doing. I will let them stay in their lane, I will let them have that bogey, and I will try to look forward and handle the upcoming costs.

Commissioner Gustitus. You said in your statement, and I find this a very important sentence. You say, "The government does not have sufficient information to adequately determine a rationale for the subcontracting decision by GLS."

Mr. Isgrigg. Yes.

Commissioner Gustitus. Should not the government know why GLS chose this subcontracting route?

Mr. Isgrigg. GLS would request the consent to subcontract, and they would have a statement in their request saying this is why they wanted to do it, but the level of subcontracting in a commodity market that is linguist support, we are not building aircraft here, this is not very technical and require a vast range of skills. This is a commodity market, and, frankly, the low-cost producer wins in a commodity market, and, so, it was counterintuitive to me why they were making the decisions to subcontract so much of this work out, and I do not have the information to determine why.

Commissioner Gustitus. Okay.

Chairman Thibault. Thank you, Commissioner Gustitus.

Commissioner Dov Zakheim?

Commissioner Zakheim. Well, thank you very much. First of all, I want to commend INSCOM. You are Dr. Isgrigg, are not you really? It says Mister, but you are a Doctor?

Mr. Isgrigg. Yes, sir.

Commissioner Zakheim. We know things. I want to commend you and DCAA for working so well together, and like our Chairman, I am stunned by the contrast between what we heard yesterday and what we heard today, and I want to ask you, Dr. Isgrigg or Mr. Evans, both of you, do you think there is a need for regulatory changes before you can apply what some people call the hammer of withholds?

Mr. Evans. Sir, from my perspective, I guess yes would be the answer listening to yesterday's testimony in the sense that DCMA did not quite believe that they had that latitude, but, from my perspective, again, at the operational level, it was very, very effective with L-3. It became their mission in life to get that revenue back into their coffers, so to speak.

Commissioner Zakheim. So, in practice, nothing stopped you from getting that withhold? In practice?

Mr. Evans. No, sir.

Commissioner Zakheim. And you would agree with that, Doctor?

Mr. Isgrigg. Oh, absolutely, sir.

Commissioner Zakheim. Okay. A couple of years back, and actually in 2008, a year ago, Congress passed a law that basically banned fees-on-fees. Maybe if somebody on the panel can explain to me, without having visibility into subcontractor costs, how you can figure out fees-on-fees.

Ms. Stephenson. The billings that comes in -- I will answer from two perspectives. On the individual billings, we are able to determine for each one of the subcontractors what the cost is from the billings. We have been able to do that to date on what that is. On the total contract, we did not have as much visibility, the \$4.64 million, but individual billings are coming in with the fees shown. So, we are able to determine how much the fee is versus the indirect rates.

Commissioner Zakheim. But, Director Stephenson, as I look at the legislation, it does not just say look at the billings, it says contracts.

Ms. Stephenson. Right, we are -

Commissioner Zakheim. And, therefore, it seems to me, correct me if I am wrong, that the only way you can possibly comply with the law is if you open up your subcontractor books because there are lots of other issues, excessive pass through charges, identification of subcontractor effort. There are a slew of things that are in the legislation beginning last year.

Again, I do not understand how you can do that and comply with the law without having access to subcontractor books. If one of you could explain that to me.

Mr. Isgrigg. Yes, sir. And the way we do it now as contract professionals, I do not have privity into that information with the subcontractors, however, when DCAA goes in and does their incurred cost audits, we can get in and ferret through that information and obtain that other than cost and pricing information after the audits. Then it becomes government property and we can look at it, but that is after the fact.

Commissioner Zakheim. So, in practice, any contractor can come up with a bid that is essentially in violation of the law and you will not know about it until after the audit. Is that correct?

Mr. Isgrigg. I believe. Yes, sir.

Ms. Stephenson. I would say that if that proposal is put together properly by GLS or whoever the prime contractor is, a responsibility is to provide the subcontract price analysis.

Commissioner Zakheim. Do they do that?

Ms. Stephenson. No, in this particular case, they did not.

Commissioner Zakheim. They did not.

Ms. Stephenson. And that is one of the issues that we reported in June 2009, is they did not have the adequate price analysis, nor did they properly disclose to the government when a subcontractor was engaged with the effort.

Commissioner Zakheim. So the United States Government has no way of knowing whether a bid is actually complying with the law? Is that what you are telling me?

Ms. Stephenson. I am telling -- the visibility, as we saw it in this particular year, no. Now, the question I do have that we attempting to get resolved is whether this contract was awarded before that law was passed, and is that law incorporated in the terms and condition of the contract.

Commissioner Zakheim. Well, again, as we have all pointed out, we are looking to the future here.

Ms. Stephenson. Right.

Commissioner Zakheim. And, so, my concern is not just about this particular contract, but can this practice continue, and it seems to me what you are telling me is when somebody puts in a bid, we are not going to know whether they are complying with the law or not unless we have some more light shining on these subcontractor portions of the proposals.

Ms. Stephenson. If the contractors' purchasing system is operating as it should, we should have that visibility because we should see who the subcontractors are. They have to obtain a consent to subcontract, there has to be subcontract price analysis. We should have that visibility if the purchasing system is operating effectively.

Commissioner Zakheim. And if DCAA is not playing in the initial part of the B and P, the Bid and Proposal, then who else would be in a position to figure that out? Anybody?

Mr. Isgrigg. That would be the contracting shop, sir. That was my frustration with the revised proposals changing each time I would have to take three, four, five, six days to break this gigantic proposal out, analyze the costs, find out where the costs are and what the components are, go back, say this is not acceptable, this is not acceptable. I get a new proposal, and it is completely different again. And so, that was part of my frustration in ferreting out these costs and finding these costs.

Commissioner Zakheim. Thank you.

Chairman Thibault. Thank you, Commissioner Zakheim. Commissioner, Professor Charles Tiefer.

Commissioner Tiefer. Thank you Mr. Chairman, and, Commissioner Thibault, this is one of these wildernesses of accounting. Thank goodness we have you, or at least I am thankful I have you to lead me through this. I also want to say about Madam Director for the DCAA, you have spent two days with us, long days as Commissioner Thibault says, and before that, weeks of data calls, briefings for us. You are a trusted ally to many on the Hill, and, so, if some time or other some people on the Hill hold a hearing and they do not value you fully or the GAO gets

confused some day, I hope it is realized how much you have been helping the Hill on contracting wartime contract.

Now, let me ask you. I want to see if I have got this characterized rightly.

GLS is supposed to get cost and pricing data on its subcontracts for you, and this is a way that would reveal that these subcontractors are -- I am going to be slightly exaggerating and call them do-nothing subcontractors. That would show up in cost and pricing. That they are being paid much more than they are worth. And it did not.

And when you said it should, it non-concurred with you. It is a rather strong statement by people who are so vulnerable to criticism themselves. And it sounds like what was going on, especially when we looked at the fact that the biggest subcontractor, L-3, although it did a little work, was mostly making large amounts of money in add-ons and what is called overhead, which just means the corporate headquarters are fattening their salaries, that this was a combination of a prime company, the prime contractor, was a combination of the subcontractors basically seeing the taxpayer as a cash cow and the prime contractor, GLS, covering up for them. Would you comment?

Ms. Stephenson. I tell you, if you look at the numbers and the functions that are being performed by the subcontractors, one does have to ask what is the value? Is the value to pay payroll worth \$100 million that we have paid in the last 19 months or so with this contract? Is the payroll function enough to pay \$556 million, if not more, over the life of this contract? That is the question that has to be asked.

Whether that was appropriate or not, I really have to defer to INSCOM on the functions of it, but I think that the numbers do jump out, and you have to ask is that an appropriate amount to pay for that function?

Commissioner Tiefer. Clearly. Mr. Isgrigg, I see that the companies involved here keep being taken over, the little fish by the big fish. L-3 took over Titan. DynCorp swooped in. It seems to me but there is more to it than that. It seems that when trouble came up, which seems to have come up when the surge took place. There was a greater need for linguists all of a sudden to help the surge, and this company, which was not very good at doing its job, just at raking in extra dough, it knew how to do, could not supply what was needed for the surge, that they blamed this on the fact that the linguists were getting too high a salary.

And, if I am correct, I could be wrong, in your statement, you said this was absolutely not true, which was a statement stronger than I have seen in two days. I still want to load this question up with everything I can ask you. And what was happening was you had been giving an award fee, 80 percent of the possible award fee to this people, and then in no time at all, because of how they folded under the surge, cure notice and then termination for default, which a termination for default is a pretty

-- this is the first time I have come across in all the Commission's work a major company in this war getting a termination for default.

Tell me if either of you knows of anything else of this size getting -- that is like court marshal desertion in the face of the enemy. Am I characterizing where these people went from award fee down to that?

Mr. Isgrigg. Sir, the award fee is tied to fill rate, and is pretty mechanistic in the way it works if you fill it at a certain percent, you get a certain percent of fill rate, of the award fee because we have never had 100 percent fill on any of these linguist contracts, and, so, we structured it as such as to reward for fill rate upfront, and that is why the 80 percent award fee was given because they met the criteria and the award fee to earn the 80 percent. However, with respect to 100 percent, we had a unit in Northern Iraq who was in a very difficult position, and they were begging for linguists on one of our visits. Mr. Evans and I went over and they were begging for linguists, and that was enough for me to take action to -

Commissioner Tiefer. Termination for default? That is what you are saying actually?

Mr. Isgrigg. Yes, sir.

Commissioner Tiefer. Okay. My time is up.

Chairman Thibault. Thank you, Commissioner Tiefer. Commissioner Henke?

Commissioner Tiefer. He is asking if I want more time.

Commissioner Henke. I will yield two minutes.

Commissioner Zakheim. All right, great. Do you want to keep going there, Commissioner Tiefer?

Commissioner Tiefer. I want to get to this point about the linguists. You made this strong statement.

Am I understanding, by the way, there are reports in the AP -- this is not like a far-out publication -- that we are having severe troubles in the field because we are losing linguists, they do not want to work because their salary has been cut by their contractors or at least they were getting hazard pay and I guess now they are not getting hazard pay, and, as a result, our military capability, a strong term, is being degraded while the contractor says oh, our financial problems were we were paying the linguists too much. In fact, we are losing precious, precious linguists. And now we are going to Afghanistan, where the linguist problem is much greater?

How many Pashto-speaking American citizens do we have?

Mr. Isgrigg. Not many, sir.

Commissioner Tiefer. Do I have it right? They are blaming the linguists, and, in fact, they are hurting us, our military capability, by squeezing the linguists and making them quit?

Mr. Isgrigg. Technically, sir, what happened was when we renegotiated that large task order, the initial proposal came in from GLS at the number that was in the report in my testimony. When we got them back down into unit-for-unit costs with about a four-and-change percent increase in costs year over year, that was based on what was awarded at the time.

When it was competed, I do not know why GLS said that we had cut their salaries, but they had told MNF-I, their linguists, and everyone that the government had cut their salary, cut their contract. We actually increased their contract price, their contract cost, and gave them a unit-per-unit increase year over year of 4.5 percent. They got 4.5 percent out of me.

Commissioner Tiefer. Let me get this straight. Then went around, GLS went around telling the linguists that INSCOM cut their salaries and telling MNF that INSCOM cut their salaries, and, instead, it was absolutely untrue, and, as a result, we lost linguists which we desperately needed? Is that what you are saying?

Mr. Isgrigg. Yes, sir. Can I let Mr. Evans answer that? He is on their operational side. He can handle that.

Mr. Evans. Yes, sir. There were several official documents put out by GLS Headquarters that implied if not actually said that the reason that the salary reductions were occurring was due to INSCOM having reduced the value of their contract. But I will say, sir, that, to my knowledge, no significant numbers of linguists left theater as a direct result of that.

Commissioner Tiefer. Where are they going to go?

Mr. Evans. Yes, sir.

Chairman Thibault. Commissioner Gustitus would like --

Commissioner Gustitus. Can I just ask one quick question, and that is: Does the requirement to pay this extra potential \$550 million affect what the linguists are actually going to be paid? Does that have to kind of come out of the hide of the linguists' salaries to any extent?

Mr. Isgrigg. We do not know that, ma'am. When GLS was awarded the contract, they had a linguist salary structure built into their proposal, and I do not know whether they are paying their linguists according to what they had proposed or something else, and I think that is where the disconnect is, but I do not know that for certain.

I think, perhaps, they may be paying the linguists more than what they had actually proposed, and, as a steward for government taxpayer

money, I am going to say take it out of profit. That is not the government's issue that you did not estimate linguist salaries correctly.

Chairman Thibault. Commissioner Zakheim, you have your hand on the button.

Commissioner Zakheim. Yes. So if they are paying them less, but since you are working off a schedule, you do not know that they are paying them less either, right?

Mr. Isgrigg. That is correct, sir.

Commissioner Zakheim. So they could cut their salaries by half, still have that schedule, still charge the G&A and fee costs, still charge fee-on-fee, and still hit us, as taxpayers, for half billion dollars, and pay these guys actually half of what they thought they would pay them? Is that correct?

Mr. Isgrigg. Short-term, sir, until DCAA incurred audits catch up to them.

Commissioner Zakheim. That is fine.

Chairman Thibault. Thank you. We have three minutes that we will put on the clock for you, Commissioner Henke.

Commissioner Henke. Thanks.

Chairman Thibault. And I thank you for supporting.

Commissioner Henke. Sure. This is fascinating. It really is a case study on a whole lot of levels.

I want to get a couple of things clear in my mind and maybe for the audience's mind. Before this contract, Mr. Isgrigg, there was a contract with a smallish company called BTG. The first contract was led in 1999. It was a five-year contract, so, it was set to run through 2004, right?

Mr. Isgrigg. Yes, sir.

Commissioner Henke. And the initial value was expected to be about \$10 million. Over time, with requirements, that grew to \$600 million. How do you do that in an IDIQ? Just quickly, how do you do that?

Mr. Isgrigg. On the old contract, sir, we had to request justification and approval of hire to increase the value of the contract --

Commissioner Henke. Right.

Mr. Isgrigg. Due to mitigating circumstances of --

Commissioner Henke. Operational need, probably.

Mr. Isgrigg. Yes.

Commissioner Henke. So, while this thing is going along Titan buys BTG, L-3 buys Titan, and here you are at the end of the contract, all the options have been run, you put a lot more on it than you thought in 2004, but you run off that contract from 2004 to March of 2008 when the new guy starts performing?

Mr. Isgrigg. Well, sir it was not exactly that. That original contract was extended several times, and then there was a bridge contract.

Commissioner Henke. Right.

Mr. Isgrigg. And a bridge contract essentially is a new contract, sole-sourced back to the incumbent.

Commissioner Henke. Right.

Mr. Isgrigg. And then that one was extended several times until we got to the new award.

Commissioner Henke. All things you would not want to do in a perfect scenario.

Mr. Isgrigg. Correct.

Commissioner Henke. You are cobbling all of this together to try and keep things going in the war, and you should be doing that, but then, in spring of 2004, you go out for proposals, and you get a protest from a company named REM Holdings, and their protest, if I understand, was based on you did not put small business goals in the contract, right?

Mr. Isgrigg. We were bundling under the -

Commissioner Henke. Okay. So, they had a small business bundling?

Mr. Isgrigg. Yes, sir.

Commissioner Henke. Okay.

Mr. Isgrigg. It was a small business bundling.

Commissioner Henke. The timeline here is so fascinating because you awarded December 2006.

Mr. Isgrigg. Yes, sir.

Commissioner Henke. The surge starts in January 2007, roughly, and, from January 2007 until March of 2008, L-3, the incumbent, who is making money on the contract, protests and protests three times in a row. Twice, GAO upheld the protests, so, there must have been some merit to it.

Mr. Isgrigg. Absolutely.

Commissioner Henke. Obviously.

Mr. Isgrigg. Yes, sir.

Commissioner Henke. And the price came down over that time, fortunately for you. Right?

Mr. Isgrigg. Yes, sir.

Commissioner Henke. You are required to have 35 percent small business participation in this contract, right?

Mr. Isgrigg. Yes, sir.

Commissioner Henke. The decision to have large business subcontracting for GLS to go to large businesses, that is their decision? That is what you said you do not have insight into, right?

Mr. Isgrigg. Yes, sir.

Commissioner Henke. If someone were to ask you why do you have to subcontract with small businesses, you are required to, they are required to?

Mr. Isgrigg. Yes, sir.

Commissioner Henke. Under the Army Small Business Program. So, that is really not the subject of the hearing today. The subject of the hearing is where the contractor, the prime has discretion to go to another business, why did they do that? And if I could have another minute or minute-and-a-half?

Chairman Thibault. You have got the minute-and-a-half.

Commissioner Henke. Ms. Stephenson, your testimony, it has kind of smacked me in a good way for a Tuesday morning.

Ms. Stephenson. Wednesday morning.

[Laughter.]

Commissioner Henke. Thank you. Right, see. Right, see.

Ms. Stephenson. Yesterday was --

Commissioner Henke. Touché. My memory was inadequate.

Ms. Stephenson. It is day two.

Commissioner Henke. And I agree with your views.

Commissioner Tiefer. [Off microphone.]

Commissioner Henke. That is right. That is right. Your testimony and particularly page 3 and page 7, the table on page 7, it is fascinating, and let me just summarize and ask you a question.

GLS awarded \$2.9 billion to 18 subs. If I am looking at the math right, about \$2.8 billion was just payment for linguists. It was not medical exams or -

Ms. Stephenson. Right.

Commissioner Henke. -- testing or recruiting or --

Ms. Stephenson. It was the payroll function. It was to take -

Commissioner Henke. A linguists, right.

Ms. Stephenson. Take what GLS said, these people need to be paid, and then they turn around and pay them.

Commissioner Henke. Right. So, \$2.8 billion just to move payroll around. That is 18 subcontractors, but 12 subcontractors do not hire, manage, or interact with the linguists other than to pay the amount stipulated by the prime contractor.

Ms. Stephenson. That is correct.

Commissioner Henke. I do not get that. I do not --

Ms. Stephenson. I have to be honest, I have seen a lot of prime subcontract integrated contracts, but I have not seen one just for payroll, other than to have one subcontractor do payroll or maybe two. I have not seen it to this great extent.

Commissioner Henke. But, to me, if I am a linguist forward deployed, let us say I am an employee of L-3, I have a legal relationship with them, but GLS tells L-3 pay Bob his payroll, and then what happened? Who is moving the money to who?

Ms. Stephenson. GLS moves it to the subcontractor, who then moves it to the linguists. In the instance of the in theater local nationals that are paid in cash, the subcontractor moves it back to GLS to pay in cash.

Chairman Thibault. Okay. Commissioner Henke, thank you. And, Commissioner Zakheim, again, sir, did you have -

Commissioner Zakheim. Very, very briefly. \$1.6 billion of all this stuff is the small businesses. Do you think that the reason that they are doing this is because they had to meet a 35 percent small business goal and they really did not want the small businesses to do anything but to satisfy the government? They basically gave them money to give to the translators and that is it? And maybe that says something about, again,

that is outside the scope of the hearing, but maybe that says something about our small business goals and the way we do things by the book in a strange kind of way. Could you comment on that?

Ms. Stephenson. "Strange kind of way," I think is a good way of putting it. It is a legitimate cost, it is a payroll function. Payroll functions need to be done. Do they need to be done by 12 different subcontractors with their own G&A, with their own profit, their own fee? I think that is a good question to ask.

Chairman Thibault. Dr. Isgrigg, do you have anything to add to that?

Mr. Isgrigg. Sir, it does not make sense to me in a commodity market for any company who wants to maximize profits by earning money doing the work to subcontract any more than what is required.

Chairman Thibault. Okay. Thank you.

Commissioner Ervin?

Commissioner Ervin. Thank you. I have a number of questions, but, of course, we have limited time, so, I will try to be brief.

The first question, I think it is just kind of an obvious, elementary, fundamental question, and I would like each of your comments on this and your judgment on this: In your judgment, would DynCorp-GLS have given a subcontractor to L-4, particularly one for \$1 billion; that is a huge amount of money, needless to say, but for the protest?

Ms. Stephenson. I will answer first. L-3 was not part of their initial proposal, was not part of the proposal that was for the award that was upheld, but through the GAO protests, they did not become a subcontractor until after three protests. So, on the surface, you could say they were not part of their subcontracting plan. And, so, but for the protests, I think common sense would say they would not have been part of this program.

Commissioner Ervin. Dr. Isgrigg?

Mr. Isgrigg. Yes, sir, that is correct. I think it was, and this is my opinion, a shrewd business practice on the part of L-3. They were going to keep the contract as long as possible to maximize profits. That is what they do. That is good business. I think it is shrewd business practices on their part. I think they earned a piece of the award by leveraging GLS.

Commissioner Ervin. Mr. Evans?

Mr. Evans. Absolutely, sir. I concur with Ms. Stephenson and Mr. Isgrigg's comments. But for the protests, L-3 probably would not be involved today.

Commissioner Ervin. Okay. On page 6 of Mr. Houck's testimony, and, of course, we will ask him about this when he gets here, and I assume you all have a copy of it, there is a listing out of the functions that GLS and all the subcontractors allegedly perform in this contract.

If you look at it, really, according to this chart, the only unique function that all of the subcontractors, and not just the 12 that we have talked about, but all of them provide is what is called advisory management support, which one could argue really is no support at all, really. And, so, given that, my question is: Aside from the small business concerns, which Commissioner Zakheim raised, and this protest issue, I think we have established pretty clearly here that there is something very, very troubling, indeed, about this contract.

And if you add to that the fact is you point out in your testimony, Director Stephenson, that there are three business systems on DynCorp's part which are at issue here, all of which are problematic. The huge amount of costs at issue, what can we do about this contract at this point? Do we just have to live with it for the course of its four-year remaining life? Is there any remedy available to the government or taxpayer?

Mr. Isgrigg. Sir, right now with respect to the inadequate business systems, I believe just last week or the week before last, DCAA has suspended payments until GLS addresses their concerns. We support that. INSCOM supports DCAA in getting the information that they require to be able to certify their systems. I am hoping that they will be able to certify them, but we will see what DCAA has to say with respect to that.

Commissioner Ervin. Thank you.

Ms. Stephenson. From the cost perspective, we certainly have taken immediate steps to adjust the billings. However, the much bigger question is: How long do we need to live with a contract that has significant add-ons where those add-ons do not represent any significant functions that could not be performed, perhaps, by the prime or by one subcontractor, I think is a very good question that should be asked, and I am not sure how long the government needs to live with that situation.

Mr. Isgrigg. I would like to add, sir, that --

Commissioner Ervin. Please.

Mr. Isgrigg. The re-competition has already begun for the contract portfolio. Our Afghanistan contract is going to burn the ceiling early because of the ramp up in requirements, and, so, I believe in January of this year, we started the re-competition effort, as I do not think it is any secret. And I can tell you right now it will be about another 12 to 14 months before we can finish an award if there is no other protest.

Commissioner Ervin. Thank you.

Chairman Thibault. Thank you, Commissioner. I think you, Director Stephenson, nailed it in terms of your comment just now, which is sort of

the theme as I see coming out of this, is how long do we have to live with these significant add-ons in this contractual environment as an observation?

In your statement, you outlined something that is of concern, and we were just talking about it, but I want to provide clarity.

My understanding is that your auditors, as they have reviewed the billings, the invoices, the vouchers, we have this cost saving controls that we are worried about because they add to a lot, but INSCOM directed that certain ceilings be applied to certain of the costs and work that out, and you are reporting in here the following: "The contractor is not following those ceilings."

So in other words, you have ceilings to limit costs, and they are billing the regular rates, which are substantially higher than what they agreed to do in the contract. And, so, you appropriately have come in and recommended to your customer that this does not make sense and we do not think we should pay them until it is sorted out, but underlying that is a greater concern, which is what can we do to assure they are following contract terms because you put in cost controls, and it seems to me whether it is inept or flagrant to have your normal billing system by a subcontractor that says my indirect cost rate is 50 percent, I agreed to 12 percent, but I am going to bill 50 percent. I mean, that is pretty obvious. But then, if a prime is saying okay, now I am going to pay you, and we spent a lot of time yesterday talking about well, you start with the sub in that case. But the prime has the responsibility.

Ms. Stephenson. Right. Well, absolutely --

Chairman Thibault. Do you want to talk about that a little bit?

Ms. Stephenson. I absolutely would.

Yes, the billings that we have been reviewing have determined that, although there were ceiling rates put in -- we talked about earlier about the cost containment. That was one of the areas of the cost containment, was to put a ceiling rate in for the indirects and a ceiling rate in for the profit and fee. We found for the indirects, the subcontractors, on average -- each one is a little different -- but, on average, collectively, are billing at least double what that ceiling is.

Chairman Thibault. So, they put in cost controls, everybody is aware of them.

Ms. Stephenson. Right.

Chairman Thibault. But the subcontractors ignoring them and you doing your job, but I mean, in this case, you are not the first line of defense.

Ms. Stephenson. No.

Chairman Thibault. The prime contractor -

Ms. Stephenson. The prime contractor --

Chairman Thibault. Is the first line of defense.

Ms. Stephenson. That is right.

Chairman Thibault. And if you were not doing your job, we would not even know about this.

Ms. Stephenson. That is correct.

Chairman Thibault. Your contract costs would be -- you are very concerned about contract costs, Dr. Isgrigg. Your contract costs would be escalating even more. Without observation, is that factually on target?

Mr. Isgrigg. Yes, sir.

Chairman Thibault. Thank you.

I would like to talk, Dr. Isgrigg, about -- we are going to give you some time at the end, April, Director Stephenson.

Ms. Stephenson. I understand.

Chairman Thibault. Dr. Isgrigg, John, I would like you to talk a little bit about performance, and I would like you to talk about -- difficult, but I would like you to be candid. You have been very candid so far. Let us talk about the incumbent that was there before, or the current incumbent and the predecessor contractor. You said fill rate, adequate number of linguists to support the war-fighter. So, they do not have to go out and cannot talk to the enemy or talk to the villages. Can you talk about that performance of past and present?

Mr. Isgrigg. Yes, sir. Back on the previous contract when L-3 LOTSD had the contract, their fill rate, I believe they were served one cure notice for fill rate. Part of the issue was the growing war effort and the moving target with respect to them recruiting in a fast enough manner.

Chairman Thibault. Right.

Mr. Isgrigg. Part of the issue was the government's ability to vet and clear these linguists in a timely manner in order for L-3 to get these guys on the ground, as specified in the contract. Their performance was acceptable with respect to fill rate, though it --

Chairman Thibault. Acceptable meaning okay or --

Mr. Isgrigg. Okay.

Chairman Thibault. Not stellar, not outstanding, but --

Mr. Isgrigg. Yes, sir.

Chairman Thibault. Acceptable to meet the mission?

Mr. Isgrigg. Yes, sir.

Chairman Thibault. Okay.

Mr. Isgrigg. And the current fill rate, sir, again, there was that moving bogey of increase, increase, however, it seemed to me that there was an issue with the sense of urgency in filling these units, and that is why the termination for default was levied back in March.

Chairman Thibault. Right. And the present?

Mr. Isgrigg. Right.

Chairman Thibault. How are they doing now?

Mr. Isgrigg. They are doing fine now because we de-scoped part of their -

Chairman Thibault. So, between your management and their actions that they have taken that they will probably share with us, you are a satisfied customer at this point?

Mr. Isgrigg. With respect to fill rate, yes, sir.

Chairman Thibault. Well, see, my point is, and where I am coming in this is this subcontracting over 22 percent by the prior contractor, a big part of what Commissioner Ervin brought out was for advisory management services.

What are you advising on? Are you advising on all the problems you had with fill rates and your inability to sort of get the job done where the current contractor -- it seems to me that everything we are talking about is it is transparent, there is one contractor, and I share that.

My last point is cost reductions. Your challenge with cost, have you seen substantive actions in the program? You get briefings all the time by this company. The company, I believe, is trying to be as responsive as they can. They have a lot of problems and they are going to share their own, but we talked a lot about cost reduction, and, sure, you have a responsibility to manage it, sure, you have what you call operations audits to provide opportunities. You talked about adding 12,000 hours in Afghanistan. But we keep emphasizing the company has a responsibility, also.

How is GLS doing in terms of coming in saying hey, wait, I have this idea, a new process, a new system? I have got a cost-type contract, I get paid a buck in profit for everything. Can you talk about that briefly?

Mr. Isgrigg. Yes, sir. Just real quickly, since the de-scope termination and the change in leadership, they are very aggressive in

maintaining costs, and I think you spoke with Mr. Ballhaus yesterday. He has taken a very hands-on role in sharing that GLS goes out and seeks ways to reduce costs, and they are doing that now.

Chairman Thibault. So, my way of paraphrasing that is, and speaking for you, and correct me if I am not, is that with significant management actions to include replacing the president of the company recently and Mr. Ballhaus' comment that I am all over these issues myself and you are seeing that that hope springs eternal, you see some things you really like?

Mr. Isgrigg. Yes, sir.

Chairman Thibault. About cost reduction so that you, who have very limited funds and a growing workload environment see some opportunity to control this?

Mr. Isgrigg. Yes, sir. I think they need to be a little bit more aggressive to meet our expectations.

Chairman Thibault. Good.

Mr. Isgrigg. But they are making an effort.

Chairman Thibault. Good. Okay. My time is up. Commissioner Green?

Commissioner Green. A follow on Dr. Isgrigg to an earlier question, since contract administration has now been delegated and assumed by DCMA, as you indicated, what are they actually currently doing and what more should they be doing?

Mr. Isgrigg. Yes, sir. They recently wanted to assist with the termination for default de-scope. We wanted to manage that ourself because we knew better the cost pressures, what our dollar target was, what our government position going on was going to be and what we would settle for. And they are managing property, real property. DCMA does an excellent job with managing real property.

Commissioner Green. Are you satisfied with what they are doing and the speed at which they have assumed these responsibilities?

Mr. Isgrigg. With respect, sir, to my experience with DCMA, the amount of value they create, I am acceptable to that, to their level of effort right now.

Commissioner Green. All right. Let me switch gears for a moment. We have all heard about the shortage of CORs associated with this contract.

What has the Army done, what has INSCOM done to get the needed number of subject matter experts and CORs assigned, and how has this shortage affected the documenting of the performance of the linguists, and how does information with these shortages flow then to award fee

boards for evaluation? You have guys that cannot speak the language and you have a shortage of them. It seems to me that you cannot accomplish that mission very well.

Mr. Isgrigg. Mr. Evans is the operational side. Mr. Evans. Sir, we continue to struggle with that. We recently, this year, increased. We had DEP ORD existing for our deployed CORs. We had a DEP ORD that allowed us to mobilize and deploy 25. We recently increased that to 50. Right now, we have over 15 CORs in Iraq and 2 in Afghanistan. We are obviously shifting focus now to Afghanistan. We will be increasing the numbers there to five before September. All of the CORs we have deployed, they do monthly reports, they send them back to us. We incorporate their observations and discussions into the award fee determinations.

Commissioner Green. Do you see any increase in the language ability of those you are bringing on or those that are appointed as CORs?

Mr. Evans. Sir, we do not have any to my knowledge right now that are, as you said, qualified in Arabic or Pashto, but that is something we struggle with because we have considered all sorts of options up to and including hiring another vendor to provide linguists that we can use to check the skills and qualifications of the first vendor's linguists. We have not come up with an acceptable solution yet, sir.

Commissioner Green. Okay. Thank you.

Chairman Thibault. Thank you. Commissioner Gustitus?

Commissioner Gustitus. Thank you. We want DynCorp to be aggressive in doing cost reduction, in reducing their cost, and part of it is because of this crazy quilt subcontractor system with all of this extra G&A and overhead, but we do not want it to be at the price of the appropriate salaries of the linguists. I mean, they are doing some of the most dangerous, important work in this war. So, how do you stay satisfied that the cost reduction is not at the expense of the linguists who merit the money?

Mr. Isgrigg. Yes, ma'am. We have had several discussions with GLS with respect to making certain that their linguists are paid appropriately, that they are hazardous and post-differential uplifts are as proposed in the contract. What they had proposed was a certain level of uplifts for hazardous duty and such, and when they reduced that in an effort to reduce costs, I had to point out that when they reduced that cost, the government gets that money back because that is our money. And whenever they saved money, we get it, it is ours. And, so, we had that dialogue. If you do not bill for it or if you are not incurring the cost, we keep it. It is the government's money, and, so, we have had several rounds of dialogue with -

Commissioner Green. You mean you are trying to appeal to their self-interest that they will not get the money that they take from the linguists, that they will -

Mr. Isgrigg. Exactly, that the government is going to keep it. It is our money, and, so, they should be paying the linguists in accordance of what they proposed at the time of award and what is in their proposal, and if they deviate from that or they save money from that, the government keeps it.

Commissioner Green. I do not know if that is completely satisfying to me, but I am concerned about that pressure because of this extra \$550 million. If they want to keep that at the expense of the appropriate salaries for linguists, that would be very disturbing.

I just want to get to this payroll function business because payroll function sounds like it is actually somewhat meaningful, and I just want to be sure I understand what the subcontractors do. They do not collect the timecards, they do not determine the pay, they do not cut the checks.

Ms. Stephenson. They do -

Commissioner Green. They pay the cash, and they deliver the check when it is cut.

Ms. Stephenson. Right, they will, in essence, cut the check based on what GLS gives them. They will say this is the amount that you need to pay the linguists, and they will pay that amount. When it is the cash in theater, at least for the one subcontractor we looked into recently, Shee Atika, they give a check back to GLS for the local nationals to then pay in cash.

Commissioner Green. Okay, so all the payroll function is is at the order of GLS, pay this amount?

Ms. Stephenson. Correct.

Commissioner Green. That is it. Now, they are going to say well, they also check the records, but -

Ms. Stephenson. There may be some of that, but, as far as -

Commissioner Green. It is not even that necessary.

Ms. Stephenson. Right. Correct.

Commissioner Green. It is just that is what the payroll function is?

Ms. Stephenson. Correct.

Commissioner Green. Okay. Thank you.

Chairman Thibault. Thank you. Commissioner Zakheim?

Commissioner Zakheim. So, for that payroll function, we are talking about \$4.5 billion?

Ms. Stephenson. No.

Commissioner Zakheim. No.

Ms. Stephenson. No, 550 -

Commissioner Zakheim. \$550 million?

Ms. Stephenson. Right. And that is our rough estimate of it.

Commissioner Zakheim. Just for that.

Ms. Stephenson. To date, it has been the 101.

Commissioner Zakheim. Just for that. Yes. Okay.

I would like to ask you, Dr. Isgrigg, you partially terminated for default, and, as I understand it, when you T for D, the company that has been terminated has to report that in their past performance statements whenever they make a future bid. But this is a joint venture. Does that mean that the parent companies do not have to report anything?

Mr. Isgrigg. What happened, sir, was I did T for D. Whenever GLS came in with an acceptable get well plan, I changed the T for D to a T for C, Termination for Convenience, which will not be -

Commissioner Zakheim. Okay.

Mr. Isgrigg. They will not have to report that, but, in this case, the parent company, no, sir, would not have to report that or to stand for a T for D. I do not want to limit competition for the next contract coming out, and had I left that as a T for D, I would have essentially eliminated them from competition, and competition is good.

Commissioner Zakheim. Okay, fine. Now, you mentioned in passing that there might still be more protests coming for the next contract.

Do you anticipate another bridge? I mean, do you anticipate this thing happening again? And, if it does happen again, which, after all said and done, it seems to have worked for all three, what can we do about it? I mean, is the government just totally over a barrel?

Mr. Isgrigg. Well, sir, that would be speculation on my part as to what -

Commissioner Zakheim. Now, I am just asking you not will it happen, but could it happen?

Mr. Isgrigg. Oh, absolutely. Yes, sir. This is a tough market. The linguist market is a pretty bare-knuckle market.

Commissioner Zakheim. So, the same thing could happen again?

Mr. Isgrigg. Yes, sir.

Commissioner Zakheim. Okay. One other question. You talked about your CORs not really being all that proficient in Arabic. Correct?

Mr. Isgrigg. [Nods head.]

Commissioner Zakheim. And, so, that is standard Arabic as opposed to say Iraqi Arabic, which is quite different. So, we really do not know what these translators are doing.

Mr. Evans. Sir, it is very difficult to -- what we do have is multiple linguists at almost every location, and, at times, when there are allegations that one particular linguist is not translating appropriately or as required, we use in most cases our CI assets to use a trusted interpreter to investigate, if you will. But very rarely do we find that this is the case.

Commissioner Zakheim. Well, there could be somebody not necessarily working for Al Qaeda. I mean, I have been in lots of meetings with a linguist that simply did not do a good job. Have we fired linguists?

Mr. Evans. Oh, absolutely, sir. Absolutely, and most recently, one in Afghanistan, he was not fired, but he was removed from a relatively prestigious position because he mistakenly started translating in Dara instead of Pashto. He knew both languages, and he was in a formal situation and broke into Dara and it confused everyone and broke up - it was bad in that particular case, sir.

Commissioner Zakheim. Thank you.

Chairman Thibault. Thank you, Commissioner Zakheim. Commissioner Tiefer?

Commissioner Tiefer. Thank you, Mr. Chairman. Mr. Isgrigg, Veritas Capital owns one of these companies. Is it GLS?

Mr. Isgrigg. I do not know that for certain, sir. I think they are a venture capitalist who is funding GLS, I believe, sir.

Commissioner Tiefer. Yes, yes. And did DynCorp, until the T for D, until you terminated for default, an extraordinarily harsh measure. I have to mention a plug for my book. I teach government contract law at the University of Baltimore Law School on cases and materials. This, I cannot find anything like this contract in here. Okay, I have 1,000 pages, there is nothing like that in here. So, next edition, we better stay tuned.

GLS, did they have this guy who was their president, Spider Marks, with his colorful background? He was kind of resigned, went away after T

for D, Termination for Default, and he had been part of the planning for the 2003 invasion of Iraq, yes?

Mr. Isgrigg. I do not know that, sir.

Commissioner Tiefer. Well, in any event, this acquired company became a cash cow after that. Conveniently. Did not they get a contract in Kuwait, an American-based contract out of the Kuwait Command, which was not just might have been helpful in Afghanistan or not, but a great way to ride the invasion that he turned out to have been planning?

Mr. Isgrigg. You are speaking of GLS, sir, or DynCorp?

Commissioner Tiefer. The one that Spider Marks was on.

Mr. Isgrigg. Oh. No, sir, I do not think so. I think GLS came into existence, they formed it just for this linguist effort, if I recall, sir.

Commissioner Tiefer. Okay. As far as to why DynCorp bought it up, and now I am using a very dubious publication called Forbes, and I am going to ask you if their article on "Wall Street Goes to War" is a fair statement. This is this month's Forbes.

"As the conflicts in Iraq and Afghanistan boomed, DynCorp prospered. These days, 53 percent of its revenue comes from the battlefields. Last year, DynCorp's 51-percent owned joint venture secured a \$4.6 billion multi-year contract to supply 9,100 linguists to translate for US soldiers in Iraq amid a worldwide recession," Forbes says. "That contract helped boost DynCorp's revenues by 45 percent."

Is that all consistent with your understanding?

Mr. Isgrigg. Yes, sir. I was reading their press release on their latest earnings, I believe it was a month or so ago. They were talking about revenues were up significantly, however, margins were down, and, so, I took a little bit of solace in the fact that their margins were lower.

Commissioner Tiefer. Oh, yes. Yes, this is in profit, but huge revenue in a time when revenues are shrinking, and, meanwhile, they are squeezing the linguists down and paying them less, and AP says that the quality of the linguists in the field is suffering. You may not see them leaving the battlefield, but the quality is suffering because the pay has gone down.

Mr. Isgrigg. Sir, I want to say one thing about the quality. We have not paid a lot of attention to quality in the past because our fill rates, we were taking whatever we could get. But we are focusing on quality now, and part of the issue Mr. Evans was trying to speak to is how do we improve quality if we do not have anybody that speaks the language and can actually do any spot checking. So, that is part of the trick box.

Commissioner Tiefer. One last question.

Chairman Thibault. One more question?

Commissioner Tiefer. One more question.

Chairman Thibault. Go for it.

Commissioner Tiefer. Was there a \$25 million withhold related to this contract because of labor system deficiencies? Does that ring a bell?

Ms. Stephenson. On the GLS contract?

Commissioner Tiefer. Yes.

Ms. Stephenson. Right now, we are withholding payment on all vouchers right now because of the issue with the indirect costs from the subcontractors. And, so, right now, we are not making payments.

There have been vouchers rejected over the past few months for costs being over the allowable amounts. So, along with the issues we discussed yesterday at other DynCorp, that billing system is the same billing system that the GLS contract is using, and we are having some of the same billing issues.

The \$25 million sounds familiar; I am just not able to place exactly where that was, whether that was rejected vouchers or other costs. But, right now, we do have a hold on the payment of all vouchers for GLS until they adjust for the subcontract prices.

Commissioner Tiefer. \$25 million is the right scale, even if it is not precisely correct?

Ms. Stephenson. We believe the amount for the indirect cost is probably more aligned with \$40 million on the adjustment, but, again, that is a rough order estimate.

Commissioner Tiefer. Thanks.

Thank you, Mr. Chairman.

Chairman Thibault. So, for clarity, you believe that this overcharging of subcontractor ceiling exceeding is going to approach \$40 million, current best estimate?

Ms. Stephenson. Current best estimate is at around -- it is a rough estimate though. It might come in a bit less.

Chairman Thibault. All right.

Ms. Stephenson. Or it might come in a little more.

Chairman Thibault. It might come in a little more. All right.
Thank you. Commissioner Henke?

Commissioner Henke. So, in March of 2008, the third protest clears, L-3 pulls their protest, you are moving along with the execution of the contract, right, Mr. Isgrigg?

Mr. Isgrigg. That was January of 2008, sir.

Commissioner Henke. January 2008?

Mr. Isgrigg. Yes.

Commissioner Henke. Okay. What is Task Order 1 briefly?

Mr. Isgrigg. Task Order 1 is the major effort for Iraq. That was the first and largest task order, and it continues to be.

Commissioner Henke. Okay. And during summer, fall of 2008, you are trying to negotiate a price for that, and your statement says in September 2008, GLS flooded you, INSCOM, with proposals, counterproposals, other documentation. What was their first price they came in with? \$1.03 billion?

Mr. Isgrigg. It was \$1.03 billion, sir.

Commissioner Henke. \$1.03 billion. And you were unable to handle all the data and do the analysis, so, you went to your other contract for Afghanistan, got that contractor to come in and propose for this work. They came in with a different price, which gives you a negotiating basis, right?

Mr. Isgrigg. Yes, sir.

Commissioner Henke. You actually settled on \$1.03 billion. The contractor fell off, gave up, negotiated about \$254 million of that, and you wound at 776. Is that about right?

Mr. Isgrigg. Yes, sir.

Commissioner Henke. Can you tell us, how did that 776 come about?

Mr. Isgrigg. Yes, sir. When the original proposal came in at the \$1.03 billion, I started breaking the proposal apart, trying to figure out why the cost was so high because it was stunning.

Commissioner Henke. Right.

Mr. Isgrigg. Whenever you get a proposal like that, well, we were expecting something in the 750 to 800 range based on current costs.

Commissioner Henke. Right.

Mr. Isgrigg. So, I started breaking it apart. I realized I was in a pickle because this was a single-award contract, and I needed to manufacture some leverage for negotiation.

Commissioner Henke. Right. Smart.

Mr. Isgrigg. And, so, I manufactured the leverage by getting a proposal from a competing company with a contract that we have out, basically manufactured an IDIQ out of a single award because we have enough overlapping scope. The settlement, like I said, is about 4.5 percent higher than what my objective really was. If it was completely in line with the cost that were awarded at the time of award competitively. So, they were about 4.5 percent higher than what was competed previously.

Commissioner Henke. Okay.

Mr. Isgrigg. That is how I set my government objective.

Commissioner Henke. Okay. It is not often that I get to say thanks for saving the government \$254 million. Just from keeping your hand on the till and doing a good job. So, I hope that you were recognized and rewarded for doing that as shocking as it was to get something hundreds of millions more than you expected, you walked it back and came within a reasonable estimate of doing the right number.

One last question, and then I will wrap up. Your statement says after you resolved at 776, you go to Kuwait, GLS starts what you call a "media campaign." You used the words twice, where they are spinning linguist salary cuts, the operators are going to be impacted by performance. "Media campaign." What do you mean?

Mr. Isgrigg. And Mr. Evans can speak to this because, on the operational side, he was getting the information in.

Commissioner Henke. Yes.

Mr. Evans. And, sir, I characterized it at the time as propaganda.
Commissioner Henke. Okay.

Mr. Evans. Because it was -

Mr. Isgrigg. Operation Information.

Mr. Evans. Yes, and it was termed as operation information because they were putting out information that was, again, from my limited view, appeared to be written by a lawyer because it did not actually -

Commissioner Henke. Mr. Chairman, I would ask for two more minutes.

Chairman Thibault. Two minutes. Absolutely.

Commissioner Henke. But tell me exactly what you mean. Were they running ads in the paper? Were they --

Mr. Evans. There were two things going on. They were putting out formal communications from the company headquarters on their letterhead, and they were distributing it widely in theater.

Commissioner Henke. Right.

Mr. Evans. Which, from our perspective, it catches the theater commands, and, obviously, news media, et cetera. And then we were -

Commissioner Henke. So, someone walked that around to the leadership in MNF in Iraq? Military leadership in Iraq?

Mr. Evans. Yes, sir, and I believe -

Commissioner Henke. General officers that run Iraq?

Mr. Evans. Yes, sir, and I believe Mr. Marks met with leadership over there personally and conveyed that idea.

Commissioner Henke. Okay. So, this was going on before he was fired. So, General Marks, retired, three-star General Marks goes over and has visits, office calls, whatever, and starts saying boy, they are really squeezing me on salaries unfairly, and you are going to pay the price, operator?

Mr. Isgrigg. Yes, sir.

Commissioner Henke. Okay. Who else was involved with the walking tour?

Mr. Isgrigg. I do not know exactly who was involved with that. I do know Mr. Marks briefed the leadership in theater.

Commissioner Henke. Right, let us just put it to get them stirred up and anxious.

Mr. Isgrigg. Oh, absolutely. Yes, sir.

Commissioner Henke. Okay.

Mr. Isgrigg. And you are going to lose your linguists. You are going to lose this combat multiplier.

Commissioner Henke. And probably blaming it on all those darn contract guys.

Mr. Isgrigg. It was a difficult contracting officer who did not know what he was doing.

Commissioner Henke. Right, right. Do you know who else was involved in the walk around tour?

Mr. Isgrigg. No, sir, I do not know personally.

Commissioner Henke. Okay. With the joint venture of GLS, what is General Berry McCaffrey's role?

Mr. Isgrigg. I have not had any interaction with General McCaffrey.

Commissioner Henke. Okay. Do you know what his role is?

Mr. Isgrigg. He is on the board of directors, I believe, but I do not -

Commissioner Henke. Of the joint venture?

Mr. Isgrigg. Yes, sir.

Commissioner Henke. Okay. Thank you.

Chairman Thibault. Thank you, Commissioner. Commissioner Ervin?

Commissioner Ervin. Thank you, Mr. Chairman. Commissioner Henke began the second round where he began the first one, and I am going to do likewise.

You all agreed that, in all likelihood, but for the protests, GLS would not have awarded the subcontract of \$1 billion to L-3.

And, going to this chart that I went to initially on page 6, there are a number of things that L-3 does under the subcontract that GLS does. L-3 does corporate training, personnel security administration, human resources administration, casualty assistance, et cetera, along with other subcontractors. But, to talk about L-3 now. The only thing it does uniquely that GLS does not do is advisory management support, and we have all agreed that, at best, that is an ambiguous term.

So, what that means in effect then is that we, the taxpayer, paid \$1 billion to eliminate a competitor to GLS for this contract essentially is what we are talking about. Do you want to comment on that, Dr. Isgrigg?

Mr. Isgrigg. Yes, sir. The possibility to pay that is there.

Commissioner Ervin. Yes.

Mr. Isgrigg. But, as I am trying to get across to the contractor, as they proposed, that is what they are going to bill. That is their budget, and if they cannot make it under that, I do not care if they subcontract all the work out, but they are going to stick to the cost that the government deemed fair and reasonable at the time of award or something similar to that. That is how I am going to have to manage this. This is the only way that I have to manage this monster.

Commissioner Ervin. Well, my question with that as a background is: Well, why did not INSCOM contract with L-3 in the first place? They were offering a lower price, they had experience in this by virtue of the work they were doing years ago in the Balkans and in Afghanistan.

Mr. Isgrigg. I do not know that exactly off the top of my head, sir. I took over the contract after the second protest. It was already in protest and languishing, and I took it over in August of 2007.

Commissioner Ervin. Okay.

Mr. Isgrigg. I have to return from deployment.

Commissioner Ervin. Do you two have any comment about that?

Ms. Stephenson. I just wanted to make a clarification, and, perhaps, I misunderstood your comment.

I am not sure if the \$1 billion would have been avoided had L-3 not been involved or it just would have been spread to the other subcontractors because there was a certain amount that GLS was going to give to subcontractors.

Commissioner Ervin. Sure, of course.

Ms. Stephenson. So, it could possibly have been just that \$1 billion spread to others.

Commissioner Ervin. Sure. Okay. And this is a related question, and it may be an unfair one because we do not have a GAO representative here, but what was the basis for GAO's sustaining of the L-3 protest? Do any of you have a recollection as to what the rationale was for the record?

Mr. Isgrigg. Yes, sir. I believe it was an improper cost evaluation.

Commissioner Ervin. Okay. Now a final question. I know this is not a small business hearing, but we have raised the issue once, and I just want to raise it one more time.

According to your testimony, Director Stephenson, we have about \$1.6 billion over the course of the life of the contract is attributed to small business contractors, and we understand that there is a regulation that says that you do not have to contract with small businesses if the work is performed entirely outside of the United States.

Now, I understand that 63 of the total of about 8,000, 7,742 linguists, are going to be performing state side or are performing state side, but, obviously, the overwhelming majority of them are performing in Iraq, as you would expect to be the case.

That being so, just a quick judgment as to whether, under these circumstances, we really had to contract with small business for this.

Mr. Isgrigg. Sir, in order to meet the Army's Small Business Subcontracting goals, INSCOM supports the goals and supports the Army in the small business, however, a clever contracting person could probably

structure the next contract to where you had your out-of-country requirements separate from your in-country requirements. So, you would be able to follow the rules, the regs code, but still minimize cost to the government.

Commissioner Ervin. Thank you.

Chairman Thibault. Thank you, Commissioner.

Just putting a cap on that, so, because the Army had targets for you, this 30-plus percent, you did not explore whether it made sense to consider the regulation that was intentionally performed to do that?

And I might say, and I continue to say it to all subcontractors, we are only talking I like to say tin cans of one size and one metallic whatever in the sense a linguist is a linguist is a linguist, and it seems like everybody is doing advisory management and payroll, and that is the thrust, and the observation, thank you again, I would like to reiterate what Commissioner Henke said. \$254 million is a lot of money. Thank you. And then there is \$556 million, and the 2 might cross over a little bit, but not that much maybe, for this payroll, for this premium that we have talked about that an initial estimate was provided by Director Stephenson.

So, the \$1 billion gets closer, \$810 million if I add that together, and some of which has been realized through your actions, and I guess my interest here now, I was compelled early on when you said I did all this with 1.5 people; probably worked some pretty long days and under a lot of pressure.

How many people would you estimate that you need so that the one-and-a-half times whatever you multiply or add to it can really be effective and get the things done so that you are not compelled to drag in a very competent Afghani? They have a big mission to do there. A contractor to play off against the Iraqi contractor so you can do this bottom line negotiation because you do not have the staff to do the kind of price analysis you would like to do. Do you need 5, do you need 10? Can you give me a sense of how many individuals would make your life manageable, more manageable?

Mr. Isgrigg. Yes, sir. From just strictly the contracting side, and Mr. Evans can speak to the operational side, from the contracting side, we need five, six more contracting professionals to handle -- in an effort to -

Chairman Thibault. So, you need five or six more. Mr. Evans, what do you need?

Mr. Evans. It is roughly the same for me, sir. Probably around five more people because, as it is now, we have one primary COR at the headquarters for each of our four linguists contracts.

Chairman Thibault. Right.

Mr. Evans. And anytime anybody goes anywhere, it is a major event because everybody else has to pick up that slack.

Chairman Thibault. Okay, so, we being INSCOM, need about 10 people, and all the challenges, this bottom line negotiation list, this innovative way that we thank you for doing that, 10 people. And I just mentioned you take those two pieces, there is an opportunity for \$810 million.

You have another buy coming up, right?

Mr. Isgrigg. Yes, sir.

Chairman Thibault. A new option year, a new situation where, for the want of 10 people, we have schedules and charts up that are incredible, and, so, I say, as we have said in many of our hearings, this comes down to staffing, staffing, and if you take back a message this commission is interested in with a dollar value. I do not know where you get the 10 people, but it is in the Army's best interest to get you those people you need to continue to do the kind of job you are doing. Thank you.

Commissioner Gustitus. Could I just point out that, under the terms of the contract, we pay the contractor for as many people as they need to do the work on the contract, the G&A, but we do not pay our own agencies enough to match what the contractor gets in terms of people working on contracts.

Chairman Thibault. So, where we are going to go now is we agreed that, because we kind of tightened the timeframes on ourselves, if anyone up here, any one of the commissioners, has a final question, we would like to hear it, and I will start and work my way down this way. Commissioner Henke?

Commissioner Henke. Real quick and a mechanical question. Mr. Isgrigg, I thought your testimony was great. If you read a lot of this testimony, not a lot of it is as clear and as compelling and interesting and forthright as yours. So, I have to give you credit for that. But I do want to make clear though that you are here obviously in your official capacity representing INSCOM, right, and you work up through the director, the colonel, to the CG of INSCOM?

Mr. Isgrigg. Yes, sir.

Commissioner Henke. So, your testimony represents the views of INSCOM and the Army?

Mr. Isgrigg. Yes, sir, I believe it does.

Commissioner Henke. Okay. And who is the CG of INSCOM? I am just curious.

Mr. Isgrigg. It is General Lacquement.

Commissioner Henke. Lacquement?

Mr. Isgrigg. Yes, sir.

Commissioner Henke. Okay. Thank you.

Chairman Thibault. Charles, are you good?

Commissioner Tiefer. I will just ask Ms. Stephenson to elaborate a little more on the testimony.

Is it a bad sign that GLS is non-concurring or the fact that you are saying there is not cost or pricing data here? You did not get enough cost to pricing data.

Ms. Stephenson. From our perspective, absolutely. That is a fundamental of a purchasing system where you have major subcontracts.

Commissioner Tiefer. Thank you.

Chairman Thibault. I do not. Commissioner?

Commissioner Gustitus. Just a quick question, which is: How do we prevent this from happening again? You had said to Commissioner Zakheim that you do not know if it can be prevented from happening again. Are there one or two things either of you can tell us that would be recommendations to prevent this from happening again?

Ms. Stephenson. The first part that I will address is the subcontract plan. I think it is integral that before a prime contractor is given an award that subcontract plan appropriately priced so we can have an assessment of just how much add-on we are paying for all the subcontractors. That is something that we can use as a ploy in the negotiation process.

The issue of the bid protest, that is an eternal question that I think if someone could figure out, they would have a real -- they should go play the lottery that day if they figure that one out.

Chairman Thibault. And you believe, Director Stephenson, that on a subcontract plan, I am hearing you say that you would like INSCOM saying sure, that you could provide the accounting analysis that will assist INSCOM?

Ms. Stephenson. Absolutely.

Chairman Thibault. Okay. Commissioner?

Commissioner Zakheim. Quick question. Given that there are option years to this contract and the fee-on-fee law passed last year, is it your view that, as you pick up the option, they now have to comply with a fee-on-fee law?

Mr. Isgrigg. That is part of the pickle we are in, sir. The fee-on-fee law was passed after the contract was awarded, and all those nice clauses that you can use are not in this contract because they were not written until later in 2008. Unfortunately, to incorporate them would be a bilateral modification. So, agreement -

Commissioner Zakheim. But we are talking about picking up the option. So, by that -

Mr. Isgrigg. We could negotiate that, sir.

Commissioner Zakheim. But is not that a standard term and condition that the contract has to be valid under US law?

Mr. Isgrigg. Yes, sir.

Commissioner Zakheim. In which case, when you pick up the option, does not it have to be valid under U.S. law?

Mr. Isgrigg. Yes, sir.

Commissioner Zakheim. In which case, you do not have to renegotiate anything?

Mr. Isgrigg. Oh, we could take that view. Yes, sir.

Commissioner Zakheim. Could I have an answer for the record from your lawyers on that one, please?

Mr. Isgrigg. Yes, sir. We will take that as a question for the record.

Commissioner Zakheim. Thank you. Thank you, Dr. Isgrigg. Great testimony. Thank you.

Mr. Isgrigg. Thank you, sir.

Chairman Thibault. Commissioner?

Commissioner Ervin. Just a quick one for me, a policy question. If we can establish as a matter of fact that this is, in fact, what has happened, should as a matter of policy a contractor be able to pay off a protesting competitor? What happened here is legal. The question is whether as a matter of policy it should be allowed, whether it should be legal. It is certainly not right, one could argue.

Mr. Isgrigg. Yes, sir. I do not know that. Policy would be nice. But how do you structure? I mean, structuring the policy is also difficult and it takes time. I would like to think that hard-nosed contracting professionals can sort that out. They can make all the deals they want, but they are going to perform under the costs as I proposed, and that is holding the line on the cost is the most difficult thing to do because you have to weigh risk of performance and you have to weigh how it is going to affect the war-fighter and you have to have the

leverage to enforce that, and it is very difficult, and it is a very complex issue, and, at INSCOM, we are very fortunate to have a commander, CG, who gets it and has the best interest of the taxpayer and the Army G-2 who gives us this great responsibility to contract for all of these linguists.

So, we have to have a tough professional contracting cadre in order to hold the line, I think.

Chairman Thibault. Thank you, Commissioner.

It is the practice of this commission to give each person -- and, so, you can drop in whatever you want along with everything else, April, to give you a few minutes where you can provide any summary comments because we push you along because we push ourselves along, but we want to hear if you have anything that you believe we ought to hear again even.

Director Stephenson, we will start with you.

Ms. Stephenson. Yes, I have a few items. If I can just address this first one? I believe as part of the consent to subcontract, I think that is an area that should be explored a little more as to whether the government has more authority to say no, we are not going to consent, this is 22 to 25 percent of this effort, it was not part of your original subcontract plan. We need to explore this more before you do that. I think that is an area that could be explored and the consent to subcontract.

Commissioner Gustitus, I wanted to clarify a comment that I had made earlier about the functions of the linguists. I was answering as to what the linguists do today. When L-3 became the subcontractor in March of 2008, they performed some additional functions into a change order to that subcontract, was processed in January of 2009 to make it a payroll function. So, there was a period of time where L-3 continued to perform the effort that they did as a prime contractor. It was a short period of time, but I did want to clarify that response.

One other comment, there was some discussion about the proficiency of the linguists and whether the linguists really have the skills.

I believe that there is a requirement of the prime contractor to test the linguists, and there is a certain amount of proficiency that they have to have in the testing of these linguists.

We have had some issues in the past. The incumbent had some issues, and I believe that there are some issues in whether the linguists are, indeed, passing the tests and whether these tests really truly do address the proficiency of the linguists. I believe that that is something that needs to be taken up with GLS when it comes to the proficiency. That is a serious issue that we have heard multiple times in theater, that the soldiers do not always have the linguist that is able to be at the proficient level that is necessary.

Chairman Thibault. Thank you.

Ms. Stephenson. Those are my comments. Thank you.

Chairman Thibault. Dr. Isgrigg?

Mr. Isgrigg. Yes, sir. First, I would like to thank the commission for allowing us to come in and air these very difficult -- and look into this contract. It is very unique in its structure and the way it has been managed. I would like to thank DCAA for their fabulous support. Without DCAA, they would not have allowed us -- they helped us leverage a holding line on these costs and making sure that the government gets the best value for the money they put out.

I would also like to say that GLS is performing. They are performing linguists. There is room for improvement. We need to work on minimizing costs, as well as improving performance. So, we are going to be working towards making those improvements in the future.

And I would also like to thank the INSCOM team because we had a group of hard-nosed contract professionals that I want to assure you that we are going to be holding the line on costs. This is something that we are very passionate about, is getting the best value for the government. Mr. Forrest, Mr. Evans and I are veterans. We understand what it is like to be downrange and not get what you need. We are going to support the war-fighter, we are going to support the government, and we are going to get the most bang for our buck.

Chairman Thibault. Thank you.

Mr. Isgrigg. Yes, sir.

Chairman Thibault. One of the good things about being understaffed is well, you are going to have to go out and thank your great staff. You only have to talk to one-and-half people.

[Laughter.]

Chairman Thibault. So, if you were properly staffed, you would probably have to walk up and down the hall. So -

Mr. Isgrigg. I have three contractors, too, sir.

Chairman Thibault. We are trying to cover you here. Mr. Evans, do you have any parting thoughts?

Mr. Evans. No, sir. I have no further comments. Thank you though.

Chairman Thibault. Thank you, all of you. This has been a great and enlightening. We are appreciative.

We are going to take five minutes and swap out nametags and bring up our next panel, the Industry Panel.

Thank you again.

[Recess.]

Chairman Thibault. Can I get everybody to take their seat? Thank you. Actually, this is pretty good. In my prior lives I have always said there is no such thing as a five or a 10 minute break and we really did pretty good. So I appreciate it.

Now we have an opportunity to listen to industry. I think it strikes a balance and we do want to listen to you. You have statements. We are going to ask you to try to keep them to the five minute. We are going to put your entire statement on the record. It is going to be open for another 10 days, so if after we are done you want to say, hey, I want to get this on the record also, send it in. We will work with you to do that.

Our panel is John Houck, the General Manager. Are we right? People are writing down President and General Manager. Sir, what is your title?
Mr. Houck. President and General Manager.

Chairman Thibault. President and General Manager. I saw President on one and now I have got General Manager on another one. Those are your folks, I think, that did that one, so I am okay.

And then we have Northrop Grumman with Greg Schmidt. And I thank you, sir, representing. And L-3, Mr. Miiller, General Counsel of L-3 Communication Services Group. So, thank you, gentlemen, for coming up and sharing with us. And look forward to our discussions.

Mr. Houck, and then we will go in order with Mr. Miiller and Mr. Schmidt if that works fine. Mr. Houck, can you lead out, sir?

Mr. Houck. No swearing in, sir?

Commissioner Zakheim. You have to swear them in.

Chairman Thibault. Oh, thank you. You know, I appreciate that.

Commissioner Zakheim. It is the first time a witness ever asked to be sworn in. Well done.

Chairman Thibault. Can I get you three to stand please? My co-chair would have really had a problem if I had missed this one, so I want to tell you thank you. Will you raise your right hand please?

Do you solemnly swear or affirm that the testimony you give before this Commission is the truth, the whole truth, and nothing but the truth?

Mr. Houck. I do.

Mr. Miller. I do.

Mr. Schmidt. I do.

Chairman Thibault. Thank you, gentlemen. Let the record show that they all answered in the affirmative.

Now, Mr. Houck, President and General Manager of Global Linguist Solutions.

TESTIMONY OF JOHN HOUCK, PRESIDENT AND GENERAL MANAGER OF GLOBAL LINGUIST SOLUTIONS (GLS)

Mr. Houck. Thank you, Mr. Thibault. Mr. Thibault, Chairman Shays, members of the Commission. On behalf of the 9,700 employees of Global Linguist Solutions, I want to thank you for this opportunity to contribute to the Commissions' goals and to participate in this very important process of improving contingency contracting.

DynCorp International and McNeil Technologies formed Global Linguist Solutions as a joint venture in December 2006 for the sole purpose of executing a U.S. Army INSCOM contract to provide interpreters and translators in support of Operation Iraqi Freedom. The company has no other business interest to compete for the attention of our senior management. GLS deliberately built a leadership team whose effort would be devoted to the success of this single, critically important contract.

From December 2006 when the contract was first awarded to GLS until March 2008 when uninterrupted performance commenced, GLS continued to refine the leadership and management staff, plan for transition, and recruit native American Arabic speakers throughout the United States to ensure that our troops serving in harms way would have adequate linguists with the right skills at the right place and at the right time. When the Army gave us the notice to proceed in March 2008, we accelerated our efforts and executed a rapid transition, the first ever on this linguist program in Iraq and unprecedented in scale and complexity for a services contract in a combat zone.

When transition was completed, we focused on providing the ever-higher numbers of interpreters and translators required by the war-fighters to enable full linguistic capability for multinational forces in Iraq and associated commands. A year later, GLS points with pride to the 9,400 linguists serving on the ground in Iraq and other Gulf states and a fill rate of nearly 100 percent in all categories of contract requirements. Two thousand eight hundred of the GLS linguists are native speakers of Arabic and other regional languages and dialects, were born in the Middle East and North Africa, came to enjoy the freedoms and privileges of life in the United States as citizens or permanent residents, and volunteered to serve in Iraq in a most difficult and dangerous line of work in supporting our troops. Six thousand six hundred linguists are citizens of Iraq or neighboring countries who risk their lives every day to work with American and Coalition forces, despite the dangers of serving in combat units and the explicit threats against linguists and their families issued by the enemies of the American and Iraqi peoples.

These loyal, dedicated linguists, American and Iraqi, are embedded in every unit throughout Iraq from platoon to four-star headquarters and share the same harsh living conditions and risks to body and mind as the soldiers, sailors, marines, and airmen with whom they are serving. The price has been high. In the first full year of GLS's tenure in Iraq, 12 linguists have been killed in action and 52 seriously wounded, adding to the hundreds of other linguists who have suffered death and disability since the earliest days of Operation Iraqi Freedom. Yet, our linguists continue to serve with determination, and in diverse Arab-American communities across the United States, hundreds of new candidates apply every month hoping to get through GLS's rigorous screening and testing process and obtain the opportunity to support our forces in Iraq. The men and women of Team GLS are proud to be part of this endeavor.

In the Statement for Record that GLS submitted on 5 August to the Commission, I addressed the seven topics you included in your Letter of Invitation. Like our parent, DynCorp International, our standard is

perfection, which causes us to focus on the war-fighter, the contract requirements, and our linguists and staff to perform with the highest quality support on schedule and within budget, and to always do the right thing.

One note before we commence the discussions. The men and women of GLS work side-by-side of our nation's men and women in uniform, often under very difficult, demanding, and dangerous circumstances. They sincerely appreciate and are honored by the opportunity to provide this important service to our nation, and perhaps most importantly, they appreciate the special recognition provided by the Commission to the service of those military civilians -- many civilians serving in contingency environments.

At this point I look forward to answering any questions you may have.

[The prepared statement of Mr. Houck follows:]

Chairman Thibault. Thank you, Mr. Houck. Mr. Miller?

TESTIMONY OF THOMAS MILLER, SENIOR VICE PRESIDENT AND GENERAL COUNSEL,
L-3 SERVICES GROUP

Mr. Miiller. Good morning Chairman Thibault and distinguished members of the Commission.

Commissioner Gustitus. You have to turn your -

Mr. Miiller. Oh, I am sorry. Very good point.

I am the Senior Vice President and General Counsel of the L-3 Services Group, which is an organizational element within L-3 Communications Corporation. We are proud to be a subcontractor on the TIMS contract team. Before TIMS, L-3 performed the INSCOM Worldwide Linguistic Support Services or WLSS contract, the largest wartime linguist contract ever. By the end of WLSS, L-3 was providing over 8,000 linguists in Iraq supported by 200 employees in the U.S. and 190 employees in theater.

L-3's unique contribution to TIMS began with the transition period. At that time we supported -- and we continue to support -- the TIMS program without any reservation for self-interest. L-3's paramount transition objects were to ensure: (1) that support of the combatant commanders and their soldiers on the ground never wavered; (2) that our linguists did not suffer a loss of support during the transition; and (3) that GLS and the TIMS program succeeded.

L-3's value added to the TIMS program is undeniable and arises in part from the reality that GLS was not a fully staffed and operational company at the time of award. During the 90-day transition period, GLS had to stand up a \$600 million company effectively from scratch that could assume full program responsibility with operations throughout the United States and Iraq. To win the contract and meet this challenge, GLS

proposed a novel solution known as the Integrated Team Management Approach, or ITMA. Under ITMA, each subcontract assigned half of its administrative staff to work in GLS program offices. In this way, GLS could plausibly build a company in 90 days and be eligible for award of this contract. L-3 immediately assigned 92 of its highly experienced employees to perform functions for GLS in the areas of linguist recruiting and processing, finance, human resources, information technology, logistics, operations, security, and training.

To fulfill its three objectives, however, L-3 support went far beyond supplying ITMA manpower. L-3 also provided substantial value-added support in the areas of contracts and procurement, security, and human resources, directly helping GLS overcome the numerous obstacles encountered by a start-up organization in a difficult and dangerous environment. Indeed, our support was so complete that we transferred L-3 proprietary intellectual property that had been derived from our experience performing the WLSS contract. The details of this support and this upfront commitment to the TIMS program are set forth in my written testimony.

L-3 came to be a TIMS subcontractor because INSCOM selected GLS in December 2006 for the TIMS award, even though L-3's estimated costs were \$180 million lower. During the debriefing we discovered that our proposal had not been evaluated in accordance with the selection criteria, and with so much at stake we had little choice in the end but to protest the award decision at the Government Accountability Office. In April 2007, GAO sustained our protest and ordered INSCOM to reevaluate or solicit revised proposals. Twice thereafter, INSCOM solicited revised proposals, and each time GLS was selected for award. And each time L-3 discovered serious evaluation errors and protested again.

On March 12, 2008, during the last protest, GLS and L-3 negotiated and entered into a subcontract which was approved by INSCOM. At that point, L-3 withdrew its final protest. I would note that the comment has been made that this was not evaluated in terms of its price. Well, it is a cost-type contract, number one. But the critical thing to remember is we had set labor rates established for all of the linguists that did not vary across subcontractors and the prime contractor; we had capped indirect rates as a part of the agreement; and we were required to provide uniform benefits for all the linguists. So in terms of a price qualification or a cost qualification, there was not a risk issue here for the government.

Now, the rationale for subcontracting was straightforward. Since its first proposal, GLS had lowered its estimated cost by \$676 million, gradually overcoming a substantial L-3 cost advantage. We also knew that INSCOM could turn to its Afghanistan contract and the overflow provisions that exist there to meet requirements in Iraq if they needed to. For GLS, by adding the incumbent to its team, it greatly improved the prospects for successfully performing the contract, and the government benefited as well from the negotiated solution because it reduced the largest risk in the contract, which was the 90-day transition period. As a corollary benefit, INSCOM also purchased the services for \$667 million less evaluated than it would have originally paid.

We have currently allocated 777 linguists, for whom we manage documentation, contract documentation, ethics and compliance, travel, timekeeping, payroll, insurance, and other benefits, but L-3 adds more value to its management of linguists recruited by GLS. L-3's ability to perform a large-scale linguist services contract in a contingency operation is rare. There are only three companies in the world with such experience, and none other than L-3 has experience with a contract the scope, the size, and the breadth of the WLSS contract which covers 21 different countries.

The U.S. Government often spends significant resources ensuring that it has a second source for critical defense items to protect against the failure of a single source. Large-scale linguist support services are no different. I will submit respectfully that they are not commodity services. L-3's role on the TIMS contract ensures the continued availability of a competitive second source. Further, our experience and know-how remains immediately available to GLS, the U.S. Government, and L-3 so long as we are a part of the TIMS program. For example, L-3 is currently preventing program disruption by supporting GLS on all top secret clearance activity while their special security officer position is vacant. We play an instrumental and material role in the TIMS program.

In conclusion, I sincerely hope that these comments have added value to the Commission's efforts. We are proud of our service to our nation and to the world. And I am prepared to answer any questions you might have.

[The prepared statement of Mr. Miiller follows:]

Chairman Thibault. Thank you, Mr. Miiller. Mr. Schmidt?

TESTIMONY OF GREG SCHMIDT, VICE PRESIDENT, NORTHROP GRUMMAN TECHNICAL SERVICES

Mr. Schmidt. Good morning, Chairman Thibault and other distinguished members of the Commission. I am here today at your invitation to discuss the subcontract relationship between Northrop Grumman Technical Services and the prime contractor, Global Linguist Solutions or GLS supporting the Army's Iraqi Linguist Program. In addition, I would like to take a moment and explain our obligations and commitments to GLS under the subcontract awarded to us.

To begin, I would like to provide a brief history of Northrop Grumman's linguist operations which cover a span of nearly 20 years. Northrop Grumman has supported large-scale linguist requirements for DoD since Operations Desert Shield and Storm, including operations in Somalia, Haiti, Bosnia, and Kosovo, to name a few. Prior to joining the GLS team, we were a subcontractor to L-3 on the previous Iraqi linguist contract. Joining the GLS team in late 2007 provided us the opportunity to retain a position on the program while we assessed future translational requirements in the Iraqi theater in relationship to our long-term corporate objectives.

Northrop Grumman's paramount operating principle is 100 percent commitment to exceptional program performance. We have DCAA-approved business systems that include estimating, planning and budgeting, purchasing, and internal controls. Northrop Grumman also has a well-defined set of business management processes that are ISO 9001 compliant and DCMA-approved where applicable. Our rates have been approved by DCMA and are also subject to careful scrutiny by Northrop Grumman's strong, independent internal audit and our immediate internal audit organization. Any issues raised by DCMA, DCAA, or Northrop Grumman's internal audit are immediately addressed and resolved. Senior leadership is personally involved in the detailed bi-weekly and monthly reviews of all programs, with particular emphasis on programs that exceed \$5 million in annual revenue. Furthermore, our program managers, including our Iraqi program manager, are empowered to make management decisions to execute the program in compliance with all applicable policies, regulations, and laws that govern the contract. Our program managers have the full support of the company's functional areas to include human resources, program control, finance, legal contracts, and pricing.

Northrop Grumman provides its subcontractor support to GLS under a fixed price subcontract. Under the terms of this subcontract, we provide management controls for time reporting accountability and payroll for a varying workforce of approximately 1,500 CAT 1 Iraqi national linguists. These responsibilities include maintaining audible pay records, timesheets, cash disbursement vouchers, and tracking data by individual linguists. By the terms of the subcontract, our business operations include the receipt and review of the GLS certified payroll, the receipt and review of the actual timesheets and cash disbursement vouchers, and providing GLS with a monthly status report to identify any discrepancies on the timesheets, vouchers, or payroll roster. By doing so, Northrop Grumman ensures timely payment within three business days of the linguists' monthly payroll based upon receipt of the GLS certified spreadsheet, as well as the integrity of the payroll by providing a monthly data integrity report to allow GLS to take action.

The GLS certified payroll and acceptance of funds sent via electronic funds transfer to GLS's bank account also provides the basis of Northrop Grumman's billings. Everything is 100 percent factual because once we receive the timesheet and vouchers we validate the data against the certified payroll. If there are any discrepancies, we provide the information to GLS in the monthly status report. Our ability to detect and report problems to GLS is contingent upon GLS providing us critical documents for analysis, such as linguist agreements and timesheets, in a timely manner.

It is important to note that all Iraqi national linguists assigned to Northrop Grumman are independent contractors. Management and daily supervision of these linguists is the responsibility of GLS's in-country management team in accordance with GLS's Integrated Team Management Approach or ITMA. We are responsible, as stated previously, for managing timecard validation, payroll processing, and auditing of records to ensure accountability. In essence, GLS's ITMA is the concept of operations allowing for centralized resource allocation among team

members. Furthermore, in accordance with the terms of the GLS ITMA, Northrop Grumman does not have or has not had direct interface with the contracting officer's representative. GLS, in its role as prime contractor, has a responsibility for direct interfacing with INSCOM, in-country units, and the corps.

It has been my pleasure to testify before you today in regards to Northrop Grumman's Iraqi linguist subcontract with GLS. And I am prepared to answer any additional questions. Thank you.

[The prepared statement of Mr. Schmidt follows:]

Chairman Thibault. Thank you. The process we are going to use is the same as previous in the order that we previously worked on. So, Commissioner Green, you are on the clock.

Commissioner Green. Thank you. We have had a lot of discussion today or certainly in this session about value added. I am still somewhat confused about what each one of the subcontractors in this contract are actually doing. I think both L-3 and Northrop Grumman laid out what they are responsible for and what they are currently performing in the way of support.

A question to both of you, Mr. Miiller and Mr. Schmidt. Are there any of the functions that you are performing under this contract that are further subcontracted?

Mr. Schmidt. No, sir.

Mr. Miiller. No, sir.

Commissioner Green. Okay. Mr. Houck, to you. For the other subcontractors, are there any functions -- any functions that are subcontracted -- further subcontracted?

Mr. Houck. No, sir.

Commissioner Green. Okay. Every one of these subcontractors is performing all of the functions that they have been responsible for performing?

Mr. Houck. Yes, sir. To the best of my knowledge that is correct.

Commissioner Green. Okay. I would like -- I asked for -- when we visited before and we got some input -- but I would like in detail what each subcontractor is doing by way of administrative support, payroll, what have you, in detail. And then if there are any further subcontracts, second tier subcontracts, I would like that also indicated.

Mr. Houck. As I stated, to the best of my knowledge there are no further subcontractor. There is no second -- there is no third tier of subcontractors. The contractors who provide linguist support, again, do not provide additional support via subcontracts to them.

As far as the functions that are performed by the subcontractors, I believe that they have been detailed fairly well. GLS does provide the recruiting support. We provide all the prescreening, testing, deployment support. We provide all the onsite, on the ground management of the linguists.

What I believe was not discussed in this morning's testimony was the risks inherent in the operation on the ground. The reason that GLS selected the management approach that we have is to mitigate the risks to the war-fighter. If a subcontractor was to not pay their linguists, if they were to not manage the linguists properly and the linguists decided to leave the contract, that would have direct impact on the mission. In fact, lives are at risk here; we know that and we are faced with this every day. This is the reason we have adopted this unique, somewhat unorthodox management approach -- is simply to mitigate the risks to the war-fighter on the ground.

Commissioner Green. Okay. If you would though, if you could provide to me, again, in detail if you have not already, a rack up of all the subcontractors and specifically what functions they are performing over and above what GLS provides.

Mr. Houck. Okay. I think in the interest of time I would like to provide that to the record if possible.

Commissioner Green. Oh, no. For the record, please.

Mr. Houck. Yes, sir. I am certainly willing to.

Commissioner Green. Go ahead.

Mr. Houck. Okay. Thank you, Commissioner. Commissioner Gustitus?

Commissioner Gustitus. All right. Thank you.

Mr. Houck, in light of all the problems that were discussed during the previous panel, I frankly-I do not find your testimony very forthcoming on the full picture of this contract, so I am hoping that your response to these questions will be candid.

Mr. Houck. I will do my best.

Commissioner Gustitus. Thank you very much.

Did anyone in your company or somebody employed by GLS talk to anyone or communicate in any way to the military in the theater or to the media about the fact-alleging that the government was imposing cost cuts on linguists?

Mr. Houck. Certainly not to the media. I do believe that individuals that were employed by GLS talked to military personnel to try to explain the situation that GLS was faced with. We were in a position where we had to go from a proposal of a billion dollars as Dr. Isgrigg testified to 765 -- I believe that was the correct number. And frankly,

the only place to cut that level of cost was in linguist compensation. There was prior testimony about a media campaign. That was not the case at all. We were attempting -

Commissioner Gustitus. So nobody in your company talked to the media about the possibility that linguist salaries were going to be cut?

Mr. Houck. The possibility of linguist salaries being cut? Yes. The fact that it was due to undue pressure from INSCOM? No, ma'am.

Commissioner Gustitus. Due to any pressure from INSCOM?

Mr. Houck. I would not characterize it as pressure. No, ma'am.

Commissioner Gustitus. Well, how was it characterized?

Mr. Houck. Tough negotiations. As was offered this morning, what - we were faced with a newly competitive environment. We had to go from cost -- we were actually -- the billion dollar proposal was developed off the actual cost that we were paying at that time. Those costs were because when we first took over the contract from L-3, we took -- we adopted the compensation levels that the linguists were being paid. We did not want linguists to leave the contract. We did not want to impact the mission or the support of the war-fighter.

When we got to negotiations in December of 2007, we were provided the target numbers by INSCOM, and the only way to get to those numbers was via linguist compensation reductions.

Commissioner Gustitus. Did you participate in the decision to issue the formal communications on GLS letterhead to the military in the theater?

Mr. Houck. Yes, ma'am.

Commissioner Gustitus. Okay. Can we have copies?

Mr. Houck. Absolutely.

Commissioner Gustitus. Would you deliver us copies of any document that relates to GLS's statement that it was pressure from INSCOM under the contract?

Mr. Houck. I think you will find that those letters do not talk about pressure from INSCOM, but yes, ma'am, we will be happy to provide them.

Commissioner Gustitus. Let us see that then.

Mr. Houck. May I also offer, ma'am, that there were widespread communications. We were communicating with all 10,000 of our linguists at the time. We also communicate with the customer, with INSCOM, and with the military on the ground, so they were aware of what we were doing. It was full, open disclosure at all times.

Commissioner Gustitus. You never thought about taking the money out of the 500 -- potential \$550 million in overhead to your subcontractors?

Mr. Houck. I do not know that that would have been allowable, ma'am.

Commissioner Gustitus. Okay. My sense of this contract, by the way, is that in essence GLS is basically leasing the linguists from these subcontractors. You are doing all of the work in identifying them, training them, managing -- you said support but essentially you are doing all of that work.

Mr. Houck. Yes, ma'am.

Commissioner Gustitus. And these subcontractors are essentially paying them. And the essence it seems to me if you really cut through all of this is that you needed a lot of linguists, they had the linguists, and you needed to lease them to be able to perform under your contract. Are they GLS employees or are they subcontractor employees?

Mr. Houck. Other than the 700-plus linguists that are working for L-3 or other subcontractors, they would be GLS employees. Approximately 60 percent of the linguists that we provide are provided for our subcontractors and they are employees of those subcontractors.

Commissioner Gustitus. I thought you just said that they were employees of GLS but for L-3's linguists. Did I miss something?

Mr. Houck. I am sure I misspoke, ma'am. Sixty percent of the linguists we provide are provided through the subcontractors and they are employees of those subcontractors. The other 40 percent are GLS employees.

Commissioner Gustitus. Okay. My time is up. Oh, no. It is not.

Commissioner Zakheim. Twenty seconds.

Commissioner Gustitus. I have 20 seconds. I want to ask L-3 and Northrop, how many direct employees of your company perform functions under the GLS contract? How many employees do you have for L-3?

Mr. Miiller. I do not know -

Commissioner Gustitus. Not the linguists but the payroll -

Mr. Miiller. Right. The administrative staff.

Commissioner Gustitus. Yes, the administrative functions.

Mr. Miiller. I do not know the current count right now.

Commissioner Gustitus. Well, give me a ballpark.

Mr. Miiller. I would rather not. I really do not know the actual count. I can find out.

Commissioner Gustitus. We must be -- what are we talking about? Ten? Are we talking about 100?

Mr. Miiller. No, it is much more complicated than that. Plus we are still -- our finance department is still dealing with the closeout of the years from the other contracts, so there is, you know, two contracts in play for L-3. That is why the number is not something I have on the top of my head. It is a separate division from where I am located at. And I know we have contracted substantially, but I just do not know what the number is.

Commissioner Gustitus. Contract? I do not -- I am not talking about the linguists. I am talking about the -

Mr. Miiller. Contracted as in the opposite of expanded.

Commissioner Gustitus. Oh, okay. All right. And how about you, Mr. Schmidt for Northrop Grumman?

Mr. Schmidt. Yes, ma'am. We have approximately four to six personnel on the contract, in addition to the linguists. So our total support staff ranges between four and six on a monthly basis depending upon the amount of work or the number of -

Commissioner Gustitus. So the amount of money you have been paid so far I think is \$2.8 million up through July 09. So that would be \$2.8 million for four to six people then. Is that right? Is that accurate math?

Mr. Schmidt. Ma'am, I guess I am a little confused on where you would be getting the exact number of \$2.8 million.

Commissioner Gustitus. Well, it is the amount of money that is the overhead -- it is not on that chart -- but that DCAA showed us.

Commissioner Henke. It is in the written testimony from DCAA. That is at the back table.

Commissioner Gustitus. Of how much you have been paid for these functions under the GLS contract - these administrative functions under the GLS contract. So it is \$2.8 million. I am just asking how many people you employ for that amount of money and you just said that was four to six people.

Mr. Schmidt. Yes, the direct charge personnel to the contract range between four to six personnel.

Commissioner Gustitus. Okay. And -

Mr. Schmidt. In addition to that, ma'am, we also have our indirect personnel which I described as our human resources, legal, and other support staffs that are not direct charge.

Commissioner Gustitus. And Mr. Miiller, you are going to give us that statement figure for the record?

Mr. Miiller. Yes, ma'am.

Chairman Thibault. Commissioner Zakheim.

Commissioner Zakheim. Actually, Mr. Miiller, you have a distinguished career as a lawyer, and you mentioned another division. Do you have any operational experience in this area? What we are talking about now in terms of -

Mr. Miiller. If you define operation.

Commissioner Zakheim. Absolutely. Have you been to Iraq?

Mr. Miiller. No, I have not been to Iraq.

Commissioner Zakheim. You have not. Have you been in a line responsibility like these two other gentlemen?

Mr. Miiller. I have not had general manager or profit-and-loss responsibility.

Commissioner Zakheim. Okay. So you have not been in a line responsibility.

Mr. Miiller. That is correct.

Commissioner Zakheim. So I am a little puzzled. Why are you here?

Mr. Miiller. I am here because I get very involved at the business level in major matters, and I was very involved in the award.

Commissioner Zakheim. But you do not make business decision, do you?

Mr. Miiller. The way our organization works, I report directly to our chief of staff.

Commissioner Zakheim. I understand that. I understand that.

Mr. Miiller. And I am involved in the business -

Commissioner Zakheim. I understand that, too. General counsels usually are. But you do not make them, do you?

Mr. Miiller. No, sir.

Commissioner Zakheim. Okay. Question for you, Mr. Houck.

Commissioner Henke. Mr. Zakheim, can I? Who do you report to?

Commissioner Zakheim. I report to the chief of staff of the L-3 Services Group, as well as the president of the L-3 Services Group.

Commissioner Henke. And by name that is? Names?

Commissioner Zakheim. Retired Major General Jerry Putnam is our chief of staff. Retired General Carl Vuono is our president. And I also report to Steve Post, who is the general counsel of L-3 Communications Corporation.

Commissioner Henke. Okay.

Commissioner Zakheim. Mr. Houck, I want to read something to you and I just want a categorical statement one way or the other. This is page six of the testimony of Dr. Isgrigg.

"During the timeframe of the contracting officer's Kuwait-side visit, GLS management embarked on a media campaign whereby 'linguists' salary cuts' were blamed on INSCOM having reduced the value of the GLS contract. This was absolutely not true. It appears that GLS used this tactic to reduce linguists' salaries, etcetera."

Is that statement true or under -- what I just read to you? It is a categorical statement that GLS said something that was not true. Categorize this statement for me. Do you believe it is true or not true?

Mr. Houck. I apologize, sir. Could you read the statement again?

Commissioner Zakheim. Absolutely.

"During the timeframe -- " It is page six of the testimony. "During the timeframe of the KO's Kuwait-side visit, GLS management embarked on a media campaign," referring to what you talked about, "whereby 'linguists' salary cuts' were blamed in INSCOM's having reduced the value of the GLS contract. This was absolutely not true." Characterize this statement for me, please.

Mr. Houck. I believe that the statement that GLS undertook a media campaign blaming the effort on INSCOM is untrue.

Commissioner Zakheim. Okay. So this is not a true statement?

Mr. Houck. I believe that is the case. I am not aware of anyone making that comment.

Commissioner Zakheim. Thank you.

Mr. Houck. Yes, sir.

Commissioner Zakheim. I have a little bit of time left. You have a statement on page one that you have 2,800 linguists who were born in the

Middle East or North Africa-North African region -- this is the actual quote -- and presumably you test these folks for Arabic. Correct?

Mr. Houck. That is correct, sir.

Commissioner Zakheim. North African Arabic is totally different from Iraqi Arabic. How do you deal with that?

Mr. Houck. We have -- in fact, there are over 40 different languages and dialects that we are required to provide under this contract. We subcontract to a firm called Alta that is an expert -

Commissioner Zakheim. Can you spell that for me, please?

Mr. Houck. I believe it is A-l-t-a. And they provide us with the tests for all these language types, and we use those tests every day.

Commissioner Zakheim. Okay. And does the government have any oversight in your sense of these tests or do you simply give the results to the government? Do they actually see -- do they see the tests -- the examinations themselves?

Mr. Houck. Not to my knowledge, although at any time that they would request, we would certainly send them the results. We have all of our tests documented. They are open to audit.

Commissioner Zakheim. One last question. Mr. Schmidt, I think it was you who said that you work with DCAA, you work with DCMA, you work with the Army. Do you get the sense -- in fact, I would like to ask all three of you -- do you get the sense that the government speaks with one voice on these matters?

Mr. Schmidt. I guess, sir, from our limited view of the contract I would have to say yes.

Commissioner Zakheim. Thank you. Mr. Miiller?

Mr. Miiller. Relative to this contract I do not see anything but a single voice.

Commissioner Zakheim. Okay. Mr. Houck?

Mr. Houck. I would agree with that except for the exception of DCMA. We have received very little input, oversight, from my knowledge from DCMA. In fact, they contacted us for the first time just last week.

Commissioner Zakheim. Really?

Mr. Houck. Yes, sir.

Commissioner Zakheim. Thank you very much. That is fascinating. I will yield my last 30 seconds.

Chairman Thibault. That is good. Thank you, Dov. Commissioner Tiefer?

Commissioner Tiefer. Mr. Houck?

Mr. Houck. Yes, sir.

Commissioner Tiefer. On the issue of you having had no choice left to you by INSCOM but to cut linguists' salaries, would you undertake to give our staff -- would you have some high level people who know this stuff in your place give our staff a briefing with actual records and actual figures as opposed to the alternative of simply reducing the ridiculously set up subcontracting structure which your contracting officer could have done for you on a partial termination for convenience?

Mr. Houck. We would welcome the opportunity, sir, to brief your staff. There is a significant amount of detail.

Commissioner Tiefer. Good. Gregg or Cornyn will set it up.

You provided us with a grid, and I believe it as to which subcontractors did which functions. And I am just -- I believe it but I just want to make sure. L-3 did not do language testing. L-3 did not do functional training linguist services operating in a war zone. And L-3 did not do in-country management and leadership and supervision.

Mr. Houck. That is correct, sir. We performed -- GLS performs those functions currently.

Commissioner Tiefer. I want to know because I am sure L-3 is not so modest about the services they provide. Was it the case -- now, you know the Forbes article I have been mentioning, right?

Mr. Houck. Only from your testimony.

Commissioner Tiefer. You are kidding me. You are kidding me. You mean when Forbes writes an article about your parent company --

Mr. Houck. I am not aware of it, sir.

Commissioner Tiefer. -- you do not bother to read it? That is an insult to the media. You are not being read over there. You have got to work harder. So, you do not know whether it is true as Forbes said that McKeon, the venture capitalist who came into this thing, is chairman of the board and owns a quarter roughly of DynCorp?

Mr. Houck. Yes, I do know that, and that is the case.

Commissioner Tiefer. Oh, okay. And that it helped -- that this linguistic contract helped to boost DynCorp's revenues by 45 percent.

Mr. Houck. I believe that is true. Yes, sir.

Commissioner Tiefer. Oh, okay. Well, you do not have to agree with me on this characterization but I am just going to say this contract and

the taxpayer became a cash cow, sort of a great big juicy steak that two companies were pulling thick slabs out of this cash cow. Poor taxpayer.

Let us get to -- let us get to L-3. And I -- far from defending my profession I totally agree with Mr. Zakheim that lawyers are a poor substitute as witnesses - myself included -- a poor substitute for the hands -- on people actually making the management -- yesterday, DynCorp sent us a real executive, not a counsel. But we will see what we can do.

You mentioned two protests that were good and successful in your opening statement. Mr. Miiller, does the figure 17 protests accord with the number of protests you filed over the four years it took for this contract to be awarded?

Mr. Miiller. Seventeen?

Commissioner Tiefer. Seventeen.

Mr. Miiller. No, it does not.

Commissioner Tiefer. Give me your number.

Mr. Miiller. Three. Four if you include an agency action during the course of the GAO protests relative to the linguist contract.

Commissioner Tiefer. I am not talking about the reconsideration, no. I am talking about -

Mr. Miiller. There are other protests that took place that L-3 was not a part of relative to the linguist contract going back to 2004, but that is perhaps where your number comes from.

Commissioner Tiefer. Yes, 2004 contract started it.

Mr. Miiller. We were not a part of the protest, sir.

Commissioner Tiefer. Okay.

Mr. Miiller. In fact, in 2004 we did not have the contract, sir.

Commissioner Tiefer. Okay. So, it was just one or two protests. It was part of the consideration that made them make you a subcontractor was the resolution of the protest, was not it?

Mr. Miiller. I am absolutely positive of that, sir.

Commissioner Tiefer. Okay. Just one or two. Not more than that, huh?

Mr. Miiller. Three, sir.

Commissioner Tiefer. Just three.

Mr. Miiller. Yes, sir.

Commissioner Tiefer. Not more than that, huh?

Mr. Miiller. Two successful and one unresolved because it was dismissed.

Commissioner Tiefer. They are easily frightened.

Commissioner Henke. Unresolved, but withdrawn.

Mr. Miiller. Correct, withdrawn.

Commissioner Henke. Because of the negotiated subcontracting agreement.

Mr. Miiller. That is correct.

Commissioner Tiefer. You bought Titan, yes?

Mr. Miiller. That is correct.

Commissioner Tiefer. And so -- and it was Titan that had a linguist who came under investigation at Abu Ghraib because of the scandal there?

Mr. Miiller. That took place. Yes, sir.

Commissioner Tiefer. Okay. What about -- so, we just heard you agree with what Mr. Houck said? You do not do those categories? I could read them back. You do not do language testing; you do not do functional training; and you do not do in-country management?

Mr. Miiller. That is correct, sir.

Commissioner Tiefer. I would characterize you as a do-little subcontractor for the amount of money you get. Thank you.

Chairman Thibault. Thank you, Commissioner Tiefer. I might note that, again, I will make the note that all of you will get an opportunity to lay a capstone on anything you might choose. Mr. Commissioner.

Commissioner Henke. Mr. Thibault, I can wait for a minute if he would like to respond now.

Chairman Thibault. Sure, I can wait.

Commissioner Henke. Would you like to respond to that now or later?

Mr. Miiller. No, sir. There is no need to.

Commissioner Tiefer. Are you going to respond at all?

Commissioner Henke. I guess not.

Mr. Miiller. What, to the allegation he just made?

Commissioner Tiefer. Yeah.

Mr. Miiller. Sir, I do not think it is productive for me to try to respond to that allegation. I have already made my statement. It is on the record, as well as the written testimony.

Commissioner Tiefer. But surely if a Commissioner asks you a question you ought to answer it.

Mr. Miiller. Sir, it was not a question.

Commissioner Zakheim. Put a question mark after it, Charlie.

Commissioner Tiefer. Would you -- you did in your statement describe the functions. I describe the ones you do not do. What do you think of my characterization that you are a do-little subcontractor?

Mr. Miiller. I respectfully disagree, sir.

Chairman Thibault. Commissioner Henke?

Commissioner Henke. Following on that fruitful dialog.

[Laughter.]

Commissioner Tiefer. We are lawyers.

Commissioner Henke. I would like to understand some of the numbers that have been tossed around. We have a chart here that says L-3, you employ exclusively U.S. hires, right?

Mr. Miiller. That is my understanding. Yes, sir.

Commissioner Henke. Okay. So you employ U.S. hires. You have about 733 linguists according to this chart dated whenever. And Northrop, your business practice is you employ local nationals. Right?

Mr. Schmidt. Yes, sir.

Commissioner Henke. And so you have about 2,000 local nationals, Iraqis.

Mr. Schmidt. Fifteen hundred, sir.

Commissioner Henke. Fifteen hundred. Okay. Now, so obviously the U.S. hires are more expensive than local nationals. Is that correct?

Mr. Miiller. Yes, sir.

Commissioner Henke. That is the general. Just generally, what is the business reason for dividing it up between I will do local -- I will do local nationals and I will do U.S. hires. Mr. Miiller?

Mr. Miiller. That is what we negotiated and agreed to with GLS.

Commissioner Henke. Why?

Mr. Miiller. That is one of the things that was offered in the negotiations. So perhaps GLS can specify why. It was not -- at the time we did not restrict it to U.S.-hired, but that was the anticipation it would be predominantly U.S.-hired.

Commissioner Henke. Is the arrangement with the prime to have 22.5 percent of the work -- is it 22.5 percent of the linguists of the employees?

Mr. Miiller. It is 22.5 percent of the value of the contract basically.

Commissioner Henke. Of the total contract value. So it is really more related to dollars?

Mr. Miiller. Yes, sir.

Commissioner Henke. So, your subcontract relationship for a lot more people is five percent of the total contract value.

Mr. Schmidt. Actually, sir, to date we are running about two percent of the contract value to date.

Commissioner Henke. Two percent of the contract value.

Mr. Schmidt. Yes, sir.

Commissioner Henke. Okay. Mr. Miiller, the attachment from Ms. Stephenson's testimony -- three large businesses. It is page seven. I am sure you have it. I suppose your company tend there, right?

Mr. Miiller. Most likely. It is the one with the billion dollars attached to it.

Commissioner Henke. Yes, \$1.45 billion. That is right. And that is a cost-plus award-fee contract.

Mr. Miiller. That is correct, sir.

Commissioner Henke. Okay. Can you tell me roughly and in detail for the record, of that \$1.45 billion going to 733 linguists plus your administrative staff, which is on the order of you said a hundred or so, can you tell me how much of that \$1.45 billion winds up in a paycheck?

Mr. Miiller. If you -- we have a ceiling on our indirect costs that we bill to GLS. And if we exceed those we do not bill them. Our ceiling is 9.5 percent. So, I need a calculator to figure that one out. I am a lawyer.

Commissioner Henke. So your total indirects is 9.5?

Mr. Miiller. Mm-hmm.

Commissioner Henke. And what is your fee?

Mr. Miiller. It is our equal share or our proportionate share of the award-fee that GLS receives. So, we do not have a separate award-fee so to speak. We participate with GLS, and I do not believe they put fee on our fee. I do not believe that happens.

Commissioner Henke. But what is the fee amount?

Mr. Miiller. There is 1.5 percent of the estimated -- and please correct me if I get this wrong, okay? But as I recall, 1.5 percent of the cost proposal at the start of a contract period is in the nature of a fixed fee. And then I believe there is a possibility for an award of up to another 6 percent.

Mr. Houck. That is correct.

Mr. Miiller. For a total of 7.5 if you have 100 percent award-fee.

Commissioner Henke. Okay. So your maximum award-fee on top of your 9.5 percent indirect is -- could be up to 7.5 percent?

Mr. Miiller. Well, it is -- I would not say it is on top of the 9.5 percent. It is on top of the total -

Commissioner Henke. Salary-based.

Mr. Miiller. Yeah. The total costs.

Commissioner Henke. Right.

Mr. Miiller. Yeah.

Commissioner Henke. But it is 9.5 percent? Six point.

Mr. Miiller. Six point -- 7.5 percent.

Commissioner Henke. Seven point five. So, then you pass it to Mr. Houck who adds -- what is your indirect rate?

Mr. Houck. Sir, I am not -- I do not know my exact indirect rate but -

Commissioner Henke. Can you ask your CFO behind you?

Mr. Houck. Sir, about 15.6 percent in indirects plus the 7.5 percent potential base plus award-fee.

Commissioner Henke. Okay, so if I am trying - speak up, sir.

Mr. Houck. I am sorry. If I may also correct Mr. Miiller. We do place our fee on their fee.

Mr. Miiller. Oh, then I was mistaken. I apologize.

Commissioner Henke. So it is fee-on-fee?

Mr. Houck. It is fee-on-fee. Yes, sir.

Commissioner Henke. Right. It is all wrapped in. So let me just - if I tried to explain to someone who is not an expert in contracting -- I am not an expert in contracting -- I would think of it like this. Your payroll is \$100 and you employ U.S. hires exclusively and 733 of them. If the payroll was \$100, you would add to that, Mr. Miiller, 9.5 percent up to 7.5 percent as an award-fee, hand that number to Mr. Houck, who takes the new number, adds his indirect of 15.6 percent, and adds possibly a 7.5 percent fee, which includes the fee on the fee. Right?

Mr. Houck. The concept is correct. I was just corrected in that the total indirect plus including -- indirect including fee is 15.6.

Commissioner Henke. Say that again?

Mr. Houck. The total indirect, including fee, is 15.6 percent.

Commissioner Henke. Including fee is 15.6.

Mr. Houck. Yes, sir. But you have the concept correct. Yes, sir.

Commissioner Henke. Okay. I am out of time. Thanks.

Chairman Thibault. All right. Thank you, Commissioner Henke. Commissioner Ervin?

Commissioner Ervin. Thank you. I was going to begin my round of questioning with you, Mr. Houck, to give you an opportunity to respond to the question I was engaging in on the earlier panel about whether GLS would have contracted with L-3 but for the bid protest. And I will give you an opportunity to do that.

But before doing that, I was really riveted by your testimony, Mr. Miiller, because to me you really made an eloquent case for why GLS had no choice really, essentially, but to subcontract with L-3, and an eloquent for why it seems to me L-3 should have been awarded this contract in the first place. And I understand why GAO likely confirmed the bid protests. You said that GLS had to set up a \$600 million business here from scratch. You, L-3, were the incumbent here in Iraq. You had this extensive experience already in the Balkans and Afghanistan; you had \$180 million lower price to offer. That really raises the question of why you did not get the contract in the first place. And that is not the question for this panel; it is an INSCOM question. But anyway, it is very interesting and it sets the stage for this.

Now, we are where we are at this point, and so the question now is for L-3 and for Northrop Grumman, what additional value do you provide? And we have talked a little bit about this in the rounds of questions we have had, but I want to delve into it more. Again, to go back to this chart which we keep talking about on page six of your testimony, Mr. Houck. You know, as I have begun to point out already and others have, looking now at L-3, you provide corporate training, personnel security administration, human resources administration, casualty assistance, financial administration -- and that is defined -- direct deposit. All of those functions that I have just read are also functions that GLS provides. The only function that you provide that is unique on this chart that GLS does not is advisory in management support to GLS. What does that mean in L-3's case?

Mr. Miiller. I am not sure what GLS was thinking of in choosing those words, so it is speculation on my part, but I suspect what it reflects is the experience that we brought to the program -- to the TIMS program from the prior contract -- the expertise that our people have, the support that we give them as we move forward and as they face various challenges in performance of the contract. That is my guess, sir.

Commissioner Ervin. Okay, now, of course I am going to ask Mr. Houck that question, but before I do that, presumably I just want your answer to this, Mr. Miiller. At least in theory, GLS could provide the corporate training and all these other functions that you provide. Right? In theory.

Mr. Miiller. Mm-hmm.

Commissioner Ervin. All right. So the only unique thing then is this advisory management support. Mr. Houck, is Mr. Miiller's understanding of what you, GLS, means by the advisory management support that L-3 provides your understanding as well?

Mr. Houck. Yes, sir. It is. We turn to L-3, as well as Northrop Grumman, on a regular basis to seek joint solutions to problems, to get lessons learned from the team who performed this contract for many years. They are very valuable to us as a team.

Commissioner Ervin. Mr. Schmidt, I want you to get into this. Again, just reading down the list of what Northrop Grumman does, these are functions, with the exception of advisory management support, that GLS provides. So what unique advisory management support does Northrop Grumman provide that GLS cannot get on its own?

Mr. Schmidt. Sir, we have to my knowledge provided some support to GLS on certain topics. I could get back with you on the record on specifically what those were, but they did fall in the area of some of the processing of timecard improvements, as well as some of the activity that was going on with some of the linguists' activity and some of the personnel issues that they were having with the linguists. But I would like to probably get back with you from my team for the record on the details.

Commissioner Ervin. All right. I would like for you to do that on the record, and you, likewise, Mr. Miiller. And then it is a question it seems to me for the Commission to evaluate whether this institutional knowledge as you put it, Mr. Houck, as to L-3 is worth it financially. And whatever background you can give us, Mr. Schmidt, is worth it to the taxpayer.

And just a couple of other quick questions. Mr. Houck, what does McNeil Technologies add to this joint venture -- to the GLS joint venture? What do they do?

Mr. Houck. McNeil provides oversight via the Board of Managers. Actually, the group that I report to. McNeil provides -- in addition to the board -- I am sorry, the board has appointed an executive committee comprised of the CEO of DynCorp and the CEO of McNeil. I meet with that group weekly, communicate with them daily, for the purposes of contract oversight.

Additionally, McNeil has a contract to provide management and recruiting support to GLS. That is a contract that does not carry fee.

Commissioner Ervin. If I might have just one more minute to ask, you know, the question that I began with. I would, for the record, Mr. Houck, like you to answer the question of whether but for the bid protest that L-3 went through three times the subcontract to L-3 would have been awarded.

Mr. Houck. While, I believe our team is stronger with L-3's presence, I believe that we would not have made the decision to bring L-3 on the team if not for the cessation of the protest activities.

Commissioner Ervin. Thank you.

Commissioner Zakheim. Well, based on what you have just said just now, how much marginal value really is there to these advisory services if you would have been just as comfortable without L-3?

Mr. Houck. I cannot give you a quantitative figure. I can only tell you that there is significant value to the team based on L-3's past experience and expertise.

Commissioner Zakheim. There was not value enough to make you want to go with L-3 in the first place.

Mr. Houck. That is correct.

Chairman Thibault. Thank you. Northrop Grumman corporate revenue -- not the -- this is an accounting question -- everyone just issued their 08 financial statements. Can you give me a ballpark on total sales on Northrop Grumman?

Mr. Schmidt. I think, sir -

Chairman Thibault. I am looking at you and it was a trick question. I am going to ask L-3 in a second so I had you pause. I was not really expecting you to answer for Northrop Grumman. I apologize. Mr. Schmidt?

Mr. Schmidt. Okay. Approximately \$35 billion, sir.

Chairman Thibault. So \$35 billion. And this is the second half of the trick question but I am looking at you now. How -- about how much of that is U.S. government of all variety and forms? Like 70 percent? Eighty percent? Ninety percent? Ballpark.

Mr. Schmidt. I would say about 90 percent, sir.

Chairman Thibault. All right. I can work with that. L-3, corporate sales?

Mr. Miiller. Somewhere between \$14 and \$15 billion annually.

Chairman Thibault. Okay. I will round it up, \$15 billion. That is a better number. Can you give me that percentage? Is it -- approximate?

Mr. Miiller. I think it is a higher percentage than Northrop but I do not know it off the top of my head. I think it is in the 80 to 90 range probably but that may be high.

Chairman Thibault. Okay. So I will use 80 percent. I will use the lowest figure. Okay. I am going to come back to that.

Mr. Houck, you have about 40 percent of the heads that are linguists.

Mr. Houck. Correct.

Chairman Thibault. And about 60 percent are spread through the subcontractors. You have a payroll system and you process checks and you do the like. Am I accurately reflecting that a company that has those systems in place that either print checks or result in the money or whatever you have to hand out -- that whether it is 3,000 people or 9,000 people, it is a process that you have to follow and that you could do that function?

Mr. Houck. Yes, sir.

Chairman Thibault. Because if you could not I would worry about the 3,000.

Mr. Houck. Correct.

Chairman Thibault. And I would absolutely expect that. So, you can do it.

I will build upon Mr. Ervin's and my question then is for Mr. Schmidt and Mr. Miiller -- and again, I apologize, Mr. Miiller, for camouflaging you -- but my question really comes down to we have got a

\$35 billion company plus 90 percent. We have got a \$15 billion company, 80 percent. A conscientious, established, top 10 government supplier contractor. It is a big deal. Now, Ms. Stephenson laid out this \$556 million premium of which we have paid 100 but we have got 456. And if I am right we have got 470, but I will be dueling pins with her later.

My question is pretty straightforward as a conscientious contractor and maybe as a taxpayer. You know, why would not you recommend as a conscientious Northrop Grumman and later L-3, that if INSCOM, DCAA, GLS got together and confirmed all this -- why would not you recommend and step aside due to the substantial savings and very similar quality that would accrue -- get out of the business as far as this very small to your corporate health -- very profitable. I am not arguing that point; it should be -- why would not you just step aside as a defense contractor that is trying to support where INSCOM got up and said we are really looking at alternatives. That seems like the obvious thrust of where we are coming from. And I will start with you, Mr. Schmidt. Why would not Northrop Grumman step aside at that if asked?

Mr. Schmidt. What I think, sir, is I tried to describe in my opening statement. We have a subcontract with GLS.

Chairman Thibault. Right. We know. The question is really though as a conscientious \$35 billion primarily government contractor, why could not you sit there and say, wow, you know, bringing this into light, bringing this into focus, I do not belong in this. You know, they can do it. You know, that is really -- I come from a viewpoint that we are talking about -- whether we are talking about pyramiding a fee or pyramiding of indirect costs or unnecessary costs -- we have this real opportunity -- \$456 million we are staring down. Why should not you?

Mr. Schmidt. Well, sir, all I can say is we do have a legal obligation to GLS.

Chairman Thibault. Under the current contract. Because you signed a contract you are going to deliver the contract unless the contract is changed.

Mr. Schmidt. Correct.

Chairman Thibault. Or unless rules have changed, regulations.

Mr. Schmidt. And if it is deemed, sir, that they do not need our services anymore -

Chairman Thibault. It will be effected contractually.

Mr. Schmidt. Yes, sir.

Chairman Thibault. And that is a good answer. That is a fair answer. Mr. Miiller?

Mr. Miiller. I have two points to the answer, sir. The first deals with fundamentals of contracts.

Chairman Thibault. Okay. That is basically the same answer of Mr. Schmidt?

Mr. Miiller. It is a little bit more involved, sir.

Chairman Thibault. Okay. It is for Mr. Tiefer then. Professor Tiefer. But go ahead.

Mr. Miiller. L-3 delivered a substantial amount of consideration, if you will.

Chairman Thibault. At the outset. Consideration meaning?

Mr. Miiller. Value. In other words, in the transition.

Chairman Thibault. Meaning experience?

Mr. Miiller. No, in the transition period we literally turned over our company in a manner of speaking. Key employees -- numerous key employees spread out across the country to GLS facilities to oversee, participate, support the transition, and we participated in that approach until early this year when they changed that approach.

Chairman Thibault. So you brought value to the transition, and as a contractor, quite frankly, call it like it is, regardless of whether you are a subcontractor that lost the award, you were paid to transition.

Mr. Miiller. We entered into a contract -

Chairman Thibault. You were paid? You were paid to do this transition.

Mr. Miiller. Sir, we were, indeed. And the deal that we entered into -- the agreement that we entered into with GLS was that we would be in this position as a subcontractor for five years. In other words, we performed a large part of our consideration.

Chairman Thibault. Okay. I hear that. We will take the second point, but that deal is costing you and me, the taxpayer, a whole lot of money. What is your second point?

Mr. Miiller. Sir, I actually think -- if I could just respond to that real quickly.

Chairman Thibault. Sure.

Mr. Miiller. I think that there is considerable value right now. Anything that the government and the taxpayer is paying, they are receiving value for. There is a serious value in having a second source. There is a serious value in having the ability to call upon L-3. And in fact, L-3 being there in resident and able to help in the performance of this contract.

Chairman Thibault. Right. Right. Okay. Again, your customer -- your previous, now your customer, is Mr. Houck -- but your previous customer said he agreed fully and that is why this organization that was up in Afghanistan that you referenced, REM or whatever they are called, he used them for competition. You know, so my time is way up but you will get a wrap-up session. But to me it is -- that is the part that rivets me. Is why would not -- geez, \$50 billion companies total do this when there is a need. And transition is going on in Iraq all over. And organizations are -- you know, KBR was in here. KBR is stepping aside from a lot of work and that is painful.

So, we are in the point now where we can pursue - and Dov, we will let you go first because we are going to -- rather than go around we are going to -- in expediency of trying to get out here and our commitment at 1 o'clock -- everyone out in the audience will go, yes, 1 o'clock - we are going to go around and change the process a little bit.

Commissioner Zakheim?

Commissioner Zakheim. Well, thank you. I want to pursue this a little more because if I understood you correctly, you were being paid to transition which is normally the case. So, the fact that you did what you were paid for does not strike me as a big deal. Tell me why it is such a big deal that you did what you were paid for?

Mr. Miiller. Sir, we went beyond doing what we were paid for, which was to say that we went beyond simply working the transition of a set of linguists from L-3 to GLS, which is what normal transition is. By becoming a part of the GLS team, we became a part of their management. We grafted onto them our experience, our lessons learned, you know, our abilities. And then we did not stop at that. We literally handed over proprietary intellectual property because that was the best thing for the contract. You are looking for an altruistic sort of action on the part of an American corporation. There it is right there because we had a greater concern about the performance of this contract and we wanted it to go very well.

Commissioner Zakheim. Well, okay, since you talked about altruism - - it was not me; it was you -- on page six of the INSCOM testimony it talks about \$5 million in spending that was overspent because of private housing for vendor management and administrative personnel, private three-bedroom apartments for individual employees, an isolated instance of a contractor with deployed dependents at government expense, automobile densities of a one-to-one ratio for management personnel, lost productivity due to less than expedient transit of linguists into Iraq. Is that where your experience got us? Is that what you were adding value to? You did not turn around to this company which was wet behind the ears, unlike you guys, and say you cannot be doing this? I mean, what exactly did you transfer?

Mr. Miiller. Sir, the details are set out in my written testimony if you want me to go through them. I will say that this is a huge contract. It is extraordinarily complicated, and it is in the most difficult environment that is possible to imagine. So, under those

circumstances there will be problems that you run into. That is the nature of performing a contract, especially one like this.

Commissioner Zakheim. Well, I guess all I am saying is I heard from Mr. Houck that he would have been perfectly happy not to have you guys on the team. He has got you but he could have lived without you. I see here there is all kinds of stuff that went on, and DCAA has more that it is talking about now, you know, billing some - interim billings that are a problem for DCAA so they are not even paying you guys out right now. And you keep talking to me about this added value. And I just have a lot of trouble -- maybe I am blind, but I have a lot of trouble seeing it. And your testimony is written in such a way that it does not tell me very much more either.

So, perhaps you can give us for the record -- and I would like an itemized list of what it is you have been adding. Not just during the transition, by the way. The transition is kind of over. Since then. I would like a list. If you can give me a half a dozen things I would appreciate it. Thank you.

Chairman Thibault. Okay. Commissioner Ervin, and then we will sail around.

Commissioner Ervin. Thank you. I will be brief. This question may have been answered in an earlier round, so I apologize. I was distracted when a colloquy began on this issue.

I just want to understand again what the rationale is for L-3's contracting with U.S. nationals for the linguistic services and for Northrop Grumman's contracting with foreign nationals. I understand, of course, that U.S. personnel are more expensive. I also understand that foreign nationals -- there are more of them, obviously, and I would think that they would be better prepared because they live on the ground there, and therefore, daily -- they understand the daily nuances of the language. But I just want to understand the rationale for U.S. and foreign nationals.

Mr. Houck. Sir, I can take that question. When we were negotiating with the different subcontractors to join the GLS team, we wanted -- granted, it is a complicated structure, but in an effort to try to reduce some of that complexity we wanted to give to the different subcontractors, different populations of linguists. Therefore, with Northrop we gave them only local nationals. With our small businesses, we gave them U.S. hires exclusively because of the difficulties overseeing the HR aspects, which these companies do, of the local nationals. Likewise, with L-3, it was to keep the complexities out of the oversight processes from a GLS to a L-3 division.

Commissioner Henke. May I ask, did it have anything to do with the fact that you were trying to hit a 22.5 percent bogey for total contract value?

Mr. Houck. Absolutely. Absolutely.

Commissioner Henke. And the way to do that was to hire more expensive U.S. hires?

Mr. Houck. Precisely.

Commissioner Henke. Thank you.

Mr. Houck. Yes, sir.

Commissioner Henke. Go ahead if there is more to it -

Mr. Houck. You hit on it earlier. The local nationals are paid significantly less than our U.S. hires, and therefore, to get to that level of work share you need to give them -

Commissioner Henke. You had to get the 22.5.

Mr. Houck. That is correct.

Commissioner Henke. Okay.

Commissioner Ervin. Thank you.

Chairman Thibault. Are you good?

Commissioner Ervin. I am.

Chairman Thibault. Commissioner?

Commissioner Gustitus. Mr. Miiller, you previously said -- when you were talking about the fee you said I do not think GLS puts a fee on our fee.

Mr. Miiller. I was mistaken.

Commissioner Gustitus. No. But you were also surprised when you heard that they did. That is not something you are familiar with -- that you would put a fee on a fee?

Mr. Miiller. No, I have seen that happen in government contracting. You know, I have been in government contracting for 30 years so that is not a surprise. That was not my understanding of the structure when we went through our negotiations to create the subcontract. I did not understand the structure of their relationship with the government in that regard.

Commissioner Gustitus. I think that is something that the Commission needs to look at is the utility or advantage or allowability of a fee on fee.

Commissioner Zakheim. It is illegal.

Commissioner Gustitus. I just want to talk to Mr. Houck. It is illegal now?

Commissioner Zakheim. Yes. The law is pretty clear about fee on fee from here on out. That is the law of '08.

Commissioner Gustitus. Well, excellent. Mr. Houck, DCAA talked about subcontractors that GLS was double - was billing the government for subcontractors who were double billing -- billing beyond what was allowed under the contract and that you just passed that on apparently to the government. Now your billing system is deemed inadequate and you are not getting paid. Your bills are suspended, which is really worse than a withhold. It is not just a percentage of what is being -- of your money that is being withheld. You are not getting -- you are not able to be billed. So, how did you pass on a double billing of your subcontractors to the government? Is not that your job to oversee that?

Mr. Houck. Yes, ma'am. It is. If I can provide some background. Halfway through our period of performance thus far, as you know, we undertook significant cost-cutting efforts. One of those efforts was to go back to our subcontractors and negotiate the indirect ceiling rates down by about 50 percent. The disconnect occurred -- and it is our reasonability to check these things -- is between our contracting shop that negotiated those new subcontract agreements and the financial shop that actually reviews the invoices. One hand was not talking to the other. The invoice evaluators were not notified that the subcontracts had been renegotiated down. This came to light to us just last week. We have addressed these issues. We are working with DCAA. We have, I believe, put corrective actions in place. In fact, just last night the billing was put back into place.

Commissioner Gustitus. Thank you.

Chairman Thibault. Thank you. We are going to skip over -- well, actually, Grant is here. Commissioner Green. I apologize.

Commissioner Green. Two or three very quick questions. Yes or no answers.

Mr. Schmidt, you said you had about four to six people that work the GLS headquarters or whatever assisting. Am I correct?

Mr. Schmidt. Yes, direct personnel.

Commissioner Green. Okay. Mr. Miiller, you did not know. Mr. Houck, do you know how many L-3 has supporting you?

Mr. Houck. No, sir. I think what Mr. Miiller was referring to is the fact that those employees are part of a management pool. We do not have insight into the numbers of employees.

Commissioner Green. Well, could one of you get us that number? Number two, could one of you -- and probably L-3 is the best one to do that.

Mr. Miiller, could you characterize and compare or contrast the time of transition between Iraq and Afghanistan? The difference in the length

of time it took to transition those contracts since you were involved in both of them?

Mr. Miiller. Yes, sir. I do not recall exactly how long the transition was in Afghanistan. I do know that it was shorter.

Commissioner Green. Three weeks is what -

Mr. Miiller. Yes. It was shorter than Iraq for sure because it was a much smaller contract at that time. It is still a much smaller contract, I believe. And we worked very closely with MEP to transition over the employees.

Commissioner Green. But you just -- well, you just kind of hung around in Iraq for a much longer period of time. You got paid a lot of money.

Mr. Miiller. Sir, well, my written testimony and my spoken words.

Commissioner Green. Okay. One last point, and I do not want to beat a dead horse, Mr. Houck, but you just made a comment about the difficulty of a small company, a subcontractor, managing the HR stuff I think was your term. I just want to make sure that we do not have additional subcontractors, or if we do they are identified. Because I, you know, having worked with a lot of small businesses, payroll is complicated, for example. Many of these other administrative HR functions are complicated. And many small businesses -- and maybe yours are all exceptions - many small business do not have the technical expertise to do those mechanical things.

Mr. Houck. If one of our small businesses or any of our companies' subcontractors are using a third tier company to process payroll or anything else, I am not aware of it, sir.

Commissioner Green. Okay. But you will get that for us if they are?

Mr. Houck. Absolutely.

Commissioner Green. Thank you.

Chairman Thibault. Commissioner Henke. We are going to leapfrog for a second, Commissioner Tiefer.

Commissioner Henke. Mr. Schmidt, when L-3 had the previous contract from '99 to '04 and then extended into '08, were you a subcontractor? Was Northrop Grumman a subcontractor?

Mr. Schmidt. Yes, sir. We were.

Commissioner Henke. Okay. Mr. Miiller, when L-3 had their predecessor contract, did you have in that contract small business subcontracting?

Mr. Miiller. Yes, we did, sir.

Commissioner Henke. Goals? Do you remember what they were? Was it 35 percent? 31 percent?

Mr. Miiller. I do not recall what had been set up at the start of the contract. If I remember correctly from the proposal period for the TIMS program, at that time we were probably running close to 44 percent small business. That is what comes to mind.

Commissioner Henke. Okay. 44 percent smalls. Did you have -- I am told right now there are 9,400 linguists roughly. Was that about what you had at the end of the contract 07-08?

Mr. Miiller. We were over 8,000.

Commissioner Henke. Over 8,000. Okay. And did you employ both local nationals and U.S. hires? You must have had to, I assume.

Mr. Miiller. Yes, we had both.

Commissioner Henke. You did. Did you -- when you had the earlier contract, did you have large subcontract arrangements with large business for defined percentages of the total contract value?

Mr. Miiller. Sir, I do not think so because of the way this contract evolved over time. In other words, lots of times the large percentages with different -- the percentages that are fixed and set up are a result of teaming agreements leading into competitive solicitation. As you will recall, this began life way back when as a 12 linguist contract, so there was not a great deal of things for BTG back in 1999 to agree to. So it just went forward. We -- L-3 and Titan before it -- managed the contract differently than GLS does. We did not have sole centralized recruiting. We used recruiting through our subcontractors. All of our subcontractors.

Commissioner Henke. Right. But importantly, you did not find yourself in a business relationship where you had given to large businesses a large amount of the work.

Mr. Miiller. No, sir.

Commissioner Henke. Those were all L-3 employees then -- the vast majority?

Mr. Miiller. We had relationships with large businesses. In fact, a number -- many of our small businesses over the years grew into large businesses. Now, if you are talking about a top six -

Commissioner Henke. Right.

Mr. Miiller. No.

Commissioner Henke. Okay.

Chairman Thibault. Thank you. John Isgrigg, I think you are Dr. John. Can you come up and take a seat on the far left? Commissioner Tiefer -- and you are already under oath -- Commissioner Tiefer had a question that he wanted to focus I think to you and then bounce through however you want to do it.

Commissioner Tiefer. Dr. Isgrigg, you saw me having some trouble. Technically there were only three protests made by L-3 of the GLS contract, yet one way to explain what we are seeing is that enormous pressure was brought on GLS to cut a very sweet deal for L-3. Were there more - not more technically than three, but were there more protests involved? I had the number of 17 buzzing around in my head.

Dr. Isgrigg. Yes, sir. The contract that L-3 had as a linguist provider was broken into four separate contract efforts due to a secret protest, which was protest number one, a bundling protest that was upheld. Each of the other three small businesses protests suffered at least four - I believe it was four protests each before the full performance was finally accomplished on those. And so while we were fighting one protest, we had multiple protests running at the same time.

Commissioner Tiefer. I can see you would be busy. That one and a half person staff of yours must have really been putting hours in.

But as far as pressure brought on GLS, was L-3 on the team of these small contractor protests? You know, in a general way it is often the case that you use -- a pawn is not a fair statement but there is a big character that is in the weeds and there is a little character that makes the protest.

Dr. Isgrigg. I cannot speak to the exact nature of their relationship, but as the incumbent L-3 was a business partner with many of the offerors.

Commissioner Tiefer. Did L-3 as incumbent benefit from the endless stalling by these approximately 17 protests? Does not the incumbent stay in possession and is not the money continuing from the contract to roll in? And we are talking about a period from 2004 to 2008.

Dr. Isgrigg. Yes, sir.

Commissioner Tiefer. Thank you, Dr. Isgrigg. Can I ask -- Mr. Miiller, is there something you would like to say that would say that he got it wrong?

Mr. Miiller. Well, sir, the only thing that I would like to observe is that those were not our protests. We may have been the third party beneficiary, if you will. My understanding was most of them were protests as small business high status for the different pieces that had been broken out.

Commissioner Tiefer. I would like to have your luck, let us put it that way.

Can I ask further? You were -- Commissioner Zakheim discussed with you that you were general counsel, you did not go to Iraq, things like that. Mr. McKeon, the private equity capitalist who is the chairman of the board back at DynCorp, does he personally go to Iraq to supervise? Does he bring his private equity expertise to the field on these contracts?

Mr. Miiller. Are you asking me, sir?

Mr. Houck. Sir, I can answer that.

Commissioner Tiefer. You are quite right.

Mr. Houck. I cannot answer, sir, because I am not sure if Mr. McKeon has traveled to Iraq or not. I do not know the answer to that.

Chairman Tiefer. Can you give me some answer as to whether he is a hands-on executive with these contracts?

Mr. Houck. He is a hands-on executive in his oversight responsibilities as a chairman of the board of DynCorp.

Commissioner Tiefer. Which is a lot. Which is not to say he is working that much on this particular contract.

Mr. Houck. No, sir.

Commissioner Tiefer. No. Well, I just do not see what L-3 was getting except huge pressure was brought on GLS; GLS had to yield; and as a result the pay of the translators was cut and our troops are in periled. Thank you.

Chairman Thibault. Thank you, Commissioner. A couple quick.

Shee Atika -- was Shee Atika -- they are mentioned in a couple of testimonies. Were they a subcontractor, Mr. Miiller, to L-3 on a prior contract?

Mr. Miiller. I do not recall the name. That does not mean they were not at some point. I just do not recall it.

Chairman Thibault. They were not -- to your knowledge they were not?

Mr. Miiller. Not that I can recall, no.

Chairman Thibault. Okay. Am I accurate -- and I do not have the schedule here, Mr. Houck, but they are -- you know, for some reason \$600 million sticks in my mind -- approximately them as the third or as the second largest behind L-3 subcontractor. Is that accurate?

Mr. Houck. Yes, sir. They are subcontractor for 15 percent of the work share.

Chairman Thibault. Okay, and so they were not on the L-3. They call it Shee Atika Linguistics or something like that. And my question becomes -- again, a very, very large subcontractor -- were they -- you know, we heard organizations that have been in the linguistics field, you know, we have raised exceptions and concerns about your contract but no question. They have supported the field and they are knowledgeable. Had Shee Atika any experience when you reviewed them as a subcontractor? You know, they are an Alaska-native corporation based somewhere in Alaska. Did they bring Arabic and Kurdish or whatever background as part of their proposal?

Mr. Houck. Yes, sir. They do have a portfolio of portfolio of linguist support contracts.

Chairman Thibault. That met, you know, in other words -- for the record I would ask for that.

Mr. Houck. Yes, sir.

Chairman Thibault. Is there anything in terms of, you know, when I look at it am I going to see they are providing 2,000 interpreters or linguists now and their high watermark for Kurdish and Arabic was 12 people or something like that? Is that -

Mr. Houck. I do not have the specifics of the size of their contracts, so -

Chairman Thibault. So, for the record can you -

Mr. Houck. For the record, yes, sir. We can supply that.

Chairman Thibault. The Chairman is just about done.

Commissioner Tiefer. They have done contracts primarily for SOUTHCOM, have not they?

Mr. Houck. Again -

Commissioner Tiefer. The contracts are in Spanish and Portuguese, right?

Mr. Houck. I do not know the answer to that.

Commissioner Tiefer. They have not been doing contracts in Southwest Asia, have they?

Mr. Houck. I do not know the answer that, sir.

Chairman Thibault. Well, we are going to find it out then. All right, per our agreement, if you have any, you know, hopefully we have done a pretty good job of letting you comment, but if you have any final comments, this is, you know, anything you want to share. And let us work our way across. Mr. Houck?

Mr. Houck. Only briefly. Early this morning INSCOM discussed their lack of resources, and I fully support the need for providing the adequate staff to these oversight agencies. We view our relationship with INSCOM as a partnership. We know that they are struggling with their portfolio of contracts, and were they to have additional resources, I think that would help this whole situation immensely. Other than that, I thank you for your time, sir.

Chairman Thibault. Thank you. Mr. Miiller?

Mr. Miiller. I will be happy to respond to the what we call taskers that I have received from the Commission today, and I look forward to getting those answers to you quickly. I appreciate the time that you are taking to look into this and to listen to us. I appreciate it very much.

L-3 is proud of what it has done to support our troops, not only on this contract but a lot of other work. We, without any reservation, do believe we have added great value and have done good things here. And that is all I have to say, sir. Thank you very much.

Chairman Thibault. Mr. Schmidt?

Mr. Schmidt. Yes, sir. A couple of points of clarification if I could, sir. Northrop Grumman's annual sales are \$33.9 billion, just for the record. And also concerning the question on our involvement with L-3 on the previous contract, that was in calendar years 2006 and 2007.

Chairman Thibault. Good clarifications.

Mr. Schmidt. And also, I will take the action to get for the record the exact activities that we have done in the advisory support so that we can be clear on that. And then, again, thank you for the opportunity to testify here and to clarify our position as a subcontractor to GLS. I think hopefully I have done a clear job at focusing on our limited scope of work for this contract.

Chairman Thibault. Well, I want to thank all three of you. I think we thanked our prior group. We have a very competent staff and they consist of several great talented -- what we refer to as young Jedi warriors. And they will work with you very directly in terms of, hey, this is what I heard as far as a tasker or whatever you want to call it; a follow up. And we will get a meeting of the minds.

[Whereupon, at 11:13 a.m., the Committee was adjourned.]