

**UNDER SECRETARY OF DEFENSE FOR
ACQUISITION, TECHNOLOGY & LOGISTICS
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SUBMITTED STATEMENT
HOUSE ARMED SERVICES COMMITTEE
PANEL ON ACQUISITION REFORM
THURSDAY, MARCH 11, 3:00 PM**

Chairman Andrews, Ranking Member Conaway, and members of the House Armed Services Committee Panel on Defense Acquisition Reform, thank for you inviting me to appear before you today.

I commend the Panel's efforts to undertake a comprehensive review of the defense acquisition system, and to suggest constructive ways to improve the way our defense establishment does business.

President Obama and Secretary Gates have both made reforming the defense acquisition system a priority. We are fortunate to have partners like you in Congress who are equally committed to achieving this goal. We have important work to do in order to increase the responsiveness of the system to meet operational needs while also restoring greater fiscal discipline and accountability. The warfighter and taxpayer deserve nothing less.

I have read the Panel's interim report with great interest, and I look forward to working with you to address many of the concerns you have raised.

Before turning to more traditional acquisition reform topics, however, I would like to begin by describing how my office is engaged in supporting the ongoing wars, specifically in the areas of rapid acquisition, logistics, contingency contracting, and counter-IED. I will then explain how we are applying acquisition reform principles in the beginning, middle, and end phases of a program's life. Next, I will offer my perspective on how the Department acquires services, an area which this Panel has rightly recommended that we focus our attention. Finally, I will discuss the measures we are taking to strengthen our acquisition workforce and renew and reinvigorate our partnership with industry.

Rapid Acquisition

When Secretary Gates first offered me this job back in January 2009, one of the things he said to me was something he has stated many times publicly, which is that the troops are at war, but the Pentagon is not. And he said to me that has been especially true of AT&L. He told me that he wanted to make sure that in my present role we discharged our responsibilities to the current fight. In many ways this is an unfamiliar role for a USD(AT&L) to have, but it is one which I relish.

There are several different dimensions to this issue set. The first, and probably most obvious, is rapid acquisition, how we are responding to the evolving needs of the theater on an accelerated time scale and in a manner that differs fundamentally from traditional programs of record.

The introduction of Mine Resistant Ambush Protected All-Terrain Vehicles (M-ATVs) and persistent Intelligence, Surveillance, and Reconnaissance (ISR) platforms into the theater are two recent rapid acquisition success stories. However, I agree with the Panel's general findings that rapid acquisition remains a significant challenge. All too often, Joint Urgent Operational Needs (JUONs) languish in the Pentagon short of direct intervention by senior officials.

AT&L has had a number of different incarnations over the years. The organization was stood up during the Cold War at a time in which we were engaged in a great strategic arms race with the Soviet Union. Rarely, if ever, did we use the weapons we developed and acquired; seldom did the exigencies of war interrupt or disrupt established programs of record. By design, AT&L evolved over the years into an organization that is, in many ways, institutionally ill-suited to engage in rapid acquisition.

As a result, I constantly find myself exploring ways to short-circuit the system in order to rapidly field urgent operational needs. If we are to succeed in rapid acquisition, we need to refute the logical error that we cannot do anything before we know everything. As Secretary Gates has testified, we need to be in the business of pursuing the "80% solution" in order to keep up with the pace of technological and geopolitical change and the range of possible contingencies. The logical extension of this idea is very powerful; for a fraction of the cost and time you might spend on devising the perfect solution, you can acquire a greater number of platforms that address a broader range of operational needs.

Logistics

A second area in which we provide support to the ongoing wars is logistics. In Afghanistan, logistics is the limiting factor in delivering so many of the capabilities we need. If one were to look at a map of the world and ask oneself from a logistics point of view, where is the last place on earth one would want to be fighting a war, save for Antarctica, the answer would be Afghanistan.

Clearly, the logistical obstacles in Afghanistan are immense. But if we are going to get in, get set, and operate quickly—which we have to do in order to succeed there—we have to meet this logistics challenge.

In Iraq, on the other hand, the challenge is to draw down responsibly, and on the schedule that the President has prescribed. Within these time constraints, our goal is to retain as much as we can in Iraq for as long as possible in order to make sure we mitigate risk as we move out.

Contingency Contracting

A third area of responsibility connected to the two wars is contingency contracting. It is a fact of life that for every soldier we field, approximately one contractor also joins the effort. That is an unavoidable consequence of the way our country is waging today's wars.

Contingency contracting is an enormous effort to manage, and it is fair to say we have not managed it as well as we might have in the first eight years of the current campaigns. I think part of the reason is because of the novelty of the task; part of it is just the exigency of war, and part of it is that we refused to admit to ourselves that we were going to be doing this for a long time, and that we had to get good at it. But we have made that admission now, and Secretary Gates is insistent that we learn the lessons of Iraq in Afghanistan, and that we learn the lessons of Afghanistan quickly because Iraq is not Afghanistan.

The public and all of us as taxpayers are justifiably insistent that contractor support be provided economically and there are a number of congressional oversight bodies who are sifting through what we are doing in Afghanistan. We are working down the same list they are to improve our performance and accountability. At the same time, however, we must retain a sense of balance between perfect and auditable on the one hand, and being effective and agile on the other.

Counter-IED

The fourth and final way we are supporting the current wars is by working to mitigate the counter-IED threat. In November of last year, the Secretary asked me and Lieutenant General Jay Paxton, the Director of Operations on the Joint Staff (J3), to co-chair a Senior Integration Group to work on the counter-IED problem. The IED fight is not one that is really separable from the larger campaign in Afghanistan. Still, IEDs present a unique danger to the whole operation. They are a threat to life and limb. They restrict our mobility outside of the Forward Operating Bases (FOBs) and Contingency Operating Bases (COBs), which defeats the whole point of our being there in the first place, and of our civilian counterparts. So they thwart the mission to the extent they restrict our mobility.

And last, when they take lives, they dispirit our own people, they dispirit our allies, and they dispirit the Afghan people. For all these reasons, the Secretary believes that IEDs represent a strategic threat to our success there. He has established a number of task forces in his tenure as Secretary, but like everything else in Washington, after a time, the inertial forces of bureaucracy once again take hold. So the Secretary has asked me and Lieutenant General Paxton to bolster this effort.

Specifically, we are looking at things we can do now, in the next couple of months, to deal with the homemade explosives threat. First, we are providing critical enablers for counter IED and EOD teams, such as handheld mine detectors, ground penetrating radars, and persistent

ground surveillance. Second, we are increasing training to rotating and deploying forces as part of the surge. We are making sure that the training they are receiving is relevant, i.e. that they are receiving the latest information on the particular characteristics of the IED fight in the particular part of Afghanistan they are going to be in, and not a tutorial on much different IED fight in Iraq. And third, we are supporting efforts in theater to expand technical assistance to our coalition partners. I mention all of these things because they are important, and because they are not part of the usual acquisition story to which I will now turn.

Acquisition Reform—Major Defense Acquisition Programs (MDAPs)

My first tour at the Department of Defense was during the Packard Commission era, so I am no stranger to acquisition reform initiatives. Clearly, the complexity and diversity of the defense acquisition system does not lend itself to a one size fits all solution. As Secretary Gates himself has said publicly, there is “no silver bullet” strategy for reforming the system.

I support, as does the Secretary, the initiatives the Congress directed when it unanimously passed the Weapon Systems Acquisition Reform Act (WSARA) of 2009. Acquisition reform is one of DoD’s High Priority Performance Goals presented in the Analytic Perspectives volume of the President’s FY 2011 Budget. The Department is moving out to implement these initiatives. Hence, I would like to begin this discussion by describing some of the important steps the Department is taking to implement the WSARA legislation—which is primarily focused on the beginning and middle phases of the acquisition process—before describing how we intend to implement acquisition reform toward the end phase of a program’s life.

Acquisition Reform in the Beginning Phase of Programs

We have made a number of key changes to our basic acquisition policies that we believe will improve outcomes for our customer—the warfighter—and will provide better value to the taxpayer.

First, each major program will be subject to a mandatory process entry point, a Materiel Development Decision (MDD), before Milestone A. This approach will ensure programs are based on approved requirements and a rigorous assessment of alternatives. The objective is to balance, early on, the performance needs with schedule and cost limitations.

The WSARA initiative that asks us to produce a cost estimate for the program at Milestone A, will help us better understand the scope of the program we will pursue and will help us to better understand alternatives at this early stage.

To reduce technical risk, our standard practice will be to conduct Competitive Prototyping and a Preliminary Design Review before Milestone B. At that point, an independent review must certify the maturity of program technologies for a program to progress to the more costly Engineering and Manufacturing Development (EMD) phase.

We are also making investments to increase the size and capabilities of our cost estimating staff. We expect that the accuracy of our cost estimates will be improved and that program costs and associated outcomes will be more predictable.

While we are committed to exercising effective oversight, we are also being attentive to not burdening the process with excessive reviews. The lead time to design and deliver capability is already too long. As a result, we intend to ensure that process agility is not being undermined.

We expect these “front end” changes, supported by disciplined systems engineering and effective development testing—as stipulated by WSARA—will result in requirements that are both responsive to the capability needs and technically feasible within the time frame and funding available. In addition, we believe these steps will result in more thoughtfully structured programs that reinforce our stated preference for an evolutionary acquisition approach.

Acquisition Reform in the Middle Phase of Programs

In addition to strengthening the front end of the acquisition process, we are also looking at ways to improve how we manage acquisition programs in the middle phase of their lifetimes. A key focus of this effort is to examine the way we structure contracts. As I have stated publicly before, we plan to make greater use of fixed-price contracts, including in the development phase. This approach, however, is only appropriate when we have stable, well-defined requirements and a mature technology.

We are also undertaking an initiative to assess the overall character of the business deals we are negotiating on behalf of the warfighter and the taxpayer. I will be paying particular attention to cash flow management, overhead and indirect costs, and other metrics which may indicate that we are receiving a sub-optimal return on our investment.

A parallel effort in this area is the peer review process. We are using peer reviews to influence consistency of approach, ensure the quality of contracting, and drive cross-sharing of ideas, best practices and lessons learned.

For all acquisitions valued at \$1 billion dollars or more, the Department assigns an independent peer review team, which is comprised of senior contracting leaders and attorneys from outside the military department or defense agency whose procurement is the subject of the review, to meet with acquisition teams to assess whether the acquisition process was well understood by both government and industry. Similarly, military departments and defense agencies are accomplishing peer reviews within their respective organizations for acquisitions valued at less than the \$1 billion threshold.

To address the issue of requirements creep, we will continue to employ Configuration Steering Boards. These boards provide a mechanism to preclude destabilizing requirement changes and to match requirements with mature technology.

We are also working to improve life cycle management and sustainment policy and procedures—an area of increased emphasis. In November, 2009, we issued a Weapon System Acquisition Reform Product Support Assessment Report that identifies initiatives for strengthening processes and developing improved tools to ensure the acquisition process produces system readiness in the hand of the warfighter and does so with attention to long-term ownership cost. This report has been provided to the HASC staff and we look forward to continued collaboration on these life cycle management and sustainment initiatives.

Finally, we are committed to improving how we monitor program performance. The Department has established the Program Assessment and Root Cause Analysis (PARCA) office and strongly supports it to perform its WSARA-assigned statutory duties. However, the office is not yet fully staffed and the performance assessment structure, and operational concept for conducting these assessments on a routine basis, with the rigor and detail required, has yet to be established. We are working hard to get this capability stood up.

I am concerned that adding a vast new domain of application to the PARCA portfolio—as this Panel suggests— will complicate and delay that effort. It may be the case that PARCA’s approach and managerial institutions will prove scalable, but the prudent course to expanding their domain of application is to first demonstrate their capabilities in the MDAP field already identified by WSARA.

Currently, PARCA is not envisioned to have a role in determining acquisition decisions; i.e., what should be done. The Program Managers, Service commodity commands, AT&L, and the Cost Assessment and Program Evaluation organization all have roles in this function. Only if PARCA is not an interested player in decision-making can it be seen as an honest broker, reporting on the facts of execution, or underlying causal factors when DoD has execution problems. Moreover, I believe that PARCA cannot participate in setting program goals without implicitly valuing one set of attributes against another in program performance; it would thus cross the line into program decision-making in a major, and highly visible and important, way.

Acquisition Reform at Back End

A less politically popular, but necessary element of the Department’s acquisition reform strategy concerns mature programs in the production phase. Secretary Gates has used three criteria by which to judge whether to preserve programs: (1) performance; (2) adaptability; and (3) need. We have seen examples of the Department applying discipline at this point in the

acquisition process and it is difficult. Examples include FCS and VH-71 from the performance perspective, and the C-17 and the JSF alternative engine from the need perspective.

I look to several approaches to acquisition reform at the back end. There are major changes we make to programs, such as the restructure of the FCS program, and there is the Nunn-McCurdy critical breach process that allows the Department to thoroughly assess a program with unit cost growth and decide whether it is essential to our national security while being cost effective for the Department. WSARA further strengthened the Nunn-McCurdy breach process by emphasizing that the going in assumption for a program should be termination.

Determining the need for a program is extremely difficult, yet it also hinges on the issue of cost effectiveness—how can the needs of the entire Department, within the defense resources of the Department (from the taxpayer), be best met? How should these scarce resources be spent? This kind of decision goes beyond the Department and ultimately is decided by the Congress and the President.

Acquisition of Services

I believe this Panel has highlighted an area that we have not adequately addressed—acquisition of services. This area is where the money is and where we can do better. I agree with the Panel's finding that in order to assess whether we are indeed obtaining the best value, we must use meaningful metrics in the categories of cost, quality, and delivery. For years, we have worked on metrics for MDAPs and we need to put significant work into how to measure and monitor our Acquisition of Services. Certain functions, such as contracted logistical support, lend themselves well to such measures while other services, such as knowledge-based professional and management support functions do not. We will continue to emphasize our preference to state service acquisition requirements in performance-based terms so that we are able to measure outcomes and understand results.

The Director of Defense Procurement and Acquisition Policy has developed and implemented a comprehensive architecture for the acquisition of services. My acquisition team is validating adherence to that architecture through the review and approval of acquisition strategies submitted for services acquisitions valued at \$1 billion or more. For example, we are using this opportunity to shape these programs to severely curtail the use of new time and materials contracts, to limit service contract periods of performance to three to five years, ensure requiring organizations dedicate sufficient resources to performance oversight, and to demand competition for task orders on indefinite delivery, indefinite quantity (IDIQ) contracts. Military departments and defense agencies are to employ the same set of service acquisition tenets and associated review criteria for contracts valued less than the \$1 billion OSD threshold.

Management and oversight of contractors performing service functions demands a different approach than that used to oversee contractors developing our weapon systems. The decentralized nature of service functions requires a cadre of military members and government civilians to perform contracting officer representative (COR) duties. CORs are the eyes and ears of the government to monitor contractor performance.

We have recognized that inadequate surveillance of services contracts has left us vulnerable to the potential that we are paying full price for less than full value. Therefore, over the past year, we have developed COR certification and training standards to legitimize this vital function and instill rigor in the management and oversight process. Once formalized, this initiative will build upon the mandate issued by the Deputy Secretary to require appointment of trained CORs prior to contract award and to require COR duties to be considered during personnel annual performance assessments.

This month, we are deploying as a pilot a web-based tool that will enable military departments and defense agencies to manage nomination, training and tracking of their respective cadres of CORs. These actions, coupled with the COR courses developed over the past year by Defense Acquisition University (DAU), will improve the capability of the Department to provide effective surveillance of service contracts.

We are making progress in this area but we still have room for improvement. Your recommendations to improve the communication of policy guidance on service contracting and to ensure that the mandates and requirements that are particular to the acquisition of weapons systems are not being inappropriately applied to other areas of acquisition, particularly acquisition of services, are excellent insights and we look forward to working with you and your staffs as we address how to achieve them.

Strengthening the Acquisition Workforce

Of course none of our efforts to improve the acquisition system will ever reach fruition if we do not hire, train, and retain good people. Since April 2009, the Department has implemented a strategy to shape and rebalance the workforce through growth hiring for contracting, oversight, systems engineering, program management and other critical functions. Through a combination of insourcing and external hiring, our strategy calls for bringing 20,000 more people into the acquisition workforce. This will enable us to enjoy a better balance between our government workforce and contractor support personnel to ensure that critical and inherently governmental functions are performed by government employees. These acquisition workforce and insourcing initiatives are part of DoD's High Priority Performance Goals included in the President's FY 2011 Budget.

The preliminary results are encouraging. For Fiscal Year 2009, growth targets were exceeded and DOD is on track to meet or exceed Fiscal Year 2010 growth and rebalancing

targets. Component hiring is aligning with strategy priorities in contracting, systems engineering, program management, cost estimating, auditing and other critical functions. The Department agrees that software engineers and Information Technology capability are critical and notes workforce increases took place during Fiscal Year 2009 in the related occupation series. Improved contract management and oversight capability is also being achieved through successful hiring at the Defense Contract Management Agency and the Defense Contract Audit Agency.

Granted, I am well aware that this is not simply a numbers game, and that replacing a skilled contractor with an unskilled government employee does not serve our interests. Clearly, the quality of our workforce matters.

Moreover, our acquisition workforce strategy does not just pertain to the civilian workforce. We are strongly encouraging the services to look at promotion rates, to review the institutional basis for the jobs that will allow an O-5 or an O-6 with acumen in acquisition to look up at that cone and see leadership positions that he or she can occupy in their respective services by developing their acquisition skills.

The Department's commitment to improve the quality and capacity of the acquisition workforce includes several targeted initiatives. The Department is reviewing and improving certification standards with greater emphasis on experience and being fully qualified. An example is the restructure of the Business career field into two distinct career paths, one for Cost Estimating and one for Financial Management. Cost estimating now requires 7 years instead of 4 years of experience to achieve Level III and financial management now requires 6 years. Another quality improvement initiative is the Acquisition Qualification Standards program which calls for increased supervisor and employee mentoring processes to validate and improve job performance qualifications.

To strengthen our management and oversight of workforce improvement initiatives, I have reinstated the Defense Acquisition Workforce Senior Steering Board, which includes senior acquisition, comptroller and human resources leaders. We met October 26, 2009 to review and approve Component plans and initial implementation of the DOD workforce improvement strategy.

The Department agrees with the Panel that civilians in the acquisition workforce should have a clear and attractive career path. While longstanding workforce policy and programs have been in place, the DOD is currently expanding career development opportunities through use of the Defense Acquisition Workforce Development Fund.

Regarding targeted training, we agree with the Panel that more can be done. The Department has significantly increased and continues to expand core and targeted training resources available to the acquisition workforce. This includes both resident training and web-

based support resources that are available to all team members, especially for services acquisition.

For services acquisition, DAU provides a 200 level course, ACQ 265-Mission Focused Services, which focuses on the seven-step service acquisition process. In addition, DAU conducts hands-on Service Acquisition Workshops in which field acquisition organizations use “real” service acquisition requirements in a DAU-facilitated “action learning” workshop. Four workshops are being conducted this month and a workshop will soon be held for a multi-billion dollar services acquisition. In addition, DAU has just deployed the online Services Acquisition Mall. This tool provides workforce members performance support guidance throughout the services acquisition process by the type of service being acquired. DAU also provides a variety of targeted training for cost estimating, earned value management, information technology management, and contingency contracting.

Significant additional information on the defense acquisition workforce will soon be provided to the Congress. A Human Capital Strategic Workforce Plan and a report on the Defense Acquisition Workforce Development Fund are being finalized and we expect to deliver the reports within the next 2-3 weeks. These reports represent improved transparency and progress towards becoming more data-driven as we make decisions to improve the defense acquisition workforce.

FFRDCs and the Industrial Base

While the above initiatives focus inwardly, I am also committed to leveraging the talent of the FFRDC community and our partners in industry as force multipliers. FFRDCs, which include some of our nation’s top research labs as well as defense think tanks, are huge repositories of talent, and we are looking at ways to strengthen them.

At the same time, our relationship with industry is essential. As I have said many times, we do not have an arsenal system; instead, we depend on private industry to arm our troops and provide us with services such as systems engineering, technical, and acquisition support. To be sure, our industry partners have businesses to run, but they are also patriotic and as dedicated to getting the job done as we are. I am therefore strongly committed to strengthening our partnership with industry. I fully intend to reopen lines of communication between industry and government that I have found to have dissipated over the past decade.

I also take industrial base issues seriously. As I have said in the past, I believe they are completely legitimate issues to consider because having the best defense industrial and technology base in the world is not a birthright. By industrial base, I am talking specifically about skills. I believe we have some responsibility to the taxpayers and warfighter to be stewards of certain skill sets which, were they to erode, would either be difficult to reconstitute or which cannot be found elsewhere in the commercial sector. I look forward to working with

you to ensuring that these skills are preserved, and that we maintain the technological edge that has been the source of our comparative military advantage for over half a century.

Thank you. I would be happy to answer any questions you might have.