HOUSE ARMED SERVICES COMMITTEE
SUBMITTED STATEMENT – ACQUISITION REFORM
RAYBURN HOUSE OFFICE BUILDING
WEDNESDAY, MAY 6, 2009 – 10:00 AM

Mr. Chairman, Congressman McHugh, members of the committee:

Thank you for the opportunity to provide an overview of the Department of Defense's plan for implementing acquisition reform initiatives. As the Chief Management Officer of the Department of Defense, I have primary responsibility for ensuring the smooth functioning of the Department. This includes oversight of the weapons acquisition process – which technologies we use, which weapons systems we buy, and the business operations that underlie the whole process.

The President has talked about the urgent need for acquisition reform. He has stated that it is an important part of the overall attempt at reforming government practices, gaining efficiency and improving our national security. I know that this Committee shares the President's concern about how the Department makes acquisition decisions and is preparing legislation to address areas that need reform. I look forward to working with you and your counterparts in the Senate on these long standing issues.

Assessing the Problem

The first step in reforming our acquisition system is to have a firm grasp of the major problems. The problems start with the process where we establish the requirements for new weapons systems. Too often, we establish requirements that are at the far limit of the technological boundaries. We seek exotic and unproven solutions to warfighting needs. Sometimes these can lead to breakthrough developments that can revolutionize warfare. But far

more often the result is disappointing initial performance followed by cost and schedule overruns to correct those performance failures. Then, we repeat this cycle several times before we eventually deliver the weapons system years late, millions or billions of dollars over budget and still not at the performance levels that we originally sought.

A related problem is our difficulty in making tradeoffs between improved performance on one hand and cost and schedule parameters on the other. In what is often an admirable effort to get the best technology in the hands of the warfighter, we choose to reach for one last performance improvement. But the end result of this so-called "requirements creep" is that we delay getting any improved system to the warfighter and we pay so much for the capability that we displace other important priorities from the budget.

One of the critical reasons for some of our shortcomings in the acquisition process is the lack of critical skills in the acquisition workforce. Over the last ten years, defense contract obligations nearly tripled while our acquisition workforce fell by more than ten percent. More important than the raw numbers is the fact that the Department lacks sufficient technically trained personnel to conduct effective oversight. We need additional cost estimators, systems engineers, and acquisition managers. In the absence of these personnel, we have outsourced too many functions that should be performed inside the Department.

We also rely on overoptimistic cost estimates. These estimates are success-oriented. They assume that every step in the development process will go as planned. They do not include sufficient provision for unexpected technological, production, or other challenges. To produce weapon systems efficiently, it is critical to have budget stability. But it is impossible to attain that stability in our modernization budgets if we underestimate the cost of our weapons systems from the start.

Finally, the entire weapons development cycle is too lengthy. It can take as long as two decades to take a weapons system from concept development to full production. This means that systems that were developed to address one set of security threats do not arrive until the threat has changed, the adversary disappeared, or the technology has aged. At the same time, the lengthy development cycle means that the Department has to go outside the normal acquisition process for urgent warfighting needs, as was the case with the development of Mine Resistant Ambush Protected (MRAP) vehicles to meet the improvised explosive device (IED) threat in Iraq. It is important to keep the need for shorter timelines in mind as we seek to reform the acquisition process. Every additional process and review that we add to the acquisition cycle in an effort to reform it can undercut itself by lengthening the overall cycle time.

Acquisition Reform Initiatives

To address these problems, the Department is undertaking a far-reaching set of reforms. For some of these, we will be working with you on new legislative authorities. Others, we can accomplish with internal actions. Today, I would like to lay out the major areas where we seek to make progress.

1. People

I would like to start with our most important resource – people. In order for the acquisition system to function effectively, it must be supported by an appropriately sized cadre of acquisition professionals with the right skills and training to successfully perform their jobs. However, vacancies in key acquisition management positions, an over-reliance on contractor personnel, and the inability to utilize the specific competencies of our government employees

effectively have all contributed to the situation that we face today where both systemic and program specific problems lead to cost over runs and schedule delays.

To address these personnel deficiencies, we will increase the number of acquisition personnel by 20,000 positions over the Fiscal Year 2010 to 2015 Future Years Defense Program (FYDP). This will include over 9,000 contracting, cost estimating, pricing, and contract oversight positions at the Defense Contract Audit Agency and Defense Contract Management Agency – which will help ensure that DoD knows what it is buying and gets what it pays for. The remaining 11,000 new hires will come from the conversion of contractor positions to federal civilian positions. These positions will primarily be program management, systems engineering, logistics management, and business management positions. We will also be making significant increases in training and retention programs in order to bolster the capability and size of the acquisition workforce. This unprecedented five-year planned workforce initiative will result in a properly sized, well-trained, capable and ethical workforce.

2. Strengthening the Front End of the Process

We propose several steps to put greater discipline into the front end of the acquisition process. Each major program will be subject to a mandatory process entry point – the Materiel Development Decision Milestone – prior to Milestone A. This will ensure programs are based on approved requirements and a rigorous assessment of alternatives. The objective will be to balance performance needs with schedule and cost limitations.

Each major program will undergo Technology Readiness Assessments (TRAs) in support of certifications at all three major program milestones. These assessments would identify technology readiness issues prior to acquisition decision points, thereby focusing attention on

mitigation strategies, such as strengthening technology testing and development efforts or switching to a more mature technology. Also, TRAs can clarify ambiguities in system requirements and needed capabilities that might otherwise cause serious problems during program execution.

To reduce technical risk, our standard practice will be to conduct a Preliminary Design Review before Milestone B. At this point, independent reviews must certify the maturity of program technologies for a program to progress to the costly final phase of development – engineering and manufacturing. We will use competitive prototypes when possible and if they are cost effective. Programs will be required where possible to implement acquisition strategies requiring a technology development phase where two or more competing teams will produce prototypes of the system or key components. Consequently, technologies will have to be demonstrated and proven before engineering development is initiated.

While we ensure oversight, we must be attentive to not overburdening the process with reviews. The lead time to design and deliver capability is already too long. As a result, we will be mindful to not overburden ourselves with more "checkers" than those being "checked."

3. Improving Cost Estimating

Paramount to ensuring that we have programs that are more highly predictable is the need for effective cost analysis. To strengthen our cost analysis capability, we plan to expand the size and capabilities of the Department's independent cost arm – the Cost Analysis Improvement Group (CAIG). We will also modernize cost education and training programs. To strengthen our cost database, we will improve contractor data reporting of actual costs, earned value management, and pricing. To reduce the risk of cost overruns, we will establish a preference for

funding acquisition programs to the CAIG's estimate in the President's Budget Request and the FYDP. There is one important caveat: We should avoid separating the cost-estimating function from the Program Analysis and Evaluation (PA&E) organization. PA&E performs a wide variety of planning and programming functions that require accurate cost estimates. These functions extend beyond straight weapons system cost estimates to include strategic reviews like the Quadrennial Defense Review, program assessments, and FYDP analysis. All these functions require a strong cost analysis team integrated inside PA&E.

4. Executing Programs Properly

We also need to strengthen the execution phase of our weapons development program. Several initiatives will help in this regard.

First, we plan to explore greater use of fixed-price development contracts. In the past, we have far too often accepted an environment that defaulted to the use of cost-type contracts for development programs. There are risks in using fixed-price contract vehicles for development programs that involve cutting edge or exotic technologies. But if we succeed in reducing the technological risk of many programs through the strengthened front-end approach described above, we should be able to make greater use of fixed-price contracts in development programs. This may somewhat increase the initial development costs as contractors price in a greater degree of risk. But at the same time, it should make those cost estimates more predictable and cost overruns less frequent.

Second, to address the issue of "requirements creep," we will continue to create Configuration Steering Boards that were endorsed by the FY 2009 National Defense Authorization Act. These boards will provide a mechanism to preclude destabilizing

requirements changes and to match requirements with mature technology. Program managers will employ this forum to control requirements changes and seek moderation of requirements that become drivers of excess cost in system design.

Third, to align profitability with performance, we have several initiatives. Most contract fee structures – for example, incentive fees – will be tied to contractor performance. We will restrict the use of award fee contracts to those situations where more objective measures do not exist. We will also rigorously examine services contract strategies to ensure an alignment of fees earned and services provided. We will eliminate the use of unpriced contractual actions, whenever possible. And, we will ensure that the use of multiyear contracts is limited to instances when real, substantial savings are accrued to the taxpayer. We must also hold up our part of the bargain. Communication with our industry partners must be open and in a manner that clearly articulates our requirements and expectations. We must also demonstrate our commitment to a program through stable funding of our contracts.

The bottom line in the execution phase is that we need to match requirements to mature technologies, to maintain disciplined systems engineering integrated with testing and to focus on not repeatedly sacrificing cost and schedule for promises of improved performance. We will continue to use the portfolio management process where appropriate to ensure we have a balanced "horizontal" view of needed capabilities across the enterprise – not just a bottom-up, stovepipe view. Where weapons programs fail to meet these admittedly high standards, we need to be prepared to cancel them if necessary. We will utilize both the Nunn-McCurdy process as well as the annual budget review for this process. The difficult strategic and programmatic decisions that Secretary Gates made in preparing the FY 2010 budget submission reflected this tough-minded approach to acquisition reform.

Conclusion

DoD acquisition is not easy. It is an enormously complex and large undertaking. Acquisition reform is similarly complex and challenging. Since the end of World War II, there have been nearly 130 studies on acquisition reform. Many very smart people have tried; some with limited success. In this regard, we need to keep in mind the importance of not making the system worse in our efforts to achieve reform. This has happened in the past. For example, in the 1990s, there was a significant drawdown of the acquisition workforce under the guise of acquisition streamlining. The intent was to create a more streamlined, leaner acquisition corps. In retrospect, what occurred was that we outsourced a number of acquisition positions which were, or bordered on being, inherently governmental functions, and we inadvertently denied the Department needed technical and business talent that we now need to restore. This is not to say that we should not and will not seek improvements in our weapons acquisition systems – only that we need to be careful not to take away critical capabilities or add new burdens that lengthen the already too lengthy process.

With these lessons fresh in our minds, we must move forward and continue to improve our acquisition workforce, our procurement and acquisition processes, and the results we achieve on behalf of our warfighters and taxpayers. This Committee and the Senate have both formulated legislation aimed at improving our acquisition system. We agree with the strategic direction of both bills and we wish to work with the Congress to ensure that we get well-designed initiatives that can be effectively implemented. As the DoD Chief Management Officer, I am committed to improving the department's business operations and there is no doubt in my mind that significant improvement is achievable in this area.

Our economic circumstances require a change in the way we acquire military equipment

and services. The Department intends to stop programs that are not performing, significantly exceed their budget, or that spend limited taxpayer dollars to buy more capability than the nation needs. We will ensure that requirements are reasonable and technology is available to meet program cost and schedule goals affordably. We intend to estimate program costs more realistically, seek budget stability for the programs we initiate, staff our government acquisition teams adequately, and provide disciplined and effective oversight.

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