[H.A.S.C. No. 109–106]

REVIEW OF MAJOR DEFENSE ACQUISITION REFORM INITIATIVES

HEARING

BEFORE THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES
ONE HUNDRED NINTH CONGRESS
SECOND SESSION

HEARING HELD
APRIL 5, 2006

U.S. GOVERNMENT PRINTING OFFICE
32–972 WASHINGTON : 2007

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

HOUSE COMMITTEE ON ARMED SERVICES

ONE HUNDRED NINTH CONGRESS

DUNCAN HUNTER, California, *Chairman*

CURT WELDON, Pennsylvania
JOEL HEFLEY, Colorado
JIM SAXTON, New Jersey
JOHN M. MCHUGH, New York
TERRY EVERETT, Alabama
ROSCOE G. BARTLETT, Maryland
HOWARD P. "BUCK" MCKEON, CALIFORNIA
MAC THORNBERRY, Texas
JOHN N. HOSTETTLER, Indiana
WALTER B. JONES, North Carolina
JIM RYUN, Kansas
JIM GIBBONS, Nevada
ROBIN HAYES, North Carolina
KEN CALVERT, California
ROB SIMMONS, Connecticut
JO ANN DAVIS, Virginia
W. TODD AKIN, Missouri
J. RANDY FORBES, Virginia
JEFF MILLER, Florida
JOE WILSON, South Carolina
FRANK A. LOBIONDO, New Jersey
JEB BRADLEY, New Hampshire
MICHAEL TURNER, Ohio
JOHN KLINE, Minnesota
CANDICE S. MILLER, Michigan
MIKE ROGERS, Alabama
TRENT FRANKS, Arizona
BILL SHUSTER, Pennsylvania
THELMA DRAKE, Virginia
JOE SCHWARZ, Michigan
CATHY MCMORRIS, Washington
MICHAEL CONAWAY, Texas
GEOFF DAVIS, Kentucky

IKE SKELTON, Missouri
JOHN SPRATT, South Carolina
SOLOMON P. ORTIZ, Texas
LANE EVANS, Illinois
GENE TAYLOR, Mississippi
NEIL ABERCROMBIE, Hawaii
MARTY MEEHAN, Massachusetts
SILVESTRE REYES, Texas
VIC SNYDER, Arkansas
ADAM SMITH, Washington
LORETTA SANCHEZ, California
MIKE MCINTYRE, North Carolina
ELLEN O. TAUSCHER, California
ROBERT A. BRADY, Pennsylvania
ROBERT ANDREWS, New Jersey
SUSAN A. DAVIS, California
JAMES R. LANGEVIN, Rhode Island
STEVE ISRAEL, New York
RICK LARSEN, Washington
JIM COOPER, Tennessee
JIM MARSHALL, Georgia
KENDRICK B. MEEK, Florida
MADELEINE Z. BORDALLO, Guam
TIM RYAN, Ohio
MARK UDALL, Colorado
G.K. BUTTERFIELD, North Carolina
CYNTHIA MCKINNEY, Georgia
DAN BOREN, Oklahoma

ROBERT L. SIMMONS, *Staff Director*
JEFF GREEN, *Professional Staff Member*
ANDREW HUNTER, *Professional Staff Member*
HEATHER MESSERA, *Staff Assistant*

CONTENTS

CHRONOLOGICAL LIST OF HEARINGS

2006

Page

HEARING:

Wednesday, April 5, 2006, Review of Major Defense Acquisition Reform Initiatives 1

APPENDIX:

Wednesday, April 5, 2006 49

WEDNESDAY, APRIL 5, 2006

REVIEW OF MAJOR DEFENSE ACQUISITION REFORM INITIATIVES

STATEMENTS PRESENTED BY MEMBERS OF CONGRESS

Hunter, Hon. Duncan, a Representative from California, Chairman, Committee on Armed Services 1

Skelton, Hon. Ike, a Representative from Missouri, Ranking Member, Committee on Armed Services 3

WITNESSES

Giambastiani, Adm. Edmund P., Jr., Vice Chairman of the Joint Chiefs of Staff, U.S. Navy 10

Krieg, Hon. Kenneth J., Under Secretary of Defense (Acquisition, Technology & Logistics) 7

Patterson, J. David, Principal Deputy Under Secretary of Defense (Comptroller) 12

Walker, Hon. David M., Comptroller General of the United States, United States Government Accountability Office 4

APPENDIX

PREPARED STATEMENTS:

Giambastiani, Adm. Edmund P., Jr. 98
Hunter, Hon. Duncan 53
Krieg, Hon. Kenneth J. 77
Patterson, J. David 104
Skelton, Hon. Ike 57
Walker, Hon. David M. 59

DOCUMENTS SUBMITTED FOR THE RECORD:

[There were no Documents submitted.]

QUESTIONS AND ANSWERS SUBMITTED FOR THE RECORD:

Mr. Andrews 114
Mr. Calvert 113
Mrs. Drake 114
Mr. Kline 115
Mr. Marshall 113

Page

QUESTIONS AND ANSWERS SUBMITTED FOR THE RECORD—CONTINUED
Mr. Miller 114
Mr. Skelton 113
Dr. Snyder 113

REVIEW OF MAJOR DEFENSE ACQUISITION REFORM INITIATIVES

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
Washington, DC, Wednesday, April 5, 2006.

The committee met, pursuant to call, at 10 a.m., in room 2118, Rayburn House Office Building, Hon. Duncan Hunter (chairman of the committee) presiding.

OPENING STATEMENT OF HON. DUNCAN HUNTER, A REPRESENTATIVE FROM CALIFORNIA, CHAIRMAN, COMMITTEE ON ARMED SERVICES

The CHAIRMAN. Good morning. The committee will come to order.

And this morning the committee will continue its oversight of the defense acquisition system by receiving testimony from senior leaders of the Department of Defense and Government Accountability Office.

Our witnesses today are the Honorable David Walker, Comptroller General of the United States; the Honorable Kenneth J. Krieg, Under Secretary of Defense for Acquisition, Technology and Logistics; Admiral Edmund P. Giambastiani——

Admiral GIAMBASTIANI. Giambastiani.

The CHAIRMAN. Giambastiani—I am sorry, Admiral, excuse me—Jr., Giambastiani, Jr., Vice Chairman, Joint Chiefs of Staff; and Mr. J. David Patterson, Deputy Under Secretary of Defense, Comptroller.

So welcome to the committee, gentlemen.

In 1986, the President's Blue Ribbon Commission on Defense, more commonly known as the Packard Commission, recognized the challenges facing the defense procurement system. The commission found that "our weapons systems cost too much and take too long to develop." The report went on to note that defense programs "embody not only overstated requirements but also understated costs." Finally, it noted that the process "does not adequately involve participants with a sophisticated knowledge of the cost and schedule implications of technical improvements."

Now, 20 years later, four major studies were recently released that conclude essentially the same things: Weapons systems still cost too much and take too long to develop; requirements are still overstated, and cost estimates are understated.

Last week, the committee met to hear from representatives of three of these 2005 studies on acquisition reform, and today we look forward to hearing how the Department of Defense is approaching this decades-old problem. One thing is certain: This issue

is extraordinarily complex and the numerous recommendations for reform found in those studies provide no simple solutions.

To better understand the issues, the committee believes it is vital to hear what the Department of Defense plans to do with these volumes of recommendations. Each of our witnesses today will speak to these recommendations in their roles representing the three main components of the acquisition process.

Admiral Giambastiani, in his role as chairman of the Joint Requirements Oversight Council, JROC, is responsible for coordinating, on behalf of all Combatant Commanders, the numerous capabilities sought by our warfighters through the requirements process.

Secretary Krieg then must ensure that the Department undertakes the appropriate acquisition strategy to ensure that costs of system development are kept under control and that we are pursuing new systems that are technologically attainable and affordable.

And, finally, Mr. Patterson, here representing the OSD comptroller, has the responsibility of maneuvering through the long and complex planning, programming, budgeting and execution process, PPB&E.

Today's hearing will be an in-depth look into the entire acquisition process from the Department's key stakeholders and the Government Accountability Office (GAO). The committee is fortunate to have assembled these four witnesses to get a comprehensive view of the way ahead for defense acquisition reform.

So, gentlemen, we are pleased that you are here today. We look forward to your testimony.

And let me just say as an aside a thought here, that we have seen the Quadrennial Defense Review (QDR), we are putting together our own Committee Defense Review, and it appears to me that probably more than ever in recent history the acquisition process now has a major, major role in the overall blueprint for America's security future, because we have potential adversaries, like China, which I think is moving into the superpower shoes left by the Soviet Union, which has a robust and developing industrial base and the ability, thereby, to acquire not only the domestic products that they are expanding on an annual basis but also to move that capability, that robust, industrial manufacturing and technology capability into the defense sector.

And at some point, if we have to match production or we have to match systems, we will be facing a potential adversary with an enormously efficient production capability, and we will be facing that with our own system, which turns out $3 billion-plus DD(X)s and fighter aircraft well over $100 million and attack boats well over $2 billion. And acquisition inefficiencies may, in the end, drive American vulnerabilities more than any other dimension of America's national security complex or structure.

So what you are doing and what you are commenting on today is very, very critical to the security future of the United States, maybe not in the current conflicts in the warfighting theaters, although moving technology quickly into the field to get warfighters the tools that they need is obviously very, very important in the war against terror, the ability to be agile and to be responsive to warfighters.

But on the horizon, this ability to have an efficient acquisition industrial base for defense capabilities is going to be increasingly critical, and the look that I have taken, and I think most members of the committee have taken, at the price tags on major systems, giving everyone a pretty severe case of sticker shock, I think, leaves us—we always remember that statement that was made by one of the aerospace leaders at one time that at some point this country is going to have to figure out which ship it is going to buy that year and which airplane it is going to buy. And of course he said that facetiously. But looking at the price tag on some of these major systems we may see some truth in that.

So having laid that out, thank you so much, gentlemen, for being with us this morning.

Let me turn to the ranking member, Mr. Skelton, for any remarks he would like to make. And then, Admiral Giambastiani, we will turn to you for remarks.

[The prepared statement of Mr. Hunter can be found in the Appendix on page 53.]

STATEMENT OF HON. IKE SKELTON, A REPRESENTATIVE FROM MISSOURI, RANKING MEMBER, COMMITTEE ON ARMED SERVICES

Mr. SKELTON. Mr. Chairman, thank you. I think you are right, we are very blessed with the panel today and hope we will be able to carry from their testimony some wisdom as to where we go.

The Department of Defense and its affiliated organizations recently produced four reports on this subject, and, as you know, this is our second hearing on acquisitions that we have had in two weeks.

Last week, I stated that the acquisition system had gotten seriously off track, and I am not going to go into great details. I will say that before we make any serious decisions, we are going to have to have hearings and people such as you to help us assess how to fix the problem. If we can't leave this room today with a clear idea how we are going to fix these problems, then we haven't performed our duty very well.

The committee staff has laid out for us a chart comparing the recommendations of the four studies I mentioned. In three areas, these studies reached total consensus. It seems that should give us at least a place to start. All four of the studies recommend that much more weight be given to requirements generated by the combat commanders in the acquisition process. This isn't brain surgery. That should make sense.

They all recommend a comprehensive restructuring of the Joint Capabilities Integration and Development System, which they indicate is broken. And all four studies recommend that something needs to be done to increase the funding stability for acquisition programs.

These studies each had a slightly different take on how to tackle the problem, but it is clear that these problems need to be solved, and the sooner the better.

I look forward to hearing the proposals of the witnesses. I am interested especially in hearing about your recommendations on legislation that we need to consider, particularly legislation we need

to consider during the markup of the Defense Authorization Act that we will be marking up in the next few weeks. This is serious business, and we appreciate your serious help today.

Thanks, Mr. Chairman.

[The prepared statement of Mr. Skelton can be found in the Appendix on page 57.]

The CHAIRMAN. I thank the gentleman.

Mr. Walker, we are going to start with you. I have been informed that the panel would like to go left to right here. Entirely appropriate, so thanks for being with us. Thanks for the work you have done in this area too. You have put a lot of focus on it. We appreciate that and appreciate the folks on your team.

The floor is yours, sir.

STATEMENT OF HON. DAVID M. WALKER, COMPTROLLER GENERAL OF THE UNITED STATES, UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

Mr. WALKER. Chairman Hunter, Ranking Member Skelton, members of the committee, I am pleased to be here today, as well as to be on this distinguished panel, to discuss how the Department of Defense can get a better return on investment of taxpayer dollars and why we must ensure that they be held accountable for doing so.

The Department of Defense (DOD) has a mandate to deliver high-quality products to our warfighters when they need it and at a price that the country can afford.

I plan to use three boards, Mr. Chairman and members of the committee, which I will refer to a little bit later in my testimony, to reinforce the importance of the subject we are dealing with today.

Cost is critical, given current long-term budget forecasts, which indicate that the Nation will not be able to sustain its currently planned level of investment in weapons systems. As our work has shown, DOD is simply not positioned to deliver high-quality products in a timely and cost-effective fashion.

Specifically, DOD has a longstanding track record of over-promising and un-delivering with virtual impunity. DOD's continued inability or unwillingness to separate wants from needs, incur cost increases of tens of millions of dollars and schedule delays of years must be addressed. The all too frequent result is that large and expensive programs are continually rebaselined, cut back or even scrapped after years of failing to achieve promised capability. This business-as-usual approach is inappropriate and should not be tolerated.

The supply of dollars available for weapons acquisitions is likely to decline in the next few decades as the Nation struggles to cope with large and growing structural deficits that threaten our future economy, standard of living and even potentially our national security.

The first poster board shows that discretionary spending has declined dramatically over the last 40 years. The next poster shows very clearly that the supply of dollars available for the Defense Department, other areas of government and for weapons systems is likely to come under increasing pressure and likely to decline in

the next few decades as the Nation struggles to address large and growing structural deficits.

The CHAIRMAN. I would like for you to explain that chart a little bit. It is hard to see the writing from here.

Mr. WALKER. Yes, sir, Mr. Chairman. It is. I think it may be in my testimony. I believe it is, but let me try to explain it.

The bar represents spending as a percentage of the economy, and it is divided up into Social Security, Medicare, Medicaid, all other spending and net interest. The line represents revenues as a percentage of the economy, and so inflation is taken out.

I note here, by the way, that there is a color coding problem. The blue should be interest, and the—the yellow and the blue ought to be flipped here, so I apologize for that.

The CHAIRMAN. Which one is defense? Have you got defense on the——

Mr. WALKER. Defense is part of the green, Mr. Chairman.

The CHAIRMAN. Okay.

Mr. WALKER. Defense is all other discretionary spending, which you know is——

The CHAIRMAN. Roughly half of the green, right.

Mr. WALKER. Right, national security, homeland security, education, transportation. You well know what is in there.

Here is my point, Mr. Chairman: This is based upon two assumptions, which may or may not prove to be valid but which are plausible. If discretionary spending grows by the rate of the economy and if all tax cuts are made permanent and if all other assumptions made by the Congressional Budget Office prove to be valid, this is our future. Our future is that the most growing cost in the Federal budget is interest in the massive Federal debt. Even if——

The CHAIRMAN. Okay.

Mr. WALKER. Yes.

The CHAIRMAN. And I hate to—I know we have got a lot of panelists here, but let's go back to your first chart, if you can put that up.

Mr. WALKER. Yes, sir.

The CHAIRMAN. On the first chart, I was a little bit surprised because you have 1965, 1985 and 2005 and you had a bump—the blue is interest.

Mr. WALKER. Yes, sir.

The CHAIRMAN. Basically, 2005 is the same as 1965, 40 years ago. That is not reflected in the second chart. Pop that second chart back up, which shows it going up like a rocket.

Mr. WALKER. And let me tell you why, Mr. Chairman.

The CHAIRMAN. Okay.

Mr. WALKER. First, on the first chart that you properly pointed out, we are paying about the same percentage of the budget for interest today that we were in 1965. The reason we paid so much higher in 1985 is, as you recall, interest rates were much, much lower at that point in time. Now, interest rates are relatively low.

At the same point in time, we are adding debt at record rates. Therefore, because of adding debt at record rates because of large and growing structural deficits, this is what is expected to happen with interest in the future.

So the first chart was the past; this chart is the future. And, by the way, this chart does not assume an uptick in interest rates if one were to occur, a dramatic uptick in interest rates. Because, as you know, we are getting the source of all of our financing for debt from overseas now.

The CHAIRMAN. Okay. Please proceed. Thank you.

Mr. WALKER. Thank you, sir. I appreciate that.

At the same time, however, weapons programs are commanding larger budgets, as DOD undertakes increasingly ambitious efforts. My last board shows the DOD's five most expensive programs—Joint Strike Fighter, Future Combat System, Virginia class submarine, DDG–51 and the FA–22—have already overrun original estimated costs by 29 percent. That is to date, and the clock is still ticking.

Unfortunately, such cost overruns are all too typical and historically they have wrecked havoc on any attempt to maintain stability needed for effective program management. Taken together, the resulting unanticipated funding demands are running head on with the nation's unsustainable fiscal path. More money is not the answer; better outcomes are needed.

DOD knows how to get better outcomes for its acquisition dollars. The answers must lie, in part, in tackling the so-called "big A" process; that is, reconciling the difference between unlimited wants with true threat and risk-based needs, consistent with current and likely resource levels. DOD has repeatedly indicated, both in its presentations to you and its response to GAO's recommendation, that it will do better, and they are trying.

Believe me, Under Secretary Krieg and other members of the panel are dedicated to change, but many times change is not forthcoming to any meaningful extent.

DOD has repeatedly commissioned more and more studies in lieu of dramatic changes in actual line activities. Although we have seen some positive changes in policy and we know that people are committed to improvement, actual practice on the line, to a great extent, is business as usual.

We must engage in a comprehensive and fundamental reexamination of existing and new proposed investments in our nation's weapons systems. We must better align the military's wants with our nation's needs and its ability to fund them.

Once DOD's leadership makes the hard tradeoffs, and I might here, Mr. Chairman, the Congress has a critically important role to play because the Congress sometimes is putting demands on the Department, which complicates this task. Once DOD's leadership makes the hard tradeoffs, hopefully in consultation with and in cooperation with the Congress, the acquisition community must develop executable programs with realistic and definitive requirements being set upfront. Only then can all responsible parties be truly held accountable.

I am testifying this afternoon on a report we recently issued that shows just how far off our accountable paradigm has gotten. For example, a recent GAO report noted that many current major weapons systems programs continue to suffer the same cost overruns and schedule delays, and another recent GAO report notes that DOD paid over $8 billion in incentive and award fees in situa-

tions where the program outcomes did not match DOD and contractor promises.

But change is essential, and the Congress should insist on it.

Mr. Chairman, you and members of the committee can help by supporting DOD as it seeks to rationalize the many wants versus the real needs and in a manner consistent with the nation's fiscal realities.

And I hate to say it, Mr. Chairman, but I actually think that the "big A" delta is worse after the last QDR than it was before. There are very touch choices that need to be made.

I am more than happy to answer any questions you and the other members may have, and I am looking forward to hearing from my co-panelists.

[The prepared statement of Mr. Walker can be found in the Appendix on page 59.]

The CHAIRMAN. Thank you, Mr. Walker, for a very crisp statement there.

Secretary Krieg.

STATEMENT OF HON. KENNETH J. KRIEG, UNDER SECRETARY OF DEFENSE (ACQUISITION, TECHNOLOGY AND LOGISTICS)

Secretary KRIEG. Chairman Hunter, Congressman Skelton, members of the committee, thank you for the opportunity to appear with my colleagues before you today to discuss acquisition reform.

As you noted, in the last few months, several studies have been released. The Department is evaluating the best path forward to implement a number of the initiatives and recommendations from these studies to benefit our number-one customer, the joint warfighter.

Today, I will briefly describe in my opening statement what we are doing to change the way the Department of Defense governs, manages and——

The CHAIRMAN. Okay, Mr. Secretary. And while you are at it, all written statements by our witnesses will be taken into the record. So feel free to summarize as your written statement will be in the record.

Secretary KRIEG. I am going to summarize it, but there are a couple key points I want to get on the table so that you can understand the context.

We have been working on this for several months. Our goal is to make a clearer and more transparent link from strategy to outcomes. The approach will delineate decision-making responsibilities of governance, management and the execution levels of the Department of Defense. This will enable senior leadership to focus on strategic choice and empower management to carry out their responsibilities in a manner that ensures transparency, accountability and sound performance management.

As part of this effort, we will work to improve the Department's analytic framework, build more transparent business information systems across the Department, integrate decision processes to enable strategic choice and align roles and responsibilities in a way that maximizes decision-making effectiveness across the enterprise.

We plan to enhance our strategic governance capabilities by clarifying lines and responsibilities and accountability and estab-

lishing a closer, more effective relationship among the key business processes in the Department. As you noted, this includes the requirements generation system, planning, programming and budgeting, an execution system and defense acquisition. The three of them together represent the "big A."

The Department is planning, programming, budgeting and execution process is key to ensuring efficient and effective acquisition. Budgeting for acquisition programs requires managers to continuously balance tradeoffs among cost, schedule and performance until we can attain an acceptable level of risk and assure affordable capabilities.

Unstable funding makes this balancing process elusive and can result in schedule slips, less optimum production rates and other efficiencies that result in cost overruns.

We must also, though, be willing to wait until technologies are mature enough and performance requirements and designs are stable. I also realize that there are factors outside that we cannot control, and we, as the acquisition organization, must remain flexible in order to balance risk so that our nation's overall needs are met.

Collectively, we are implementing several initiatives to achieve these goals. I will briefly touch on some; the written lays them out in great detail.

The first initiative breaks down the investment decision process to three levels of capability decisions, each informing the next. The first is strategic choice; second, portfolio choice; and then, third, weapons systems choice.

At the corporate level or enterprise level, Department of Defense level, strategic choice. Senior decision-makers must balance and choose among priorities across portfolios. The focus is on operational effects and a determination of what types of capability portfolios and how much of those capabilities are needed?

The level within a capability area is portfolio choice. And in that, we must balance the capabilities within a portfolio to provide the most effective mix to deliver desired effects, and we will be glad to talk to you at length. We will be experimenting with several joint capability portfolio management approaches this year as part of the implementation of QDR.

Finally, at the systems level, systems choice is the determination of the best solution to provide the needed capability but by balancing performance requirements with cost, schedule and technical risk.

That was the heart of the Packard Commission recommendation, it is the heart of many of the recommendation in the other reports that have been issued recently.

Building on the last point, the second initiative we have under way is a pilot effort called concept decision. This is a decision point where the DOD requirements community, acquisition community and resource processes converge at the point of investment. Our goal here is to bring together each of these process leaders to drive early tradeoffs among cost, schedule and performance.

The third initiative is a time-defined acquisition, which focuses on the need in time of that warfighter. This initiative envisions employing risk-based criteria to determine which of the three different but related acquisition approaches should be selected to satisfy the

capability of the requirement. And those criteria—and we will be glad to describe those later—include technical maturity, time needed to delivery and requirement certainty.

The best solution for the joint operator is not necessarily the sum of the best solutions for each of the services and agencies. This set of first three initiatives is designed to bring the multiple efforts of the Department together, look at them from the perspective of the joint operator and, as necessary, rearrange the portfolios and investment.

The fourth initiative we have under way is in our Defense Business System. DOD has recently taken steps to improve our business practices, processes and systems. We aim to create streamlined, end-to-end integration of our supply chain, greater financial transparency and improved personnel knowledge, among others. These efforts and the governance process developed to guide them or describe in some detail in an enterprise transition plan, which we sent the second edition to you all, I think, about two weeks ago.

The fifth initiative under way involves streamlining and improving the Defense Acquisition Board, or DAB, process. The DAB process should work to establish a common set of facts, bring the issues into sharp relief so senior leaders can make decisions. To move from where we are to where we should be, I have commissioned a group of senior executives to use Lean Six Sigma techniques to examine the oversight process and documentation requirements for the DAB process.

I have asked them for their recommendations that will reduce cost in time, while improving the effectiveness of oversight by the end of this month.

All these initiatives are within the Department's current authority, I believe. If we determine that some of these initiatives require legislative relief, I will gladly work with the committee to do that. But we also, of course, be glad to keep you apprised of these initiatives as we go forward.

Several other points. We must consider the overall investment portfolio for science and technology. To that end, the Congress has been very helpful in the near term in providing funds for Combating Terrorism Task Force the quick reaction special projects. And this committee, I know, has been very interested in those areas, and thank you for your support.

In addition, the Department's supply chain is now a strategic weapon, or should be. The Department is pursuing a number of strategic supply chain initiatives, including expanding the joint supply chain distribution by establishing Transportation Command (TRANSCOM) as the distribution process owner and by strengthening my position as the defense logistics executive. Together we are making the joint supply chain more responsive. And, in fact, joint supply chain is one of those joint capability portfolios that we will work on this year in that experiment I described earlier.

Last, I just wanted to note for the opening that our workforce is key to making this happen. Our acquisition technology and logistics workforce analysis and the human capital strategic planning efforts to grow it over time or to develop it over time are progressing. I will be publishing the first DOD acquisition technology and logistics human capital strategic plan in January, and I know this com-

mittee is interested in that, and we will look forward to working with you.

In closing, Mr. Chairman, there is much under way in improving the effectiveness and efficiency of the Department of Defense. We are committed, and I personally am very committed to this program of change.

Thank you for the opportunity to be here today, and we look forward to answering your questions.

[The prepared statement of Secretary Krieg can be found in the Appendix on page 77.]

The CHAIRMAN. Thank you, Secretary Krieg.

Admiral Giambastiani, thank you, sir. Thanks for all the work you have done over the years in this important area. Obviously, the challenge at this point is huge.

Admiral GIAMBASTIANI. Yes, sir.

The CHAIRMAN. Thanks for being with us this morning.

STATEMENT OF ADM. EDMUND P. GIAMBASTIANI, JR., VICE CHAIRMAN OF THE JOINT CHIEFS OF STAFF, U.S. NAVY

Admiral GIAMBASTIANI. Thank you, Chairman Hunter, Mr. Skelton and other members of the distinguished committee.

I am pleased to be here today to testify again this morning. In particular, though, I would like to take just a moment on behalf of our soldiers, sailors, airmen and Marines and their families to thank each and every one of you for this strong bipartisan support that you bring to our armed services.

I will truncate my discussion, I will cull it down, but there are some important points, though, Chairman, that I think I have to make here in the verbal part of this.

The CHAIRMAN. Absolutely.

Admiral GIAMBASTIANI. Improving our ability, if you will, in the requirements and acquisition process to deliver capabilities for that joint warfighter is a key element of the Department's ongoing agenda. This transformation imperative informed the Quadrennial Defense Review's direction on business process reforms that Under Secretary Krieg talked about. These business process reform efforts will be driven by a series of what we call QDR execution roadmaps and overseen collaboratively by the senior leadership of the Department of Defense, co-chaired by Deputy Secretary England and myself in what we call the Deputies Advisory Working Group.

In my testimony today, I would like to focus on the role of the requirements process and what it should play in acquiring these truly joint capabilities and the efforts that we, on the JROC, and also on the Defense Acquisition Board have undertaken to achieve this goal. So I am going to try to talk about the JROC and the DAB here for just a moment.

As a prelude to this, numerous reviews of the acquisition process that you have talked about have pointed to key aspects of the requirements generation process. You referred to it, Mr. Chairman, in your opening statement, as did Mr. Skelton. And this process has driven up costs and delayed delivery. Among these cost drivers are the establishment of what I would call unrealistic or unachievable requirements and then the evolution or creep of requirements over time.

The first time, unrealistic requirements, reflects an aspiration that science and technology, or S&T, will advance in time to deliver a desired future capability. We do not have unlimited money, and we don't have unlimited time to deliver these.

It is often an aspect of programs with inherently long lead times, such as some in shipbuilding and aviation stealth programs, for example.

The second problem, requirements creep, occurs when technology advances faster than our acquisition process expects, often in those areas in which the commercially driven research and development outpaces that in the Department in areas such as communications or information technology.

In both cases, they result from a laudable desire to deliver the best possible state-of-the-art capability to the joint warfighter, but they also result in inefficient and expensive programs, which often deliver late, as you have heard, and sometimes deliver not at all. This is the state-of-the-art versus the state-of-the-practical is what I am talking about.

The CHAIRMAN. Yes. Our staff director, Mr. Simmons, used to be Chief Executive Officer (CEO) of Ketema Aerospace, and he called this, this is when you get all your engineers in a room and you break their pencils.

Admiral GIAMBASTIANI. Yes, sir.

The CHAIRMAN. Right?

Admiral GIAMBASTIANI. Exactly. And you take their pads away. [Laughter.]

In our efforts to improve this requirements process, we on the JROC and also on the Defense Acquisition Board are working collaboratively and very closely—I would say that Under Secretary Krieg and I would probably describe this as being locked at the hip—to craft a process which achieves a series of objectives. I am only going to read two. There are more in my written testimony.

To link requirements to approved concepts and incorporate the capability needs of the Combatant Commanders. There is a series of others that are in the full list in my statement for the record.

But, importantly, we want to provide appropriate review by senior leadership early in the requirements process and throughout the acquisition process so that the rational and informed risk-balancing decisions can be made by the senior civilian and military leaders in the Department. Needless to say, this is a tall order but not unachievable.

I am pleased to report that in each of the JROC meetings and 12 Defense Acquisition Board meetings I have attended since becoming the vice chairman 7 months and 3 weeks ago, most of these topics have and are being addressed. We are working and learning together and taking an incremental and pragmatic approach to reforming these processes to give the best capabilities to the joint warfighter.

I am encouraged by our progress to date. I will mention one or two of these. We have now four joint operating concepts that I talked to you about in acquisition, and we are relating them to the requirements process. This will help all of us involved in the capability development services—defense agencies, Combatant Com-

manders and the joint staff—think more clearly and more jointly, including our allies and coalition members.

These are just some of the initiatives—again, more described in the statement for the record—that Under Secretary Krieg and I have taken with the DAB and the JROC together. This teamwork and collaboration, in my view, is important and cannot stop, because there is much work to be done. We need to make our system more agile, more responsive, frankly much less bureaucratic and fully informed by this joint concepts and experimentation and our lessons learned.

This challenge I am committed to meeting. As I close, it is one of the reasons why I came to Washington as the vice chairman of the Joint Chiefs of Staff, having lived with a non-optimal system as a warfare requirements director, as a service programmer and then almost three years as a combatant commander.

I look forward to continuing our work with the acquisition community, the resource community and with the Congress to tackle these challenges, and I look forward to the support and advice we receive from your committee, sir. Thank you.

[The prepared statement of Admiral Giambastiani can be found in the Appendix on page 98.]

The CHAIRMAN. Admiral, thank you very much.

Mr. Patterson, thank you for being with us this morning.

STATEMENT OF J. DAVID PATTERSON, PRINCIPAL DEPUTY UNDER SECRETARY OF DEFENSE (COMPTROLLER)

Mr. PATTERSON. Thank you, Mr. Chairman and members of the committee. I am very pleased to be here to discuss what is clearly an important topic, not only for you but for the Department: acquisition reform.

Let me open my remarks speaking as a relatively recent addition to the Comptroller's Office by saying that the process to acquire weapons systems and services, to meet current and future capability needs can and should be better, especially in this era of multiple combat operations abroad, terrorist threats at home and competition for budget.

To that end, the goal of the Office of the Under Secretary of Defense Comptroller is to provide the Department with a rational, balanced budget, with sufficient internal control to achieve efficient, effective acquisition programs that meet cost objectives.

To my knowledge, before the completion of the most recent Defense Acquisition Performance Assessment, or DAPA, some 128 studies had been conducted over the course of the last several years to address perceived and real problems with the defense acquisition system.

In the 1980's, the focus was on fraud, waste and abuse. In the 1990's, we reflected the desire to make the process faster, better, cheaper. More recently, the goal has been to make the process more flexible and responsive.

Indeed, for nearly 60 years, the Department has been engaged in a continuous process of self-assessment to identify and improve the way it acquires weapons systems. But many of the same problems, particularly those related to cost and the timely delivery of needed capabilities, have been themes in most of the studies.

In many of the reviews conducted, almost since the Department was established in 1947 with the Hoover Commission, the focus was on procurement practices but not necessarily budget issues. And this is significant, because those practices that impact the ability of the procurement process to deliver effective capabilities on time and within cost requires the Department to create a stable budget environment.

Past reviews were also limited in their assessment of the interrelationship between the workforce performance, industry responsibility and the oversight and control mechanisms intended to make the system work efficiently and with financial discipline.

Last June, in response to the growing concern of Congress and the Department, Deputy Secretary of Defense Gordon England authorized an assessment of every aspect of the acquisition process, from requirements, organization and legal foundations, such as Goldwater-Nichols, to decision methodology, oversight and checks and balances, with the goal of integrating all acquisition reform activities into a single coordinated roadmap.

The project became the Defense Acquisition Performance Assessment. I served as the director for the DAPA project and have read General Kadish's testimony and believe he covered well the details very well. However, it is important to note that, broader than previous studies, the DAPA panel's approach addressed not only the "little A" acquisition process, which tells us how to buy things, but the "big A" acquisition system that integrates the three interdependent processes of budget, acquisition and requirements.

Among the important findings of the panel that are relevant here today is the idea that the program's stability leads to predictability in the program, as measured by cost, schedule and performance.

When program progress is predictable, in other words, when milestones are being met, estimated costs are actual costs and performance to contract specifications and Key Performance Parameters are achieved. Senior leadership in the Department of Defense and Congress will have their confidence in the acquisition process strengthened or renewed.

Additionally, it is critical for acquisition program's success that clear lines of accountability are established and maintained. When program managers have stable programs with predictable funding, it is much easier to hold the program managers accountable for program performance and cost discipline.

Achieving stable program budgets as a key element in building and maintaining stable acquisition programs is a Department of Defense objective for implementation. To achieve that goal, the Department has an initiative under way, as part of the Quadrennial Defense Review recommended roadmap, on improved governance and management to implement a DAPA report recommendation for a stabilization account or capital funding of programs.

We have established a working group that is, first, preparing a description of exactly what such a funding program would look like. Now, there are several ideas of what stabilization funding process would be; second, determining how rigorous internal controls would be established and maintained; gaining the confidence of Congress and the Department demands that strong spending controls be in place; and, third, identifying which programs would be the best

candidates for successful implementation of a capital or stabilization account for major programs. Not all program profiles lend themselves to a stabilization account.

And, last, we are looking for solutions to the challenges that will no doubt be encountered by implementing stabilization accounts for major defense programs.

The outcome of this working group will provide the body of the report on this subject, required by the National Defense Authorization Act of fiscal 2006, due to Congress in July. But any worthwhile solution to achieving budget stability and the resulting acquisition program stability, will require a collaborative effort among the major Department players and Congress.

I am pleased with the opportunity to discuss this important subject of acquisition reform and stand ready to answer any of your questions.

[The prepared statement of Mr. Patterson can be found in the Appendix on page 104.]

The CHAIRMAN. Mr. Patterson, thank you.

And to all of the panelists, thanks for your opening statements.

This is a big, big area, and we are going to have a lot of questions, but let me just offer one observation. First, you folks are going through lots of scrubs on how you can make the system more effective and more efficient.

It occurs to me that the systems that we are designing, even if you achieve extremely efficient construction schedules and funding schedules, if you look at the big ticket items that we have got out there right now, the $14 billion aircraft carrier, $3.5 billion DD(X), $2 billion submarine, that just starting with the blueprints for those systems and the way they are designed and the features that are designed in them, you are going to have perhaps a light drawdown on the cost of those systems if you have enormous reform in what I would call the subacquisition process. But, nonetheless, you are still going to have very substantial price tags.

Let me offer a question that I think goes to the threshold of this problem, and that is, when we designed the system, when JROC makes the final call on what the requirements are, do you have production engineers, that is do you have people in the room, technical people, who when you describe the requirements and everybody weighs with what components and subcomponents they would like to have in a particular system, do you have in the room production experts who can say, "If you do that, Admiral, you are going to jack your costs up 10 percent or you are going to raise it 5 percent or you are going to raise 25 percent or that is going to make it very difficult for the yards to mobilize and to do that or that is going to require a new technology." Do you have the producers in the room?

And the reason I say that is because in the domestic area a lot of designs are put into place not simply because they are sought after by consumers but to lend themselves to production efficiency. For example, if you are building houses, you can build production housing in this country in many places for $60 a foot. And they meet all the codes, and make all the requirements, all the insulation, all the safety requirements, all the livability requirements that are fairly standard throughout the nation. They will all pass

code, they will all get their permits, they will all be accepted by the governing bodies.

You could build next door to that $65-per-square-foot production housing $300-per-square-foot housing, which is not built with the intersession or the participation of the production engineers, it is done purely as a response to the requirements people, which in this case is usually the person that wants to build a custom home and wants nooks, crannies, elevations, room divisions and all the things that go into what people like to have and like to see.

My sense is that you don't have in these requirements councils hardcore technical people who are production people, not philosophers, not people with dreams of what technology might be but production people who say, "If you are not going to let me weld this thing in a straight line, your costs are going to go through the roof, and here maybe is a suggestion on how you can weld it in a straight line, here is a suggestion on a configuration that will save you a lot of money."

Do you have those people in the room?

Admiral Giambastiani.

Admiral GIAMBASTIANI. First of all, I would tell you that we don't have commercial or industrial folks in the room when we go through the actual approval of what I would call, what used to be called a mission needs statement, which is now an initial capability document, ICD. Okay, same approximate thing.

But what I would tell you is, when we actually make the determination, the answer is, no. When we develop up to the point that the document comes forward is there participation by technologists, engineers, et cetera, the answer is, yes, but in the room when we make the decision for the initial capability.

Now, what I would say to you to extend this answer on is that we have got a classic example of this where in late 2004, before I became the vice chairman, we issued an initial capabilities document for a program, the B–52 standoff jammer. It said, "Here is what we want in a limited scope program that covers a very small segment of the standoff jamming frequencies."

We then approved that document out of the JROC and recently here in the budget process for the submission, we canceled the program. And the reason is because folks in industry and within the Air Force, good and well-meaning people, started tacking on all kinds of other requirements and production designs, if you will, and capabilities that we did not ask for in the ICD.

So the answer, I would tell you is, is the cost grew from $1 billion to probably close to $7 billion and we looked at it and said, "There is no way we are doing this," and that is why we killed the program.

The CHAIRMAN. But maybe it would have been good if you would have had some real good judgment early from production people and you asked the question in a different way, which is, "Can we get this capability cheaply if we design it in the right way?"

Admiral GIAMBASTIANI. Sir, we did that, and that is why we picked the B–52 as a platform because it had electrical capacity generators and they were available aircraft. The problem is, is that when we started tacking on too much else, we knew that it wasn't

going to be possible to do within, if you will, cost and time constraints.

And what is important about this is, we killed this before it ever even reached what we call milestone A in the process. So we never even got to approving key performance parameters, a capability development document or any of those things that are much farther along in a program. And if you are going to do it, this is where to do it, early on in the process.

So that is an example that I want to give you of how we are trying to bring these cost and time constraints in based on what we know from not only production engineers but frankly from the scope of the requirements.

But I take your comment on bringing them in earlier as a very important one.

The CHAIRMAN. Okay. My astute staff member just gave me a note that said, "Industry advisors will always say yes to new requirements."

Mr. Green, I knew that. Just want to put that on record, but I think that is an excellent point, because when we—we just built a house or we are in the process. I sat down with a designer and put in all these great things that would be nice to have. I discovered after we had the house designed that when we tried to shrink the house a little bit these cuts that I made on the perimeter, notches, ended up taking away space and costing me more money to construct. I realize now that if I would have had a production engineer, that is a guy who builds houses, who understands construction costs upfront when we put the requirement, we would have saved a lot of money.

And so Mr. Green's second note is, "Do you folks have that organic capability to sit in at the initial meetings where you might ask the question this way: Do you think we could build an aircraft carrier for less than $14 billion with the requirements that meets, generally, the present requirements and maybe with a few innovations that will carry us into the future?"

That is kind of what I am talking about, Admiral, because I think once you set a basic platform into motion and you set down a base design, I think you are in the position you just talked about where you can veto or not veto subsystems on the basis that they are too expensive. You can cancel things. But you can't start a program ab initio and go in a direction that is going to give you lots of explosive on target for the same cost or for a lower cost.

Admiral GIAMBASTIANI. Yes, sir. Let me respond with two answers, briefly.

Number one, with regard to the comment about contractors and industry will tell you, that is what I was referring to in my opening statement by the art of the possible versus of the art of the practical, and that is what you are referring to, I believe, here.

The CHAIRMAN. Right, but the production engineers don't have to be out of industry.

Admiral GIAMBASTIANI. Right.

The CHAIRMAN. They could be organic to you folks.

Admiral GIAMBASTIANI. Let me give you an example of how Under Secretary Krieg and I have brought production engineers into the process of looking at a program, and it is called the Joint

Tactical Radio System. This program has opportunities for some substantial cost growth. And, frankly, within a week and a half of my arrival here, we started working on this program by bringing, if you will, people with experience in systems engineering and production engineering into the process.

Ken Krieg had named one to be the joint program manager, a person I am very familiar with by the name of Dennis Bauman who I have worked with for years inside the Naval Space and Warfare outfit.

And we have had, how many, Ken, three DABs on this, at least? And what I am telling you is, is that we have gone through and looked at every single cost driver and requirement based on production engineering to come out with what is the art of the practical, just the question you are asking, is it even practical to go do this.

And we have gone through and looked at each one of the key performance parameters that were mandated before he and I ever came into these jobs, and we have said, "Okay. Where are we going to cut back? Where are we going to make appropriate risk-based decisions so we can move this program forward to bring joint warfighter capability that can be produced on time, on cost and on schedule within a cap and not giving you another dollar more within the program?"

The CHAIRMAN. Okay. Thank you.

Dr. Snyder.

Dr. SNYDER. Thank you, Mr. Chairman.

Mr. Chairman, I appreciate you holding this hearing and this series. I think this is so important and so complex, and it became even more complex when I heard you use the phrase, "ab initio." I knew I was really over my head then.

I appreciate you all being here and——

The CHAIRMAN. That is a small town in Texas.

Dr. SNYDER. I bet it is, yes.

Mr. Walker, in your written statement, I am going to read a couple of paragraphs that I think really illustrate, and this is quoting you, Mr. Walker: "As I have testified previously, our nation is on an imprudent and unsustainable fiscal path. Budget simulations by GAO, the Congressional Budget Office and others show that over a long term we face and large and growing structural deficit to primarily the known demographic trends, rising health care costs and lower Federal revenues as a percentage of the economy. Continuing on this path will gradually erode, if not suddenly damage, our economy, our standard of living and ultimately our national security."

And then just before that, you refer specifically to DOD and you say, "In the past five years, DOD has doubled its planned investment in weapons systems, but this huge increase has not been accompanied by more stability, better outcomes or more buying power for the acquisition dollar. Rather than showing appreciable improvements, programs are experiencing recurring problems with cost overruns, missed deadlines and performance shortfalls."

I think those are two very powerful statements. One is in a narrow category of what you all are focusing on and trying to do your best job of improving, and you all have pointed out that it has occurred over decades.

And then, Mr. Walker, you put it in the context of we are a nation that does not have unlimited resources, and our national security also depends on our economic strength and our fiscal strength. So we have some real challenges.

Mr. Walker, in your written statements, you have some little charts in here. You have one for DOD, I think you have one for, let's see, one for the Secretary of Defense, one for military services and joint developers. You don't have one for Congress in terms of actions that we might do, and I am one that feels like the Congress has just dropped the ball in terms of providing oversight in a whole lot of different areas. But would you create for us a chart for Congress? What should we be doing?

Mr. Skelton had to leave and he specifically would like to know, his question is, "What is the single most important thing this committee can do to help DOD get on a path to fix the problems with acquisition?"

So if you would respond to that, Mr. Walker, and then the rest of you respond to what this committee could do.

Mr. WALKER. If I can, Mr. Snyder, let me do this: Let me tell you the six things that I think need to be done, some of which involve action by the executive branch and some of which will involve efforts by the Congress.

Number one, there must be a reconciliation of the so-called "big A," a reconciliation between unlimited wants versus true threat and risk-based needs versus how much resources we are likely to have to be able to fund those needs. That has never been done. It requires tough choices, it requires tough love, and it requires decisions both within the Department and by the Congress.

Second, to se realistic and sustainable basic requirements that you can stick with, which requirements are informed by what the chairman mentioned, then input of production experts and other technology and other experts that can tell you what is realistically possible given what you are trying to accomplish and given the resources that you have.

Third, take steps to try to provide some funding stability in connection with programs that, A, have gone through the "big A" reconciliation and survived it and that meet the second requirement that I mentioned.

Fourth, use commercial best practices, including making sure, as Under Secretary Krieg mentioned, appropriate level of technology maturity in the design, development and production phases before you change into the next phase. Make that an absolute hard and fast condition.

Fifth, move to more streamlined and simplified contracting approaches that better balance cost and risk and that are focused on achieving desired outcomes: cost, timing and performance.

And, sixth, structure incentive and award fee arrangements so that the government is paying for positive outcomes based upon cost, schedule and performance.

Now, I would respectfully suggest, and I can think of others, this is just over a few minutes, I respectfully suggest that, and we are happy to work with this committee to try to come up with some more specifics, but I think there are things the executive branch should do here, and there are things that through the authoriza-

tion and appropriations process could be done in order to make sure that these conditions are met.

Because in many cases, the policy manuals are beautiful but the difference between the policy manuals and actual practice can be wide. And a lot of it, quite frankly, is a cultural issue, and a lot of it is because in the past when there had been unaccepted outcomes there hasn't been any accountability. There have been no consequences, either internally or frankly from the Congress.

Dr. SNYDER. Do the rest of you have any comments on that area?

Secretary KRIEG. Yes. I never pass up an opportunity. I think the most important thing that we all can do is strategic choice. At the end of the day, strategic choice is not about what we decide to do as much as it is about what we decide not to do.

I sat at tables like this in my short tenure in this role and had people say there are requirements defined by X, Y or Z. You, as the Under Secretary, are choosing not to fulfill that requirement. Therefore, all unfunded requirements ought to come to the Congress and the Congress ought to pick and choose among unfunded requirements.

I am being provocative to say, if the bag is too full, putting more in the bag is not the way to get out of the problem, and our national problem on many of these issues is we are not willing to determine the difference between what we absolutely need as a requirement and what the sum of people's desires are as a requirement.

And as long as we reach for the ultimate capability, which is a cultural norm within the Department and as long as people are not willing to have someone's desire of requirements to be left off the table, this job will be very hard to meet those cost, schedule and performance and your desires for that kind of performance.

The CHAIRMAN. I would just observe that sometimes those unfunded requirements are things like ammunition, body armor, armor for Humvees, jammers.

Secretary KRIEG. I understand, sir, and I am said it is all our problems to choose what the right choice is. And I understand your role. I know that the role of the President is to propose the budget; the role of the Congress is dispose. The Constitution is very clear about that. I am not trying to get at that. I was trying to get at the point of strategic choice.

Dr. SNYDER. Mr. Chairman, I also respectfully suggest those are fundamental needs. You shouldn't have to get involved in that. And that ties back into the issue of we need to make tough choices and, candidly, it is going to be tough for the Congress. There is no way we are going to be able to fund all these programs.

And here is what my concern is, my concern is, if we don't change and we don't change now, every dollar we spend on a want is a dollar we are not going to have for a need down the road.

The CHAIRMAN. Any other comments on the gentleman's question?

Admiral GIAMBASTIANI. I might just add one comment. I take the discussion between the wants and the needs and the important piece we try to do from the military side is provide military advice on what the needs are. And that is what Goldwater-Nichols tried to really solidify was our ability to provide military advice.

Now, the question remains how you translate that military advice through a sensible requirements process to work hand-in-glove with acquisition and resourcing to bring in program stability and the rest. I could talk, as you know, Chairman, and we have talked at length over ten years on how to bring resource stability, requirements stability and acquisition stability to programs.

But what I would say to you is, that in the President's budget that we came forward here, we have given the Congress a series of choices on programs to take out and we said the bulk of the QDR would be instituted and brought forward in the Program Objective Memorandum (POM) 2008, or in other words, President's budget 2008 and the beyond, the Future Year Defense Program, and we have some substantial hard choices.

But I would tell you, I think we have made some pretty hard choices just in the submission in that short time of creation of the QDR. And you will see more coming through this process, I can guarantee you.

The CHAIRMAN. Thank the gentleman.

The gentleman from Minnesota, Mr. Kline.

Mr. KLINE. Thank you, Mr. Chairman.

Thank you, gentlemen, for being here and your testimony. I don't even know where to begin. I think the acquisition system is horribly, horribly broken, has been for many years.

Secretary Krieg, your predecessors going back have recognized that this system is broken. And we have JROC would and DAB would and done all sorts of bureaucratic things.

Just a comment, I think that, Mr. Walker, I think it was your comment that we had some culture that we had to change, or was it yours? I am sure that all of you recognize that.

And we just seem to be unable to do that on so many ways, whether it is the requirement process, which seems, Admiral, to be tremendously slow and cumbersome. It is not agile, responsive and less bureaucratic; it is cumbersome, unresponsive and tremendously bureaucratic.

And I am not telling any of you any—you know all of those things. It just is. So I have some despair that we keep trying to fix it and trying to fix it and trying to fix it and we don't fix it. Still, I wish you good luck, and I would like to know what we can do to help.

Let me go to another, sort of, related point, and maybe the chairman or somebody knows the answer to this; I don't. We became frustrated on this committee, and I think all of us in the Department of Defense and elsewhere became frustrated because we had soldiers, Marines and others who were being wounded and killed in action, and we wanted to provide a way to get agile, responsive, immediate help to those soldiers.

And so under the leadership of this chairman, we put into a law that the secretary of defense could, sort of, waive this bureaucratic entanglement, Federal acquisition regulations and the like and go buy it. If we needed it, go buy it.

If one of you knows, I would like to hear from you. If you don't, I would like it for the record. What have we bought under that provision? I know that we have had frustration here that armor getting on vehicles, Humvees and trucks, was slow coming even after

we had approved it. It seemed like other body armor and so forth was slow coming. There has been great frustration expressed by members to his committee that we haven't perhaps purchased enough jammers or other technology to help in the fight against Improvised Explosive Devices (IEDs).

Even when we passed what I thought was extraordinary legislation granting extraordinary power to the secretary, we slipped, it appears from here and I would like to hear otherwise, back into this standard culture, the normal process. We haven't verified the requirement, we haven't completed the developmental testing, we haven't gotten the operational testing. Something has slowed us down.

So that is my speech. The question is, for the record or if one of you knows, what have we purchased under that authority granted to the secretary of defense? And am I completely wrong in my assessment that we have fallen back into bureaucracy?

Anybody?

Admiral GIAMBASTIANI. If I could, Mr. Kline, what I would like to do is, first off, tell you that I think working very carefully with the Joint Improvised Explosive Device Defeat Task Force, now under the leadership of retired four-star general, Montgomery Meigs, United States Army, who was brought on board on the 12th of December specifically for his capabilities, we are using those types of authorities inside that Joint IED Defeat Task Force.

We spend a lot of time with the chairman of this committee and his staff director on this very issue, going back and forth on are we doing it right, are we doing it fast enough, are we doing it in the right areas. But I can tell you that General Meigs is using that to bring on board countermeasures and other devices in a way as rapidly as possible.

And, also, to cut through this bureaucracy, the stonewalls and everything else that are out there, the deputy secretary has signed a series of directives that allow us to fast track money out of my good friend, the Comptroller's Office, here to eliminate many of those requirements that we have along the process to produce these systems so that we can get them in the hands of our troops as quickly as possible.

And I would tell you we are deploying things much faster now. I could quote a series of statistics. I won't go through them right now, but that is probably one of the primary areas that we are really exercising the authority that the Congress has given us.

Secretary KRIEG. I want to add to that. We built a small joint rapid acquisition cell, a direct report to me and a direct report to the comptroller, who are the ombudsmen for those IED defeat and other urgent operational needs, for if someone is in the road, call there and they will clear it out. And that is the role they play to make sure that we have a rapid process to link need to solution.

Mr. KLINE. Okay. Thank you. My time has expired.

If I could just get from maybe it is from you, Mr. Secretary, a list of those things that the Department has acquired specifically under this authority granted in the statute.

Admiral GIAMBASTIANI. We would be glad to do that.

[The information referred to can be found in the Appendix beginning on page 115.]

Mr. KLINE. Thank you, and I yield back.

Admiral GIAMBASTIANI. Happy to do that, sir.

The CHAIRMAN. Thank the gentleman.

Under the initial thing, I would just tell the gentleman, partial answer to his question, under the initial authority we gave the secretary that said he could waive every acquisition regulation in America to get stuff quickly to the troops, we got one system out that the Army gave us a 13-month fuse on and we got it out the door in 70 days, 10,000 of them, to support the troops. Moved very quickly with great agility and lots of folks in the system have said that will never happen again. That one got through the door, we are going to study the rest of them forever.

So I am waiting for—if we get the second one out the door, then I will have some faith in that system.

Mr. KLINE. So that is a list of one.

The CHAIRMAN. It may be a list of one. That is under the secretary's special authority. That is the only one that has ever been used on that.

Secretary KRIEG. I would note, I think the system is reacting—I would like to give you a broader list than just that authority, because I think the overall system is reacting faster, and we don't necessarily need that authority in order to make things happen.

Mr. KLINE. Mr. Secretary, with respect, that is the list I wanted. If it is a list of one, then——

Secretary KRIEG. I will give you that list, but can I give you the other list in the timeframes of——

Mr. KLINE. You can, but this is an extraordinary authority that we have given the secretary to get past all of this culture and bureaucracy and red tape, and I would like to think that it had some effect.

Secretary KRIEG. I will give you that list.

Mr. KLINE. All right.

The CHAIRMAN. I think we are going to get that list.

The gentleman from Washington, Mr. Larsen.

And, incidentally, he has just produced a ship, a so-called sea fighter, that is 1,000 tons, goes 60 miles an hour. You put mid-range missiles on it, you can load it up with 100 times the firepower of a battleship with a crew of 26 people. So the gentleman just produced something in his district which is an extraordinary manifestation of moving quick, but in this case it was the ONR, the Office of Naval Research, that got that ship out the door.

The gentleman is recognized.

Mr. LARSEN. Thank you, Mr. Chairman. I didn't personally produce it, but——

The CHAIRMAN. Oh, sure you did.

Mr. LARSEN. Yeah, right. A lot of good folks in the district did and they are very proud of the work they have done, and I am looking forward to meeting ONR this Friday to talk about that.

Do you need new legislative authority to fix this or did Goldwater-Nichols provide enough authority and we just haven't done it after 20 years?

Secretary Krieg.

Secretary KRIEG. Well, we have offered some small authorities that we need. I would argue that you have given us broad authori-

ties to make hard choices and to drive the systems together. We have the authority to do what we are doing. I believe that several of the experiments we have under way to do portfolio management may ultimately need some authorities, but I cannot today tell you what those are. But we have got a number of experiments under way.

This concept decision, the investment review decision, the general management decision, we have to understand what that is and how to do that, and we would look forward to working with the committee if we determine we need authority.

I do feel that you have given us tremendous authority that we need to exercise.

Admiral GIAMBASTIANI. Here is the way I would answer it: In my experience, we keep coming up with systems to try to do better here. And, unfortunately, through some regulations inside the Department, some that are from within the committee and, frankly, many that are what I would call self-imposed within the Department, we have a tendency to create a very complex and cumbersome system, there is no doubt in my mind.

I will give you an example. I am a combatant commander who served for three years and am now up here as the vice chairman. I complained bitterly about this process I now run called a joint capability integration and development system. And I can tell you as a combatant commander I hated it because it took too long, was too bureaucratic and was too darn painful, and didn't have the staff to push stuff through. Plus, if something costs $10 or $10 billion, it seemed like we had to treat it the same way.

So up here we are trying to throw out most of this, break these down into joint capability portfolios which requires an overall approach to governance, management and execution.

So what I would tell you is, the Deputy Secretary, Under Secretary Krieg and I, I guarantee you, we will be to you if we need legislative relief on this one. I think a lot of it is self-imposed, frankly, inside the Department.

Mr. LARSEN. Well, and if that is the case, we want to help you self-impose that. I think that is, kind of, one of the purposes of these hearings.

I think another frustration reflected—and I want to use this to bounce off Mr. Walker—the President's budget proposal for the defense is $439 billion or so, and I couldn't tell you if that is too big or too small. I can't tell you that we could do the same with less or that we could do the same better with more. And I think that is the great frustration. We know what we buy, but we don't know really what we get.

And so, Mr. Walker, you released an assessment of major weapons programs and high-risk programs. Can you give us some common themes that were just driving up program costs in some of these high-risk programs?

Mr. WALKER. First, we haven't recognized the "big A"—wants, needs, affordability and sustainability.

Second, we haven't nailed down specifications or requirements upfront and stuck with them over a period of time.

Mr. LARSEN. Let me ask you about that. How do you stop—the yellow light is on here—how do you stop requirements from getting

ahead of technology? And then how do you stop people just adding on requirements?

The Navy is doing the new Multimission Maritime Aircraft (MMA) and it is being built and it is near the 737 plant in Benton, Washington. And I am just kind of tracking that a little bit, and I keep telling them, "Don't let anybody add anything to this thing until it is flying and it is up in the air, and we are actually using it. Otherwise, it will never get up in the air and it will never fly."

Mr. WALKER. Yes. I think one of the things we have to recognize in reality is that technology advances very rapidly. If you just look at information technology, we have a new generation every 18 months. Similar trends happen in other areas of technology. You have to be able to design and freeze that design and then you can play plug and play in the future if you want. The problem is, if you are always trying to build state of the art, if you are always trying to build a 100 percent solution rather than an 80 percent solution, you will in ever get done.

And so we need to be able to figure out what do we really need, what is realistically feasible within a realistic timeframe and given our budget. We need to lock that down, and we need to recognize that, look, we have got platforms, and I am sure the admiral and others can tell you, we have got platforms that have been in existence for decades and we have modernized those platforms after they were developed.

Look at the B–52. It is basically been rebuilt almost.

And so we have got an ability to deal with situations down the road, and we need to be able to adjust accordingly.

I think they have plenty of authorizations, and I think, quite frankly, one of the things you need to think about, this committee needs to think about is, what type of conditions might you impose and require them to meet before they can move to different stages.

Admiral GIAMBASTIANI. Let me give you one classic example of this where we can do this on time, on cost, on schedule, and we can do it exceptionally well. The President proposed in the QDR that was submitted by Secretary Rumsfeld on the 30th of September, 2001, to convert four *Trident* submarines to Nuclear Powered Guided Missile Submarines (SSGNs). It was put in the budget in the President's budget submission to the Congress in February of 2002. I had the pleasure of recommissioning the *USS Ohio* on the 6th of February, and the second of this class will be recommissioned in May, next month, followed within the next 15 to 16 months by the other two. That is pretty impressive.

And if you look at these selected acquisition reports on this, you will find that that program was on cost, on schedule, delivery and the rest of it. So it can be done. There are many other examples, just like there are those that are huge cost overruns or time overruns or both.

Mr. LARSEN. Thank you.

The CHAIRMAN. I thank the gentleman.

The gentleman from Texas, Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman.

Playing off of that answer, General Walker has got a list of six, some big, some small, programs and the common theme is that

they are all over budget and didn't work—not say they didn't work but they cost a whole lot more money than we thought.

Are there equivalent-sized programs, and maybe the submarine is, where the system did work, we were able to make tougher choices and lock in capabilities that could afford at the time we had them so there are some lessons to be learned there, some ways that we did it right in those as opposed to looking at the ones that we have done wrong where there are some lessons to learn? Equivalent programs that are as big as the ones in the chart?

Admiral GIAMBASTIANI. I will let Under Secretary Krieg speak on the acquisition side, but I think if you take a look, I have only read the summary of the GAO report, which I believe was released yesterday, but I have only read the overall summary.

What I would tell you is, is that I noted that the SSGN, which is not a small program, it is about $4 billion, was not in this list of 52 programs they looked at. But, in my view, it is a very successful one, as I have said.

Now, are there other examples of that?

Secretary KRIEG. We do have a number of them. We have programs that—C–17 works well. F–16 was a good—eventually, those were good airplanes. Their early days were tough. I mean, those were both failing airplanes early on, and we got together and made decisions and building blocks in the case 16. And the 17, you had to put a lot of discipline into the management structure in order to do it.

So we often stumble early in programs. I note that several of these are very early in the development, and we will see what they are. Several of them are very much longer.

So, I mean, I think the programs that have good, hard choices made early on and people make tradeoffs and provide stability, the programs work fairly well.

Admiral GIAMBASTIANI. I can actually give you a few more here that I think were pointed out by GAO that have been working programs and have mature technology and will probably turn our reasonably well: small diameter bomb, Aegis Ballistic Missile Defense System, SM–3.

Mr. CONAWAY. The point of my question, Admiral, was what worked correctly in those systems that doesn't work here? We don't need to brag on the systems themselves. I just want to——

Secretary KRIEG. Making trades early.

Admiral GIAMBASTIANI. Making trades early. And has been pointed out, if you use stabilized technology, clearly, you reduce the risk overall of a program. It is very important to do that. We have done this now, Secretary Krieg and I, with regard to some satellite programs.

Frankly, we have had a lot of trouble with these when he came in as Acquisitions, Technology and Logistics (AT&L) and I came in as the vice chairman. And we had to sit down and look at what the art of the practical was here, what could industry do. And those are the types of lessons we learned from these types of programs and how could we stabilize the technology. Those are some of them.

Secretary KRIEG. Mr. Conaway, real quickly, I think at least two common denominators. Number one, they set realistic and sustainable requirements upfront. It wasn't a dream, it was a need and

they stuck with it. Second, they use commercial beset practices in design, development and production to make sure that they had the appropriate maturity of technology before they moved to the next stage. I would respectfully suggest those are probably two common denominators. There may be others.

Admiral GIAMBASTIANI. The third common denominator, I would tell you, is that in most of these programs there is some budget stability. My experience says budget stability. The comptroller general mentioned that earlier, sir.

Mr. CONAWAY. What do you mean by budget stability?

Admiral GIAMBASTIANI. What I am talking about is where you are not changing the resourcing on a program every single year. For example, I need——

Mr. CONAWAY. Congress is doing that or you are doing that?

Admiral GIAMBASTIANI. Where we in the Department would do it or potentially where you would do it or both of us would do it. Frankly, you need to keep some stability. My experience is, if you keep stability, you take risk out of the program.

Mr. CONAWAY. Yesterday, we sat through a meeting on future combat systems and modularity subcommittee meeting. Obviously, the growth and the overall cost of that program, all of these are over what they originally budgeted. How does the Department control that? I mean, if you look at that one program, getting to a point where you just flat out can't afford it. It is a good program, it is one we need to have, but it crowds out everything else.

One of the things I have been particularly impressed with is the incredible number of moving parts in DOD procurement and acquisition. It is staggeringly complex. How do you make sure that we don't wind up and say, "Oh, my gosh, how did we get us into this position?" Who is looking ten years down the road at the growth in all these programs and telling us when we have got to quit in order to be able to keep the ones that are just absolutely necessary?

Secretary KRIEG. On that latter point, we actually do the kind of analysis that the comptroller general is worried about, about what does the future look like and will your likely revenue meet the needs of the future.

And I will tell you I did that with the director of Program Analysis and Evaluation, and I will tell you I can finish his sentences on many of the problems he lays out in the macro case, which is why as the capital acquisition head now, I am extremely concerned about driving choices earlier in the system so that we have a sense of what we can really do in order to deal with the likely revenue picture we will have out in the middle of the next decade.

Mr. CONAWAY. The "If everybody owns a problem, nobody owns it," who owns that problem? Besides the President and Rumsfeld and the chairman of the Joint Chiefs of Staff, who owns that issue at the DOD?

Secretary KRIEG. Well, the strategic choice is ultimately owned by the secretary and the deputy. I mean, these are the hard trades that one needs to make. We have derivative work that we do underneath it, but that balancing among various portfolios, that part of it is the senior most level. The fact that we have got to drive

requirements, cost and schedule together is, I think—I believe the three of us think we own it.

Mr. CONAWAY. Okay.

Secretary KRIEG. We have to bring our three processes together. Is there one bellybutton to do that? The answer is, no, not at the moment. But we feel collectively the need to drive that. Ultimately, the deputy and the secretary are driving that as well.

Admiral GIAMBASTIANI. I think you have got a hold of us accountable here between the resources, the requirements and the acquisition, and if we can't bring this together to make recommendations to the Secretary and the Deputy, then we are making a mistake. That is the bottom line.

Mr. WALKER. The only thing I was going to say real quickly is, I want to get on the table at some point in time, not to talk about it at length, that no matter how capable the individuals are that are sitting at this table, they are only going to be in their position for a limited period of time.

And one of the things that has to happen, in my view, at the Defense Department, and I realize that not everybody agrees on this, is that we need a chief management official who has a term appointment, statutory qualification requirements, a performance contract and a pro who would be there at the right level, with the right authorities and be there long enough to be able to deal with these issues.

DOD has 14 of 25 high-risk areas, and it is not because they don't have good people trying to do the right thing; they do. But you don't have the right people there long enough. These are cultural transformation challenges, and even in the private sector they take seven-plus years from the time that you start to the time that you have got something that is sustainable beyond the individual involved. And I think it has got to start with that executive branch, but the Congress has a critically important role to play. But Congress, obviously, is a lot of people.

Mr. CONAWAY. Yes, we change seats a lot too.

I yield back, Mr. Chairman.

Thank you. Appreciate those comments.

The CHAIRMAN. I thank the gentleman.

The gentlelady from California, Ms. Davis.

Ms. DAVIS OF CALIFORNIA. Thank you, Mr. Chairman.

And thank you all for being here.

Could we follow that line of questioning a little bit, because we had some testimony earlier last week talking about capacity building and the importance of having managers that were well trained, that we were holding accountable, that basically rang the bell when things weren't going the way that they should, when they were getting out of hand, when people weren't communicating, all those things.

And I wonder if you could give some assessment of that, the role that you think that that plays.

I am concerned, and I know, Admiral, you mentioned that sometimes the Navy is not consulted necessarily, that your input isn't always asked for, welcome. I think there was some indication, perhaps, of that.

So I am just trying to get a better sense of how we fix this. I really appreciate what you just said about having some continuity and staying power. How does the Congress fix that then, specifically? You say it is not legislative, but we know that we need to have people that are accountable, that are around long enough to do that.

And the other thing I just wanted to follow up is, would you be willing to even assess how much of this is ideologically driven? Is it a very small percentage, a large percentage at times?

Mr. WALKER. Well, let me just talk about the people element, which is what you are talking about. Any organization is only as good as its people, and if you don't have the right type of leadership that is there long enough, you are not going to be successful over the long term.

My view is, is DOD has, at least since I have been in my job, has always had very bright, capable, dedicated people. But one of the things that ends up happening is, turnover. I showed a chart on the Senate side to Armed Services to show how many different players are program managers, under secretaries of AT&L, all the different critical players just in the acquisition. It is no wonder we have got a problem.

I mean, nobody is there long enough, you get this kind of action whenever something goes wrong. And so my view is we need to make sure that we have enough people, with the right skills and knowledge, that stay in the critical positions long enough.

Now, obviously, that is easier to do when you are talking about civil servants and when you are talking about military officials than it is for political appointees.

I think one of the problems that we have is if you look at all the high-risk challenges that DOD has, acquisition is only one. Contracting is another, human capital is another, information technology is another, financial management is another, I can keep going on.

If we look at all those, we need to take a more strategic and integrated approach. Those deal with business transformation, not military transformation, business transformation. We need somebody at level two, call it principal under secretary, call it deputy secretary, call it whatever you want, reporting to the secretary who is working directly with the under, who is working directly with the service secretaries, who is also matrixing, obviously, with the military in order to try to help facilitate some of these tough decisions, in order to try to help deal with the structural reforms that are necessary across these different areas, who is going to be there long enough to be able to try to get the job done. And I am happy to provide more details.

But then you need to make sure you have got an acquisition workforce with enough people, with the right skills and knowledge and training, and that workforce is at risk. It is a lot smaller than it used to be, with a lot more complex systems, involving a lot more money and a very large percentage of those people will be retiring within the next few years. And we are not well-positioned.

Ms. DAVIS OF CALIFORNIA. Can you share with me how long has that kind of recommendation been out there for this reporting sec-

retary, level two? Is that something that has been talked about for years or is it a relatively new revelation?

Mr. WALKER. It is relatively new. It is something that I have been talking about probably about a year or two. When Deputy Secretary England came in, it was an issue that was on the table at that point in time, and Deputy Secretary England requested, and I thought it was a reasonable request, for him to have a year in the job to determine whether and to what extent he thought it was humanly possible for one individual to be able to do all the things that need to get done. It has been about a year, and so I look forward to talking with Deputy Secretary England.

My view is he is an extremely capable individual. I don't think there is a human being on the planet that can be deputy secretary and do all the things that have to be done, especially at a time of war, and be the chief management official and deal with all this business transformation effort, which is going to be a seven plus year effort. And even if he could do it, he wouldn't be there long enough. By definition, he won't be there long enough.

Secretary KRIEG. What is going on is the Congress of the United States asked for a report studying a report of that in the last National Defense Authorization Act. We have commissioned that study. In addition, the deputy said that he believed he was the chief operating officer and he wanted a year to think about it, so he has been doing it. We have been building the management infrastructure and decision-making infrastructure, part of what I described earlier, that has been under way, to try to do it, to try to put it into place.

And so to the chief management officer, there is a decision process that Congress asked us to do and we are working on that.

To the people, I think the people, frankly, is an issue that the Nation has had in front of it, civil service issues have had in front of it for several years. I think there have been two Volcker commissions that have looked at this over the last 15 years. As I said, it is my number-one initiative to try to get it framed and put in front of us.

The workforce was several hundred thousand. It is now down to 135,000. I have got it now documented by what kinds of jobs they do, where they are, what their age peers are. Eighty percent of them are civil service and 60 percent of those are in the old retirement system. For those folks, there is a number of age and years, and at some point they will leave.

And so I believe that is our—fundamentally, we talked a lot about portfolio management. The intellectual property management of the workforce is, I believe, the most important thing that I have got to get done in the next couple years is to frame that, put action plans in place and get us on the road to keeping the intellectual property capability that we are going to need for these complex systems in the future.

Admiral GIAMBASTIANI. Ms. Davis, if I could, I don't want to leave you with the impression that I wasn't asked as a combatant commander for input. My frustration was not that I wasn't asked, it was I am always asked but trying to get those requirements and capabilities through the system was incredibly painful and cum-

bersome. And so what I am trying to do, and what my staff is trying to do on the joint staff, is to make this easier.

We just came back from a Joint Requirements Oversight Council trip to all nine combatant commands for the first time ever. We brought Under Secretary Krieg as AT&L along with us. We brought the comptroller, David Patterson's boss, Ms. Jonas. But how do we cut this process back so that we can cut to the chase, if you will, and find out what the real needs are and get them into the system rather than taking months and thousands of hours? That is really what my frustration was.

Ms. DAVIS OF CALIFORNIA. I appreciate your talking about it. Thank you.

Admiral GIAMBASTIANI. Thank you.

The CHAIRMAN. I thank the gentlelady.

Gentleman from Michigan, Dr. Schwarz.

Dr. SCHWARZ. In general, what I need to know is how in today's world you really get to where the rubber meets the road when it comes to requirements. Let me give you an example.

About ten months ago or so, a very widely discussed item in this committee was getting the up-armored Humvees into theater, the 1114s and the fact that they weren't moving as rapidly as possible, and the armoring process in theater was really not satisfactory. It was better than nothing.

I picked up the telephone and I called AM General, which is not in my district but just south of my district in Southbend, Indiana, and I have a good relationship with the UAW, the United Auto Workers. And so I talked to the president of that local. I said, "Why is production of the 1114s not higher? Why are we not getting more into theater? Why aren't you getting more of them off the line?"

He said, "Congressman, I can put a second shift on tomorrow to increase the production, I can do it tomorrow. I have the workers, I have the skills there. It is not a matter of training anyone. They are working a shift Monday, a shift Tuesday, a shift Thursday, a shift Friday and that was it.

Now, I think that message got through and that is precisely what happened, and production was ramped up. And I thank the Department of Defense and I thank the United Auto Workers for doing that.

The object is how do we deal with today's priorities, the immediate needs where capacity exists and, well, not ignore, know what level of importance, what degree of importance conceptual needs, quite frankly, the DD(X) and the F–22 come to mind in that category. How do you make the decision of what has to be done now and what is out there in the future but really isn't helping the men and women in theater and how do you deal with that?

Admiral GIAMBASTIANI. What I would tell you is, I can't speak to the up-armoring of the Humvees, I wasn't around at the time. But, obviously, we went to the production and, frankly, I understand we have gone from 500 to probably almost 12,000 of these now.

Dr. SCHWARZ. You fixed it.

Admiral GIAMBASTIANI. Right.

Dr. SCHWARZ. You fixed it.

Admiral GIAMBASTIANI. Yes, sir. Now, what I wanted to tell you is, is our Combatant Commanders get to come in with what is

called a joint urgent operational needs statement. So if you take a look at General Abizaid at Central Command, for example, or any of the other Combatant Commanders, they can come in with what we call JUONS, joint urgent operational needs statement.

In addition, each of the services has their own operational needs statement urgent variety, and they will come in through a service chain to produce those.

Now, I am currently going through a review of how we do this so that we can put some discipline in the system and make sure that we are being as responsive as possible as a vice chairman, but I can't give you a firm answer on exactly how it is coming out. But I am essentially assessing and auditing this process to make sure we are doing what you are asking about.

Dr. SCHWARZ. The key word is responsive, and thank you, Admiral, for using it. I was about to use it.

Admiral GIAMBASTIANI. Yes, sir.

Dr. SCHWARZ. Is there any way that the Congress can help assist and be more responsive?

Admiral GIAMBASTIANI. What I would tell you is that there are a couple of things. One, support for joint urgent operational needs, like the IED Defeat Task Force. You have been incredibly supportive of this across the board. Please continue to do that. We will come forward with others that generally are being put into these war supplementals, and your support of those is incredibly important.

We have to come forward and make sure that you understand where we need this help, but those are the mechanisms I would tell you right now.

Dr. SCHWARZ. Thank you very much.

With one comment, I would yield back, Mr. Chairman, and that is, we are on your side.

Admiral GIAMBASTIANI. Yes, sir.

Dr. SCHWARZ. This committee is on your side, and whatever we need to do to make it more responsive, I am certain that the members of the committee, and I speak for myself only, but I think I speak for most of the members of the committee, that we will do what is necessary.

Admiral GIAMBASTIANI. Yes, sir. Thank you very much.

Secretary KRIEG. Could I try, just on your how do you balance among priorities. The way I think about it in acquisition is we have got to be able to work in three broad timeframes at a time. On the one hand, we have to be able to deliver against urgent needs now. We have to be able to deliver capability to Combatant Commanders who have got needs in the intermediate term. And at the same time, we have got to be developing, whether it is a hedge against changes in the future or dissuasion against potential competitors in the long term, we have got to be able to work in all three of those time zones at the same time.

They are not maybe necessarily one process that does each of those, but the balancing among the priorities is one of the hardest things that we all do. But that is kind of how I look at it as we are beginning to think about this time and acquisition working together.

Admiral GIAMBASTIANI. If I could add, Dr. Schwarz, just one other comment on this because this is very important, and I am sorry that I did not bring it up before. In this recent combatant commander trip that we went on with the JROC, if you will, and the senior civilian leadership, for the time ever what we tried to do was bring together all of the Combatant Commanders' requirements, whether they were urgent, mid-term or long-term, display them across all of the combatant commands, make sure that we had what they were requesting correctly—we had never done this before—and then look at the gaps in the capabilities, if you will, through each of our functional areas.

And this turned out to be a very, very good way to show this to the combatant commands and their staffs to make sure that we were capturing their urgent needs, their mid-term and their longer-term capability requirements.

Dr. SCHWARZ. Thank you, gentlemen.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank the gentleman.

The gentleman from Colorado, Mr. Udall.

Mr. UDALL. Thank you, Mr. Chairman.

Welcome, to the panel. Thank you all for your service.

Mr. Walker, I want to direct a question to you, if I might, and wanted to preface it with an old story that you hear on the Hill about a legislator that is asked where he stands on a piece of legislation. He responds, "Some of my friends are for it, some of my friends are against it. I am for my friends."

In your situation, you have been for the taxpayers, and I want to really thank you for that. I know not everybody waves at you with all five fingers up here on the Hill, but I think——

Mr. WALKER. I have been pretty lucky. I haven't had a "we are number one," yet.

Mr. UDALL. Well, thank you again for your service.

I think what we are trying to do is get at the problem that we face, which is there is no limit to virtue and there is no limit to defending this country, and we have to settle on some key priorities. On page two of your report, I thought there was a very powerful sentence there that, "Continuing on this path will gradually erode, if not suddenly damage, our economy, our standard of living and ultimately our national security."

I know you have been making that case all over the land.

In the spirit of function follows form, I wanted to focus on the QDR for a minute and wondered if you would speak to your comments that the QDR doesn't do a very good job of separating needs from wants. How would you see the Department going about doing this? And, finally, is the QDR still an effective tool, an effective process, if you will?

Mr. WALKER. Well, let me speak intellectually as to theoretically how I think the process ought to work, and then I will comment briefly on the QDR.

In theory, you would develop a national security strategy, which is the broadest. You would then develop a national military strategy. You would then make sure that your QDR is consistent with the first two. And that is the logical order. We don't necessarily do it in that order, but that is the logical order.

I have read the QDR document, and there are some good things in the QDR document. At the same point in time, I will tell you that I do not believe, based on my preliminary reading, that tough choices were made nearly to the extent that they need to be made with regard to the "big A." And I said before, I didn't say any of them were made, I just don't think that the tough ones have been made.

And, quite frankly, Congress is going to have to be part of that process, because Congress many times asks the Department of Defense to do thing that it wants done but are not threat and risk-based and are far beyond the Department's ability to deliver needed capabilities within an appropriate timeframe.

So this is not going to just be changed management within DOD. This is changed management on Capitol Hill. I lead that document, and I just wondered how much that document cost in terms of person hours and in terms of hard dollars.

And I was reminded of the commercial that we have probably all seen on TV where you have these business people sitting around the table trying to cut cost and somebody asks the question, "How much did all this paperwork sitting on this table cost?" Millions. Well, God knows what the QDR cost. I question the cost-benefit of what came out. That doesn't mean it wasn't a decent exercise, but we are not making tough choices, and my question is, why are we not making tough choices?

Secretary KRIEG. A couple things. Both the Secretary and the Deputy and as the Vice said earlier, our view is to step back. If you think that the QDR will be an all-encompassing document that will go all the way from strategy task and will completely reorder the defense enterprise, in one document, in one year, which is sort of how the statute lays out its challenge, respectfully, that is not going to happen. It is too hard.

And so I think you need to look at it, and the vice noted this, you have got to look at it as a continuum of decision-making and strategic planning over time, and the role the document and the debate behind plays is how it begins to shift the emphasis, it begins to lay out the vectors of change, which is good because that starts to set where you want to go.

The hard choices of what you are going to do without versus what you want more of is that process of strategic choice that I talked about earlier. And I think that that is an ongoing process. As the vice said, the secretary has made clear he believes that 2007 of the budget was just a small down payment in the choice that is going to have to be made; 2008 is next. And it is a process of change. Too hard to do it all in one fell swoop. I mean, it is a big set of choices.

The document lays out some visions. The hard choices associated with it will continue to flow.

Admiral GIAMBASTIANI. I would tell you, if I could, sir——

Mr. UDALL. Admiral, we have been waiting for years for a Navy captain to sit in the chairman's seat, so it is great to see Congressman Schwarz there, but——

Dr. SCHWARZ [presiding]. Unfortunately, I never made captain. Let's make that clear, or anything close to it.

Admiral GIAMBASTIANI. You look like you are the captain now, sir.

Dr. SCHWARZ. Thank you, Admiral.

Admiral GIAMBASTIANI. If I could, Mr. Chairman?

Mr. UDALL. Please.

Admiral GIAMBASTIANI. Congressman Udall, what I would say to you is to follow this on. The comptroller general mentioned you would take the national security strategy and then come out with a national defense strategy, really, and a national military strategy. That is exactly what we did.

And the exact same people that worked through this then brought it to the next logical step, which was the Quadrennial Defense Review. This is a strategy document; it is not an execution document.

Now, what should you expect from us in the Department, military and civilian? Ken has mentioned this already. I would tell you, you should expect for us to bring forward the bulk of these tough choices in this QDR as we build the President's 2008 budget and the Future Year Defense Plan from there.

We made the down payment in 2007, but we are working very hard on this. I think the QDR will matter for one very, very important reason, and that is the same people who brought you this QDR are now going to be working through the execution piece of this as we build eight execution roadmaps and we bring forward the President's budget for 2008 and that Future Year Defense Plan.

And there is great consistency in this team. You have heard a lot of discussion about having the same players in place, and there is significant consistency in the people who put it together, and now we have for the first time put into place a Deputy's Advisory Working Group, which the deputy secretary and I co-chair, comprised of all of the senior military and civilian under secretaries, vice chiefs of the services, et cetera, and these are the same people that put this QDR together.

So I think there is goodness here. Frankly, you are going to have to grade us as we build it. Are we going to fix everything in a minute? No. This is a very long-term process. You can't fix all of the requirements that have been instituted in the program for the last 10 or 20 years, but my view on this is, is you have to stay on it every single day, and that is what we are doing.

Secretary KRIEG. Mr. Chairman, 20 seconds, can I just close out on that?

The CHAIRMAN. Please.

Secretary KRIEG. Do not underestimate the degree of difficulty that will be necessary in reconciling the "big A." What has been done for 2007 is an immaterial, immaterial down payment on what needs to be done, just like what Congress did for the last Deficit Reduction Act, it was very tough, highly immaterial as to what needs to be done. The line barely moved on the long-range imbalance.

So we are talking about dramatic, fundamental changes and very tough choices.

Mr. UDALL. Which, Mr. Chairman, the Congress has to also make at some point.

Thank you for your indulgence.

Dr. SCHWARZ. Thank you, Mr. Udall.

The gentleman from Georgia, Mr. Marshall.

Mr. MARSHALL. Thank you. I apologize for not being here at the beginning of the hearing. This is a subject that I am very, very interested in. I had an Ag Committee markup, and that is what delayed me, so I may be covering ground that has already been covered, and for that, I apologize.

I am also struck by your statement, which you have, Mr. Walker, repeated time and time again that the large and growing structure deficit that is facing us is going to have the effects that you describe, gradually eroding our economy, our standard of living and ultimately our national security.

You are not suggesting—I know you are not suggesting, but I would like you to go ahead and say it if you haven't already—you are not suggesting that by injecting more efficiencies and cost-effectiveness in the Defense Department's procurement, management, et cetera, processes, that somehow this structural deficit that we face is going to be cured.

Mr. WALKER. No way.

Mr. MARSHALL. And, in fact, if I am not mistaken, the percentage of the projected structural deficit that could be attributable to perceived inefficiencies, real inefficiencies, no question about it, inefficiencies in the process of acquisition within the Defense Department is miniscule.

Mr. WALKER. I think if we do the six things that I mentioned before, we can save billions of dollars a year.

Mr. MARSHALL. I absolutely——

Mr. WALKER. But it is immaterial to the long-range imbalance.

Mr. MARSHALL. And when you say it is immaterial to the long-range, what you are talking about really, and you could do the estimate, I am sure, but what you are talking about is it is a percent or two percent of the long-range structural deficit that we face.

Mr. WALKER. Right. Immaterial generally means less than five percent.

Mr. MARSHALL. Okay. So no matter how efficient the Defense Department becomes, no matter how many tough choices it makes, et cetera, it is still going to be faced with—unless we deal with other matters, the structural deficit that we have created—it is still going to be faced with a huge problem and unable, in your opinion, to adequately defend ourselves.

Mr. WALKER. There is no question that you have got do things far beyond the Defense Department. You need to look at entitlement programs, you need to reengineer the base of entire discretionary spending, most of which is based on the 1940's, 1950's and 1960's, conditions that existed in the United States and the world in the 1940's, 1950's and 1960's, and you need to look at tax policy, including tax preferences.

Mr. MARSHALL. All right. So what goes out and what comes in? And you can look at what is projected to go out and what is projected to come in and you see a huge deficit in the future, which all the improvements we are talking about today won't even come close to touching.

Mr. WALKER. No, but we ought to make them.

Mr. MARSHALL. I agree with that, but everybody needs to understand that the structural deficits we face in the future threaten our national security, simple as that.

Now, one of the things that we are intently interested in on this committee is "Buy American." We try to do what we can to maintain the infrastructure that we think ought to be maintained within the United States in order for us not to be dependent upon some foreign government for critical supplies to our military, to our defense establishment.

And so from time to time, we will do things like look at shipbuilding capacity here within the United States and how do we maintain that shipbuilding capacity? And if we opened up competition for the development of a particular vessel, a particular platform and, say, let it be built in Malaysia, we might get that same platform for a fraction of the cost.

Let's assume that we have concluded that as a matter of national security we are going to maintain within our country a basic infrastructure, not whether we should but we are going to do that. How do we go about doing that?

Mr. WALKER. Well, I think one of the things you have to do in this area, which is going to have to be done in other areas like health care and a few others, is you talked about one of the key words, "basic," and, "essential," is the second word.

What is the basic and essential level of capacity that we need to have for national security reasons? And that may be different than what we have right now. It may be less than what we have right now. May be more than what we have right now, but we need to engage in that discussion and debate.

Mr. MARSHALL. Well, and I am hoping to get some guidance from you on this subject, because as things are trending here in the United States, it is becoming more and more expensive for us to produce, maintain, supply, et cetera. And, in part, it is because our capacity to do that as a country is being diminished, just eroded away, as we outsource, move industrial production, et cetera, overseas.

So we have got this national security need for essential services, essential platforms, those sorts of things, let's define it. In the long run, how do we have a cost-effective ability to maintain that capacity within the United States without making some major structural changes in the way we are doing world trade, in that way we are just, sort of, generally manufacturing things worldwide. That is the question.

Mr. WALKER. I understand. I will be happy to provide some more for the record. I do think that we have to recognize that we are in a global economy and that if you focus on basic and essential and making sure that we have that and recognize there are a lot of things that we need and in some cases want that are not basic and essential. And there is no reason that we shouldn't be able to acquire those elsewhere, especially if they are trusted allies. But we really haven't had that discussion and debate.

Same thing like health care, for example, and I will get off it real quickly. We have never had a national discussion and debate on what are basic and essential health care services that every American needs, every American. We have never had it.

And what is the appropriate division and responsibilities between the government, employers and individuals?

[The information referred to can be found in the Appendix beginning on page 113.]

Mr. MARSHALL. I see my time has expired, Mr. Chairman.

Dr. SCHWARZ. The ranking member, Mr. Skelton.

Mr. SKELTON. Secretary Krieg, my understanding is that you have a 23-point plan; am I correct?

Secretary KRIEG. We are tracking 23 items that came out of the QDR that we are moving into either implementation and the signing responsibility. We are evaluating how to make a decision, looking at a number of the studies and trying to figure out whether I disagree. But, yes, we have got 23 things we are tracking.

Mr. SKELTON. I was led to believe that you would be covering those 23 points today. Was I wrong?

Secretary KRIEG. I covered a number of the points that——

Mr. SKELTON. I am sorry, I had to step out, but did you cover the 23 points?

Secretary KRIEG. I didn't cover all 23, but I covered what I thought were the big five or six.

Mr. SKELTON. All right. Name them very quickly, the five or six.

Secretary KRIEG. The five or six items? Portfolio choice, building concept decisions and the investment review between and among acquisition requirements and resources; time defined, working time as an acquisition element; supply chains, building a joint supply chain capability—concept decisions was the choice one—manpower issues, the whole acquisition workforce, for which there are a number of the 23. And then the business systems improvement, which is another one of them.

Mr. SKELTON. When will you have the 23 prepared to present to us?

Secretary KRIEG. Well, my written testimony lays out nine of them.

Mr. SKELTON. No, let me ask the question again. When will you have the 23 prepared to give to us?

Secretary KRIEG. Yes, sir. Of the 23, some of them we are still deciding whether or not to do. We are working that all this year. I will be glad to provide you where we are on all 23 of them and make that available.

Mr. SKELTON. Well, your proposals for reform require legislation.

Secretary KRIEG. We have sent several small pieces over to you already, particularly on rapid acquisition and a couple of other ones. I think most of them that I know of today are inside our control. I think there are several of them that might—the manpower piece we will need to work with you on.

The joint portfolios, we will at least need to describe—whether we need legislation or not, I think we need your understanding of what we are doing. So whether that requires legislation to do it, I don't know. We clearly need you to understand what we are working there. But I don't foresee a need, Congressman, right now for specific pieces of legislation that I can see today.

One point, we talked about capital budgeting or stabilization accounts or something like that. Obviously, that will be one where we

will have to come together. We will bring you a report by statute in June or July. We will bring that up here.

Mr. SKELTON. When will you have your 23 points formally submitted to us?

Secretary KRIEG. I will take it as a question for the record, and I will get back to you.

Mr. SKELTON. Well, give us your best judgment today.

Secretary KRIEG. I mean, I can go back in the next couple of weeks and show you where we are. I mean, that is not hard to show you where we are.

Admiral GIAMBASTIANI. When do you think it will be finalized?

Secretary KRIEG. When it will be finalized? Today, sir, I don't know when I will get all 23 finalized. I can't answer that. I can tell you where we are tomorrow when I go back and look at my notes.

Mr. SKELTON. Would you do that?

Secretary KRIEG. Yes, I would be glad to.

[The information referred to can be found in the Appendix beginning on page 113.]

Mr. SKELTON. Thank you.

The CHAIRMAN. Are there further questions of members of the committee?

Mr. Larsen.

Mr. LARSEN. Mr. Patterson, I am sorry I wasn't here. I am sure when I was gone you were just rattling away. Nobody wants to ask you a question, but I have got one for you. I have got a couple for you.

Because you are involved with the Defense Acquisition Performance Assessment (DAPA) study, one of the recommendations is to elevate the role of the Director, Defense Research and Engineering (DDR&E), and I wanted you to walk through why that is necessary, elevate to what level and what different role you might see for DDR&E than currently exists.

Mr. PATTERSON. Actually, Congressman, that was a recommendation of the Center for Strategic and International Studies (CSIS).

Mr. LARSEN. Okay.

Mr. PATTERSON. That is not ours, and I will leave that to Pierre Chao to get back to you to——

Mr. LARSEN. I am sorry, in our staff memo it has DAPA in the synopsis of the four studies. It has elevate role DDR&E under DAPA.

Can someone answer that question?

Mr. WALKER. Yes. I mean, the——

Mr. LARSEN. I am sorry. I gave you an opportunity and you just——

Mr. PATTERSON. I know, but I hate to put words in Pierre's mouth.

Mr. LARSEN. Okay. I will follow up with Pierre. Thanks.

Mr. WALKER. I won't try to put words in Pierre's mouth either, but I think the notion was that technology choice is one of the most important things that the senior most level of the Department does. And so remember that in the history of things, the precursor to the under secretary for acquisition was the director of defense, Research and Engineering.

Mr. LARSEN. Right. Yes. Like the number three.

Mr. WALKER. And so now the under secretary of defense for acquisition, technology and logistics is that position with the DDR&E being one of my direct reports.

In their argument, they would put technology as the lead. John Young, the new DDR&E, clearly has a very strong role, both in the technology maturity determination but also, I think, in the what I call strategic vectors for technology. What are the strategic vectors? What are the capabilities we need in this next generation of competition, and what then are the implications for technology, and how do we organize our technology effort in order to drive capability over time?

John has got that portfolio to work on.

The third big piece then is, and the comptroller general will know this one in great detail, the gap between technology development and programs. The great divide has been of challenge in defense acquisition for a long time. That is clearly one of the areas that he is particularly interested in. So I feel he is taking the role of DDR&E and has the authority to take the role in the direction that CSIS intended. I don't know exactly what they meant in terms of elevating its role, but I think those were at least some of the things they were after. And John has got that responsibility.

Mr. LARSEN. There is a question that DAPA did talk about and that was the acquisition stabilization accounts. And could you explain what you all meant by that and what you hope to achieve with that?

Mr. PATTERSON. Yes, sir. What I would like to point out very quickly first is that none of what the panel recommended are single-point solutions, and they all work together. But the stabilization account, as it was envisioned, is an account where a program is funded at some point. Milestone A was the recommendation through Initial Operation Capability (IOC). So the program manager knows how much money that entire program is going to cost.

Within that, however, it must be a time-definite program. It can't be open-ended. So you have a specific amount of money over a specific amount of time, and the trade space then becomes technology within that.

And the program manager then understands what that person is accountable for, and you can hold them accountable for maintaining cost, schedule and performance, because it is pretty clear.

Mr. LARSEN. To do that, I haven't read the report that, but for the stabilization accounts would we step outside the animal year-to-year annual process and say this account is going to have this much in it over this amount of time; is that what——

Mr. PATTERSON. Correct. That was envisioned, exactly right.

Mr. LARSEN. Was management reserves discussed?

Mr. PATTERSON. They were and they were also recommended.

Mr. LARSEN. Just if I may, Mr. Chairman, just one last question with regard to management reserves. I think, is it the Young panel—yes, Tom Young's panel, right—talked to us last year a little bit about—and Strategic Forces Subcommittee on satellite issues and so on, space issues—about a management reserve.

My question on the incentives on that is, if you create a management reserve, it is technically the reserve but how do you stop

someone from spending it because it is there? How do you all address that?

Admiral GIAMBASTIANI. Well, the way we address that is, taking it from the top down, is that you look at all the successful corporations. Every corporation has a capital budget. They also have a management reserve in order to take care of those things that come up that are unexpected. You take care of that by setting a set of rules, and those rules apply to how you are going to spend the management account. And if you don't meet the rules, you don't get to use the account.

Mr. LARSEN. I understand that, and that sounds great from a corporate perspective, a private corporate perspective. One of the problems we have is in a lot of government those rules never actually migrate over into the public sector as well as they should.

Admiral GIAMBASTIANI. We don't generally codify the rules. That is the problem.

Mr. WALKER. Well, even if they are codified doesn't necessarily mean they are followed. I think what is important is I personally believe that some type of reserve funding is appropriate to provide funding stability provided that certain conditions are met that deal with reform of the acquisition process.

And in addition, you would have to make sure that you had appropriate transparency over these funds, separate accounting for these funds, periodic reporting, appropriate controls and if people violate it, there need to be consequences.

Mr. LARSEN. And speaking to that, the thinking behind the panel that you would have a—because, quite frankly, we are not so naive as to believe that this will be smooth sailing through the appropriators.

But if we are required to come over and breathe twice a year on how they are program is going, then there is, at least the oversight that might not be there otherwise in any format. But if the program manager is required to come and say, "This is what we are doing, this is how it is going," and we make that person accountable with a responsibility and authority——

Dr. SCHWARZ. Mr. Marshall, I think you have one more question. Is that true? Please go ahead.

Mr. MARSHALL. I would be very interested in seeing what you—if you could share with me whatever you supplement the record with with regard to this "Buy American" business that we were talking about.

And back to the structural deficit problem that we face. It is not going to get cured by all the things that we are talking about today, but it is going to affect our national security because defense spending is discretionary, basically.

Have you done anything that you could share with me, have you all written something on this subject? I mean, reams of things on the general subject, but specifically is it going to affect defense? No.

Secretary KRIEG. I will be happy to provide you something.

[The information referred to can be found in the Appendix beginning on page 113.]

Mr. MARSHALL. Have you also done—and this is almost a complete digression, I am getting back into the weeds—have you done anything looking at the trend that seems to be growing here, and

that is preference for leasing as a financing technique in order to get a platform now or get something?

Secretary KRIEG. Well, I don't know that there is a preference leasing. I would ask the under secretary or others to comment. I will say this, the way you keep score matters.

Mr. MARSHALL. And how you handle that budget-wise.

Secretary KRIEG. That is correct. And, therefore, we have done work in the past where there have been proposal to structure transactions as leases in order to get the capabilities quicker because of the way the budget rules work. But in some cases, they didn't meet the substance-over-form test for meeting operating leases. They were really capital leases, and they really should have been treated that way.

There are clearly circumstances in which these versus purchase makes sense. At the same point in time, I hope that we can ultimately get to where our rules, including our budget scoring rules or such where we are making sound economic decisions based upon what is in the best economic interest of the government and the taxpayers rather than just what gets the best scoring rules. Because sometimes you can end up making uneconomic decisions by entering into lease transactions that end up causing you to pay less today but ultimately you are going to paying a lot more.

Mr. MARSHALL. And I agree that leasing is a good vehicle in the right circumstances. One of the way that local governments—I was a mayor—imposed fiscal discipline upon themselves is to pay for things in cash. So you force yourself each budget year to make hard choices.

One of the things you have talked about trying to create a regime in which we make hard choices within the Defense Department, choices that you don't think we are making right now with much aggressiveness. And what we wouldn't want to see—and I guess I need a financing vehicle that enables not to make those hard choices. Is that essentially what you are getting at?

Secretary KRIEG. Right, and I agree with that. And the other thing you have to keep in mind is, as you know, many states, for example, and you were a mayor, have balanced budget requirements, constitutional requirements of 49 out of 50. But it all depends on how you define balanced budget. California defines it as balancing cash flows; therefore, you borrow the difference. Well, on that basis, we have a balanced budget, but it is not a balanced budget.

Mr. MARSHALL. Thank you, Mr. Chairman.

Thank you.

Dr. SCHWARZ. Chairman Hunter.

The CHAIRMAN. Thank you, and I want to thank the gentleman from Michigan for doing such a great job in chairing this hearing.

Let me go over a couple things real quickly.

Mr. Walker, you talked about touch choices, but, actually, if you look at some of the things that has been done by DOD recently, they have made some tough choices in terms of just absolutely canceling systems. The Army canceled its foremost ground system, which was the Crusader artillery system. Then they canceled their bright and shining new helicopter system, Comanche, I mean, two major, major cancellations.

And if you look at the array of aircraft in the Air Force, bombers are anchored by a system, the last one of which was built in, I think, June of 1962, B–52. We have got, count them, 21 B–2 bombers, a handful of B–1s, a large number of which were scheduled for retirements, and we have got major retirements, which to some degree are troubling to me and I think other members of the committee in our deep strike portfolio today. We have got ancient tankers.

I mean, 20 years ago you could look at a list of 10 or so new aircraft being produced. Today, you have just a handful, and F–22 has taken marked decreases in numbers, largely as a product of sticker shock and budgetary constraints. Those decreases in numbers, in turn, lead to higher per unit costs.

So I have a little different perspective than you do in that I think perhaps our defense apparatus is not as robust as it needs to be and that we are going to have to spend more money on defense. We are now down to about 3.9 percent of gross domestic product (GDP). Kennedy, President Kennedy was at 9 percent of GDP spent on defense; President Reagan, 6 percent. We are down to about 3.9 and my question is whether in this dangerous new century that we thought was going to be a fairly easy century we can get along on that percentage of GDP.

Now, my second issue goes to the procurement personnel system, the acquisition system. During the 1990's, we made a study on this thing, and we had 300,000 professional shoppers. Now, those are not people who were engineers, they were not people designed the systems. They were people who did paperwork on buying and selling systems.

When we calculated how much each of the 300,000 shoppers was paid, on average, that is two United States Marine Corps as professional shoppers. And we brought in the services who had paltry procurement budgets in the 1990's. The Army, for example, spent on the acquisition personnel, and, again, it is not the designers, not the engineers, but people did paperwork. If they bought, and I recall what the ratio was, if they bought a $10 million helicopter, they paid the guy who did the paperwork to buy it $3 million.

Now, if you translated that to 30 percent of the money that was then being expended by the Army on procurement, if you translated that into new procurement by eliminating the overhead of the acquisition Army, literally, you could have bought a heck of a lot more. And if you compared that to private industry, I mean, if you told General Motors or Wal-Mart or anybody else that the guys that went down and bought their stuff, who did the paperwork to buy their stuff, were going to get a third of the money, well, their jaws would drop.

And so I think the problem hasn't been that we have got too few people in the acquisition system. So we set about asking you guys to reduce it. Now, arguably, you reduced the wrong folks, but I was reminded by industry that for every one of that Army of 300,000 professional shoppers that you maintained, there was a counterpart Army of 300,000 interactors that industry maintained to interact with and do the briefings and do the analyses and respond to the reports and requests of the 300,000 shoppers in DOD.

So in reality, the American taxpayer was carrying an army of 600,000 people shuffling papers for an extremely small procurement budget in the 1990's.

Now, we have knocked that down fairly substantially, and I think we have to take credit for a lot of the blame in that we have a lot of oversight requirements that we have legislated that mean you can't operate as efficiently as a Wal-Mart or a General Motors or a domestic company.

But I think the problem isn't that we have got too many folks or we have got too few folks in the acquisition system. If you look at the amounts of the lead times that it took for us to develop systems in the 1990's, that army of shoppers, the 300,000 in the government and the 300,000 in industry did not leave to shorter fuses on these weapons systems. In fact, I think, arguably, they led to longer lead times and they led to a lack of agility.

So just two issues there. Do you think that we can live on under four percent of GDP being spent on defense in this new dangerous century? And, second, do you really think we need to have more people in the acquisition system?

Secretary KRIEG. Well, let me clarify my position, Mr. Chairman. I think it is very important.

Number one, only elected officials can make the decision on what percentage of GDP we should be spending on defense. However, I would respectfully suggest that those decisions should be based on a comprehensive threat and risk-based approach on all three dimensions, today, intermediate term, long term.

And whatever you decide that percentage is going to be, you need to figure out how you are going to pay for it, because right now we already have a large and growing structural deficit. And so if you want to spend more than 3.9 percent of GDP, then how are you going to pay for it?

Second, I agree with you that in some cases tough decisions were made in the past and are still being made. I would respectfully suggest that the connection with crusader and Comanche they were made way too late. We wasted billions of dollars. So the question is, how can we make them earlier. We use strategic choices, how can we make these decisions earlier?

Third, and also related to that, yes, some choices have been made but I would respectfully suggest that Tactical Air (TACAIR) may not have made those choices yet. The numbers are a default. You plug the number, how many you can buy with the money.

And, third, on the workforce, I am not saying you need more people, necessarily. And it is clearly understandable, in part, why the workforce is smaller, because we had acquisition reform, and that took out a lot of paperwork, and taking out a lot of paperwork is really good. Okay? Not just for the government but also for the private sector.

What I am saying is, is we need to figure out how many we need, what kind of skills and knowledge they need to have. It could be less than this, but what kind of skills and knowledge do they need? And we need to be aware that a very high percentage of our current workforce is scheduled to retire within the next few years. And that is both a challenge and potentially an opportunity too.

The CHAIRMAN. Okay. Thank you.

And, Mr. Chairman, could I be allowed to have—I hate to have to beg for more time, but could I be allowed to have another question here.

Dr. SCHWARZ. Mr. Chairman, I think you can have as many questions as you want.

The CHAIRMAN. You are very kind.

The Challenge Program, we developed this idea of the Challenge Program a couple of years ago that made a lot of the questions that Admiral Giambastiani and Secretary Krieg talked about. And that is that we need to get the most efficiency that we can out of the system, and in this age of rapidly developing technology, we are lured by—when we are developing a base system that has taken a number of years to develop, we see something that gives us an efficiency component that gets you from A to B quicker and we want to now retrofit or put that in the system.

The one problem we have is having smart people that have got this judgment, this capability of weighing the pros and cons of disrupting the system, putting something new in, what is it going to do to the base program.

We put the challenge system in because we figured, having little insight into this thing, that the guys that really know if you can get there with a quicker with a system, if you have got a new technology that leapfrogs something, if you have new efficiencies available. The guys that really know that, generally, are the competitors. Our entire system is based on competition. If the people of the 52nd District want a better congressman, they can go out and elect one, right? They get a challenger out there and he ends up beating the incumbent.

So we put together this challenge system that said, basically, if you have a company that comes along and says, "I can make a better hubcap for the F–22 and more combat effective and cheaper and you can integrate it easily, I want to have the opportunity to challenge the incumbent on that. The idea that if it made sense, first, you would have DOD could dismiss them if these were hair-brained ideas and didn't have some substance to them, you could dismiss them out of hand, so you are under no obligation to give a review to assist them.

But if it made sense, if it made a prima facie case, you would have a Blue Ribbon panel that would take a look at this component and if was something that looked like proven technology, maybe a product that actually existed right now, that you could save money and you could produce more combat effectiveness to take it, and this Blue Ribbon panel approved it, you would then have an array of options as DOD and you could say, Okay, incumbent you are out of there. Or the next phase of this program is starting in March and we are going to insert this new system in in March, or maybe we won't do anything because the integration of the system is too cost prohibitive.

My point is that, especially in this area, in this time when you have fewer and fewer contractors, the challenge system was designed to get the meritorious cost-effective guys with a good idea upfront where they could challenge, and that would put pressure on the incumbents to not grow their programs, not feel like they captured their position and therefore could not be dislodged and

therefore they could let cost growth occur and they could rationalize it to the services, and the services would be captive to it.

Now, we passed the Challenge Program. DOD minimized the Challenge Program. They thought that Congress wanted to get a little pork out of them and so they got these little small programs where they toss a couple of crumbs of the table, which was not the intent. We didn't want a darn thing out of this for our constituents.

What we wanted was the ability of a company to come in, whether it is big or small and say, "I can do that more cost-effectively. There is a new technology here. I can lower your price, DOD and have this Blue Ribbon capacity at DOD level to evaluate the challenge." And if it proved meritorious to dislodge the incumbent, put in the new system and move ahead.

Now, Admiral, what do you think about that? Do you think something? Because we have got the law in place to do that, and you folks have a Challenge Program. But it scared the heck out of the bigger guys and industry, and they managed to minimize this thing when it went into implementation.

What do you think?

Admiral GIAMBASTIANI. If I could, Chairman, I am going to ask, if you don't mind, ask Secretary Krieg, to take the bulk of this answer, because to be frank with you, I have not read all of the legislation on the Challenge Program, but I would like to go back to my ten years of experience dealing with what you are driving at, which is competition of ideas and a competition of capability and efficiency. I think you are driving in the right area.

Now, I am going to ask Secretary Krieg to talk about this, because in the eight months I haven't focused on this specific problem.

The CHAIRMAN. Okay. Great.

Secretary.

Secretary KRIEG. I actually went and looked at what we did with it and, respectfully, it actually is creating some interested opportunities. But leave that aside, I thought some about this notion of creating competition in an outsider reviewer of it. I have only thought something about it, but I am having a hard time conceptualizing how to implement it without—I am having a hard time conceptualizing how to implement it.

I understand your point and your desire, but——

The CHAIRMAN. Well, we actually laid this thing out fairly pragmatically. You would have a Blue Ribbon panel, let's say you have got some smart guys, technically, and they have the availability of the National Laboratories and all of your analytical tools that are available for DOD: ranges, testing capability, et cetera.

So you have a weapons system, and either the weapon system itself or a component of that system, again, I use even something small, not de minimus but something small that you have a competitor, an entity in the aerospace industry that says, "You guys are paying this contractor, prime contractor or sub, $50 million for this program. We have new technology. If you will let us come and explain it to you, we are going to show you how you can get it for $10 million, even though you are two years into this program. And we guarantee you we think we can plug this in with a minimum

of disruption to the program and with easy integration, and we want a chance to make our case."

You take a look at it preliminarily, and if you don't like it, you reject it out of hand. You say, "This is wild and crazy. We are not going to allow it."

When we did the Challenge Program initially, I was told there an Arizona aerospace firm that said, "We want to challenge on the F–22." And everybody went nuts and said, "Well, you can't do that, that is too big."

But my point is, you make the challenge, okay, for this particular component and if it looks like you make a prime facie case, you then review it, you then have your Blue Ribbon panel look at this thing. If they say, "There is substance to this and we can cut costs 50 percent or we can have better warfighting capability or a combination thereof, better effectiveness and better cost-effectiveness," you then have your array of options that you can utilize.

You can say, "We are not going to do anything because we are too far down the line in this program." You can say, "We are going into a second phase in March, and so we are going to put you in in March," or you could say, "Incumbent, you are out of there because it makes sense for us to terminate your contract. This thing is so good and so effective that we will pay termination costs, which we have a right to do under most contracts, and we will pay termination costs. And besides that, we think the incumbent has gotten kind of fat and lazy on us here."

And so if you have a—you know, this is what is going to make board of directors sit around saying, "You know, guys, we let these costs go up an extra ten percent, I have heard rumblings in the industry, we are going to get challenged. And if we get challenged, we could lose this little gravy train here, and I would recommend you engineers go back and sharpen your pencils because we haven't captured this program. DOD is not our hostage on this thing anymore, and we better darn well get these costs down or we are going to be out of here."

Now, that is what makes people move all the time in the private sector, but especially with these big primes now who have their partners and in some cases their subsidiaries doing the components. There is not much incentive for these guys to give you folks a sharper pencil.

Secretary KRIEG. How about this, I will offer you a deal. I will get my staff to take a hard look at it if you will accept a willingness to look at the recent numbers on the Acquisition Workforce and move from 300,000 to the 135,000 we have today.

I will work on the one if I can bring the other one to you, how does that sound?

The CHAIRMAN. We are glad we could bring that number down a little bit. Yes, we will look at both of them. Let's do it.

And thank you, Mr. Chairman. You have been very kind.

Dr. SCHWARZ. Gentleman from Mississippi have any questions?

Mr. TAYLOR. I want to thank all of you, gentlemen. And I apologize for my absence. Your time is very valuable, and I am sorry I wasn't here for every minute of it.

Mr. Walker, how long have you been on your job?

Mr. WALKER. It will be 7.5 years on April 26. My wife is counting.

Mr. TAYLOR. Okay. And the reason I ask is, and it really is the form of a question, but my observation would be that five years ago, right now, our nation was running a small annual operating surplus. Bush's budget comes along and is voted on in May of 2001, calls for substantial increases in spending, substantial decreases in revenue, and I really don't—and, again, I am asking this in the form of a question because my memory is far from perfect, but I don't recall a single administration official, appointed or elected or career, saying, "This isn't going to work, that we are going to run up big deficits."

We are now $3 trillion deeper in debt, and so I am asking this in the form of a question: Did you see this coming?

Mr. WALKER. I testified in February of 2001 as to several things. Number one, the current surpluses that we were experiencing at the time were temporary. We knew that we would enter a period of large and growing structural deficits due to known demographic trends and rising health care costs.

I also testified that the ten-year projected surpluses were just that, projected, that they may or may not ever really happen.

And I also testified as to an approach that Congress might consider taking based on modern portfolio theory as to how it might make decisions with regard to spending increases and tax cuts and debt reduction that might be more prudent and take a more balanced approach, given the fact that we knew that the surpluses were temporary and that the ten-year numbers were projected and may disappear.

Unfortunately, some of the choices that were made were directly contrary to prudent risk, including Medicare Part B.

Mr. TAYLOR. For the record, can I get a copy of your statement from then?

Mr. WALKER. Be happy to.

Mr. TAYLOR. Because I was really—I remember any number of people coming before the committee who were asking for increases. I remember at the time we were going through, we had just grounded about 950 Dewey helicopters for maintenance problems. And I remember the day of one of those votes asking the Army aviation guys, "What is more important, fixing the helicopters or tax breaks?" of course they weren't real comfortable answering that.

But if there was someone on the record saying, "This isn't going to work," I would like to see that, because I didn't hear much of that. I was looking for people to be saying things like that.

Mr. WALKER. Well, I will provide it. The other thing is, let me say, Mr. Taylor, express my condolences for the loss of your property. I have been on your property in southern Mississippi.

Mr. TAYLOR. Pick up the beer cans next time. Just teasing. I am sure that wasn't yours.

Mr. WALKER. The Transportation Security Administration (TSA) wouldn't let me take them on the plane, probably.

Mr. TAYLOR. Okay. Thank you. But I would welcome that, and since your memory strikes me as being pretty sharp, if you can think of anyone else who was sounding that alarm, because one of

the people who I was disappointed in is I don't feel like Chairman Greenspan spoke up very well. I thought he was pretty wishy-washy on that. He has come back later and said it didn't work, but I don't recall him saying it before. But if you know anything contrary to that, I would like to see it as well.

Thank all you gentlemen for sticking around.

Dr. SCHWARZ. Gentlemen, thank you.

Comptroller General Walker, Secretary Krieg, Admiral Giambastiani and Secretary Patterson, thank you very much for being here.

We stand adjourned.

[Whereupon, at 12:40 p.m., the committee was adjourned.]

A P P E N D I X

April 5, 2006

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

APRIL 5, 2006

OPENING REMARKS OF CHAIRMAN HUNTER

Acquisition Reform Hearing

April 5, 2006

This morning the committee will continue its oversight of the defense acquisition system by receiving testimony from senior leaders of the Department of Defense and Government Accountability Office.

Our witnesses today are:

Honorable David M. Walker
Comptroller General of the United States

Honorable Kenneth J. Krieg
Undersecretary of Defense for Acquisition, Technology and Logistics

Admiral Edmund P. Giambastiani, Jr.
Vice Chairman, Joint Chiefs of Staff

Mr. J. David Patterson
Deputy Undersecretary of Defense, Comptroller

Welcome to the Committee gentlemen.

In 1986 the "President's Blue Ribbon Commission on Defense," more commonly known as the Packard Commission, recognized the challenges facing the defense procurement system. The commission found that "…our weapons systems cost too much and take too long to develop." The report went on to note that defense programs "…embody not only overstated requirements but also understated costs." Finally, it noted that the process "does not adequately involve participants with a sophisticated knowledge of the cost and schedule implications of technical improvements."

Now, twenty years later, four major studies were recently released that conclude essentially the same things -- weapons systems still cost too much and take too long to develop. Requirements are still overstated and cost estimates are understated.

Last week, the committee met to hear from representatives of three of these 2005 studies on acquisition reform. Today, we look

forward to hearing how the Department of Defense is approaching this decades' old problem. One thing is certain, this issue is extraordinarily complex and the numerous recommendations for reform found in those studies provide no simple solutions.

To better understand the issues, the committee believes it is vital to hear what the Department of Defense plans to do with these volumes of recommendations. Each of our witnesses today will speak to those recommendations in their roles representing the three main components of the acquisition process. Admiral Giambastiani, in his role as Chairman of the Joint Requirements Oversight Council (JROC) is responsible for coordinating, on behalf of all combatant commanders, the numerous capabilities sought by our warfighters through the requirements process. Secretary Krieg then must ensure that the Department undertakes the appropriate acquisition strategy to ensure that costs of system development are kept under control and that we are pursuing new systems that are technologically attainable and affordable. Finally,

Mr. Patterson, here representing the OSD-Comptroller, has the responsibility of maneuvering through the long and complex Planning, Programming, Budgeting and Execution Process (PPB&E).

Today's hearing will be an in-depth look into the entire Acquisition process from the Department's key stakeholders and the GAO. The committee is fortunate to have assembled these four witnesses to get a comprehensive view of the way ahead for defense acquisition reform.

Gentlemen, we are pleased you are here today and we look forward to your testimony.

Let me now recognize the committee's ranking Democrat, Mr. Skelton, for any remarks he may wish to make.

[Following Mr. Skelton's remarks]

The entirety of our witnesses' prepared statements will be entered into the record.

The Honorable Ike Skelton
House Armed Services Committee
Hearing on Acquisition Reform
April 5, 2006

Thank you, Mr. Chairman for yielding to me. Today is our second hearing on acquisition reform in two weeks. That may seem like overkill, however, the Department of Defense and its affiliated organizations have produced 4 reports on this topic in the last year, so we may not have matched them yet.

Last week I stated that our acquisition system has gotten seriously off track. I won't into great detail today describing the problems because most everyone in this room knows them, and knows how I feel about them. I will say that we have before us today the people who, along with this committee, have the responsibility for fixing these problems. And gentlemen, if we can't leave this room today with a clear idea of how we are going to fix these problems, then we have not performed our duty.

I note that committee staff have laid out for us a chart comparing the recommendations of the 4 studies. In 3

areas, these studies reached total consensus. It seems to me that provides us a reasonable place to start. They all recommended that much more weight be given to requirements generated by the combatant commanders in the acquisition process. All 4 studies recommended a comprehensive restructuring of the Joint Capabilities Integration and Development System, or JCIDS, which is broken. And all 4 studies recommended that something be done to increase funding stability for acquisition programs.

These studies each had a slightly different take on how to tackle these problems, but it is clear that these are problems we need to solve, and sooner rather than later. I look forward to hearing the proposals from our witnesses, and I am interested especially in hearing about your recommendations on legislation that this committee should consider during our mark-up of the FY07 Defense Authorization Act.

United States Government Accountability Office

GAO

Testimony
Before the Armed Services Committee,
House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EDT
Wednesday, April 5, 2006

DEFENSE ACQUISITIONS

Actions Needed to Get Better Results on Weapons Systems Investments

Statement of David M. Walker
Comptroller General of the United States

GAO-06-585T

April 5, 2006

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-06-585T, a testimony before the Armed Services Committee, House of Representatives

DEFENSE ACQUISITIONS

Actions Needed to Get Better Results on Weapons Systems Investments

Why GAO Did This Study

In the past 5 years, DOD has doubled its planned investments in weapons systems, but this huge increase has not been accompanied by more stability, better outcomes, or more buying power for the acquisition dollar. Rather than showing appreciable improvement, programs are experiencing recurring problems with cost overruns, missed deadlines, and performance shortfalls. GAO was asked to testify on ways to obtain a better return on DOD's weapons systems investments.

This testimony identifies the following steps as needed to provide a better foundation for executing weapon programs: (1) developing a DOD-wide investment strategy that prioritizes programs based on realistic and credible threat-based customer needs for today and tomorrow, (2) enforcing existing policies on individual acquisitions and adhering to practices that assure new programs are executable, and (3) making it clear who is responsible for what and holding people accountable when these responsibilities are not fulfilled. Past GAO reports have made similar recommendations.

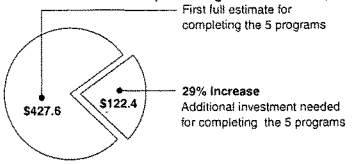
www.gao.gov/cgi-bin/getrpt?GAO-06-585T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Katherine Schinasi at (202) 512-4841 or schinasik@gao.gov.

What GAO Found

DOD has a mandate to deliver high-quality products to warfighters, when they need them and at a price the country can afford. Quality and timeliness are especially critical to maintain DOD's superiority over others, to counter quickly changing threats, and to better protect and enable the warfighter. Cost is critical given DOD's stewardship responsibility for taxpayer money, combined with long-term budget forecasts which indicate that the nation will not be able to sustain its currently planned level of investment in weapons systems, and DOD's plans to increase investments in weapons systems that enable transformation of various military operations. At this time, however, DOD is simply not positioned to deliver high quality products in a timely and cost-efficient fashion. It is not unusual to see cost increases that add up to tens or hundreds of millions of dollars, schedule delays that add up to years, and large and expensive programs frequently rebaselined or even scrapped after years of failing to achieve promised capability.

Additional Investment: Top Five Programs in 2006 Plan, Billions in Constant 2006 Dollars



Fiscal year 2006: $550 billion total

Source: GAO analysis of DOD data.

Note: Estimate includes total research, development, test, and evaluation (RDT&E); procurement; military construction; and acquisition, operation, and maintenance.

Recognizing this dilemma, DOD has tried to embrace best practices in its policies, and instill more discipline in requirements setting, among numerous other actions. Yet it still has trouble distinguishing wants from needs, and many programs are still running over cost and behind schedule.

Our work shows that acquisition problems will likely persist until DOD provides a better foundation for buying the right things, the right way. This involves making tough tradeoff decisions as to which programs should be pursued, and more importantly, not pursued, making sure programs are executable, locking in requirements before programs are ever started, and making it clear who is responsible for what and holding people accountable when these responsibilities are not fulfilled. These changes will not be easy to make. They require DOD to re-examine the entirety of its acquisition process—what we think of as the "Big A"—including requirements setting, funding, and execution. Moreover, DOD will need to alter perceptions of what success means, and what is necessary to achieve success.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss how to get better results from the Department of Defense's (DOD) weapons systems investments and why we must ensure that DOD be held accountable for doing so. DOD has a mandate to deliver high-quality products to warfighters, when they need them and at a price the country can afford. Quality and timeliness are especially critical to maintain DOD's superiority over others, to counter quickly changing threats, and to better protect and enable the warfighter. Cost is also critical given DOD's stewardship over taxpayer money, long-term budget forecasts which indicate that the nation will not be able to sustain its currently planned level of investment in weapons systems, and plans to increase investments in weapons systems that enable transformation of various military operations. At this time, however, DOD is simply not positioned to deliver high quality products in a timely and cost-efficient fashion. It is not unusual to see cost increases that add up to tens or hundreds of millions of dollars, schedule delays that add up to years, and large and expensive programs continually rebaselined or even scrapped after years of failing to achieve promised capability.

Recognizing this dilemma, DOD has tried to embrace best practices in its policies, instill more discipline in requirements setting, strengthen training for program managers, reorganize offices that support and oversee programs, and require the use of independent cost estimates and systems engineering. Yet despite these and many other actions, the Department still has trouble distinguishing wants from needs, and many programs are still running over cost and behind schedule.

Our work shows that poor performance and cost overruns will likely persist until DOD provides a better foundation for executing its weapons programs. As I will further discuss today, this foundation includes (1) a DOD-wide investment strategy that prioritizes programs based on realistic and credible threat-based customer needs for today and tomorrow ("Big A" acquisition); (2) enforcing existing policies on individual acquisitions and adhering to practices that assure new programs are executable ("little a" acquisition); and (3) making it clear who is responsible for what and holding people accountable when these responsibilities are not fulfilled. While such steps represent basic and commonly accepted sound business practices, they will be extremely difficult to implement within DOD, given the myriad of missions that compete for the attention of DOD's leadership and resources, frequent turnover in leadership and key personnel, DOD's intricate and outdated organizational structure, outmoded and flawed supporting business

processes, as well as entrenched cultural behaviors and internal pressures. As a result, solutions demand the highest levels of leadership attention and commitment from DOD, the Administration, and the Congress over a sustained period of years.

A Mandate for Change

Today we are at a key crossroad. In the next few decades, the nation will be struggling with a large and growing structural deficit. At the same time, however, weapons programs are commanding larger budgets as DOD undertakes increasingly ambitious efforts to transform its ability to address current and potential future conflicts. These costly current and planned acquisitions are running head-on into the nation's unsustainable fiscal path. In the past 5 years, DOD has doubled its planned investments in weapons systems, but this huge increase has not been accompanied by more stability, better outcomes, or more buying power for the acquisition dollar. Rather than showing appreciable improvement, programs are experiencing recurring problems with cost overruns, missed deadlines, and performance shortfalls.

Dollars Available for Weapons Will Face Serious Budget Pressures

As I have testified previously, our nation is on an imprudent and unsustainable fiscal path. Budget simulations by GAO, the Congressional Budget Office, and others show that, over the long term, we face a large and growing structural deficit due primarily to known demographic trends, rising health care costs, and lower federal revenues as a percentage of the economy. Continuing on this path will gradually erode, if not suddenly damage, our economy, our standard of living, and ultimately our national security. Federal discretionary spending, along with other federal policies and programs, will face serious budget pressures in the coming years stemming from new budgetary demands and demographic trends. Defense spending falls within the discretionary spending accounts. Further, current military operations, such as those in Afghanistan and Iraq, consume a large share of DOD budgets and are causing faster wear on existing weapons. Refurbishment or replacement sooner than planned is putting further pressure on DOD's investment accounts.

It is within this context that we must engage in a comprehensive and fundamental reexamination of new and ongoing investments in our nation's weapons systems. Weapons systems are one of the single largest investments the federal government makes. In the last 5 years, DOD has doubled its planned investments in new systems from about $700 billion in 2001 to nearly $1.4 trillion in 2006. Annual procurement totals are

expected by DOD to increase from about $75 billion to about $100 billion during 2006 to 2011.

Programs Are Seeking Larger Budgets

At the same time DOD is facing future budget constraints, programs are seeking larger budgets. To illustrate, the projected cost of DOD's top five programs in fiscal year 2001 was about $291 billion. In 2006, it was $550 billion[1]. A primary reason why budgets are growing is that DOD is undertaking new efforts that are expected to be the most expensive and complex ever. Moreover, it is counting on these efforts to enable transformation of military operations. The Army, for example, is undertaking the Future Combat Systems (FCS) program in order to enable its combat force to become lighter, more agile, and more capable. FCS is comprised of a family of weapons, including 18 manned and unmanned ground vehicles, air vehicles, sensors, and munitions, which will be linked by an information network. These vehicles, weapons, and equipment will comprise the majority of the equipment needed for a brigade combat team in the future. When considering complementary programs, projected investment costs for FCS are estimated on the order of $200 billion. Affordability of the FCS programs depends on two key assumptions. First, the program must proceed without exceeding its currently projected costs. Second, FCS has expected large annual procurement costs beginning in 2012. FCS procurement will represent 60 to 70 percent of Army procurement from fiscal years 2014 to 2022. As the Army prepares the next Defense Plan, it will face the challenge of allocating sufficient funding to meet increasing needs for FCS procurement in fiscal years 2012 and 2013. If all the needed funding cannot be identified, the Army will have to consider reducing the FCS procurement rate or delaying or reducing items to be spun out to current Army forces.

At the same time, the Air Force is undertaking two new satellite programs that are expected to play a major role in enabling FCS and other future systems. The Transformational Satellite Communications System, which is to serve as a linchpin in DOD's future communications network, and Space Radar, which is focused on generating volumes of radar imagery data for transmission to ground-, air-, ship-, and space-based systems. Together, these systems are expected to cost more than $40 billion. The

[1]The top five programs in 2001 were: the F-22A Raptor aircraft, DDG 51 class destroyer ship, Virginia class submarine, C-17 Globemaster airlift aircraft, and the F/A-18 E/F Super Hornet fighter aircraft. The top 5 programs in 2006 are: the Joint Strike Fighter aircraft, Future Combat Systems, Virginia class submarine, DDG 51 class destroyer ship, and the F-22A Raptor aircraft.

Department has also been focused on modernizing its tactical aircraft fleet. These efforts include the Joint Strike Fighter (JSF) aircraft program, currently expected to cost more than $200 billion, and the Air Force's F-22A Raptor aircraft, expected to cost more than $65 billion.

Concurrently, the Navy is focused on acquiring new ships and submarines with significantly advanced designs and technologies. These include the Virginia Class Submarine, expected to cost about $80 billion, and the DDG-51 class destroyer ship, expected to cost some $70 billion, and the newer DD(X) destroyer program, which is focused on providing advanced land attack capability in support of forces ashore and to contribute to U.S. military dominance in the shallow coastal water environment. The Navy shipbuilding plan requires more funds than may reasonably be expected. Specifically, the plan projects a supply of shipbuilding funds that will double by 2011 and will stay at high levels for years to follow.

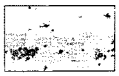
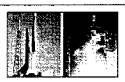
Problematic Acquisitions Continue to Reduce DOD's Buying Power

Despite doubling its investment the past 5 years, our assessments do not show appreciable improvement in DOD's management of the acquisition of major weapons systems. A large number of the programs included in our annual assessment of weapons systems[2] are costing more and taking longer to develop than estimated. It is not unusual to see development cost increases between 30 percent and 40 percent and schedule delays of approximately 1, 2 or more years.

The consequence of cost and cycle-time growth is manifested in a reduction of buying power of the defense dollar—causing programs to either cut back on planned quantities, capabilities, or to even scrap multi-billion dollar programs, after years of effort, in favor of pursing more promising alternatives. Figure 1 illustrates seven programs with a significant reduction in buying power; we have reported similar outcomes in many more programs. This is not to say that the nation does not get superior weapons in the end, but that at currently projected twice the level of investment, DOD has an obligation to get better results.

[2]GAO, *Defense Acquisitions: Assessments of Selected Major Weapon Programs*, GAO-06-391 (Washington, D.C.: Mar. 31, 2006).

Figure 1: Examples of Programs with Reduced Buying Power

Program		Initial estimate	Initial quantity	Latest estimate	Latest quantity	Percent of unit cost increase
Joint Strike Fighter		$189. 8 billion	2,866 aircraft	$206.3 billion	2,458 aircraft	26.7
Future Combat Systems		$82.6 billion	15 systems	$127.5 billion	15 systems	54.4
F-22A Raptor		$81.1 billion	648 aircraft	$65.4 billion	181 aircraft	188.7
Evolved Expendable Launch Vehicle		$15.4 billion	181 vehicles	$28.0 billion	138 vehicles	137.8
Space Based Infrared System High		$4.1 billion	5 satellites	$10.2 billion	3 satellites	315.4
Expeditionary Fighting Vehicle		$8.1 billion	1,025 vehicles	$11.1 billion	1,025 vehicles	35.9

Source: GAO analysis of DOD data. Images sourced in their respective order: JSF Program Office; Program Manager, Unit of Action, U.S. Army; F-22A System Program Office; (Left) © 2003 ILS/Lockheed Martin, (right) © 2003 The Boeing Company; Lockheed Martin Space Systems Company; General Dynamics Land Systems.

Furthermore, the conventional acquisition process is not agile enough to meet today's demands. Congress has expressed concern that urgent warfighting requirements are not being met in the most expeditious manner and has put in place several authorities for rapid acquisition to work around the process. The U.S. Joint Forces Command's Limited Acquisition Authority and the Secretary of Defense's Rapid Acquisition Authority seek to get warfighting capability to the field quicker. According to U.S. Joint Forces Command officials, it is only through Limited Acquisition Authority that the command has had the authority to satisfy the unanticipated, unbudgeted, urgent mission needs of other combatant commands. With a formal process that requires as many as 5, 10, or

15 years to get from program start to production, such experiments are needed to meet the warfighters' needs.

Underlying Causes of Acquisition Problems

Our reviews have identified a number of causes behind the problems just described, but several stand out. First, DOD starts more weapons programs than it can afford and sustain, creating a competition for funding that encourages low cost estimating, optimistic scheduling, over promising, and suppressing of bad news. Programs focus on advocacy at the expense of realism and sound management. Invariably, with too many programs in its portfolio, DOD and the Congress are forced to continually shift funds to and from programs—undermining well-performing programs to pay for poorly performing ones. Adding pressure to this environment are changes that have occurred within the defense supplier base. Twenty years ago, there were more than 20 fully competent prime contractors competing for multiple new programs annually; today, there are only 6 that compete for considerably fewer programs, according to a recent DOD-commissioned study. This adds pressure on DOD to keep current suppliers in business and limits DOD's ability to maximize competition.

Second, DOD has exacerbated this problem by not clearly defining and stabilizing requirements before programs are started. At times, in fact, it has allowed new requirements to be added well into acquisition cycle—significantly stretching technology and creating design challenges, and exacerbating budget overruns. For example, in the F-22A program, the Air Force added a requirement for air-to-ground attack capability. In its Global Hawk program, the Air Force added both signals intelligence and imagery intelligence requirements. While experience would caution DOD not to pile on new requirements, customers often demand them fearing there may not be another chance to get new capabilities since programs can take a decade or longer to complete. Yet, perversely, such strategies delay delivery to the warfighter, oftentimes by years.

Third, DOD commits to its programs before it obtains assurance that the capabilities it is pursuing can be achieved within available resources and time constraints. Funding processes encourage this approach, since acquisition programs attract more dollars than efforts concentrating solely on proving out technologies. Nevertheless, when DOD chooses to extend technology invention into acquisition, programs experience technical problems that have reverberating effects and require large amounts of time and money to fix. When programs have a large number of interdependencies, even minor technical "glitches" can cause disruptions. Only 10 percent of the programs in our latest annual assessment of

weapons systems had demonstrated critical technologies to best practice standards at the start of development; and only 23 percent demonstrated them to DOD's standards.[3] The cost effect of proceeding without completing technology development before starting an acquisition can be dramatic. For example, research, development, test and evaluation costs for the programs included in our review that met best practice standards at program start increased by a modest average of 4.8 percent over the first full estimate, whereas the costs for the programs that did not meet these standards increased by a much higher average of 34.9 percent over the first full estimate.

Fourth, officials are rarely held accountable when programs go astray. There are several reasons for this, but the primary ones include the fact that DOD has never clearly specified who is accountable for what, invested responsibility for execution in any single individual, or even required program leaders to stay until the job is done. Moreover, program managers are not empowered to make go or no-go decisions, they have little control over funding, they cannot veto new requirements, and they have little authority over staffing. Because there is frequent turnover in their positions, program managers also sometimes find themselves in the position of having to take on efforts that are already significantly flawed.

Likewise, contractors are not always held accountable when they fail to achieve desired acquisition outcomes. In a recent study,[4] for example, we found that DOD had paid out an estimated $8 billion in award fees on contracts in our study population regardless of outcomes. In one instance, we found that DOD paid its contractor for a satellite program—the Space-Based Infrared System High—74 percent of the award fee available, or $160 million, even though research and development costs increased by more than 99 percent, the program was delayed for many years and was rebaselined three times.[5] In another instance, DOD paid its contractor for

[3]DOD's policy states technologies should be demonstrated in at least a relevant environment before a program enters system development; whereas, GAO utilizes the best practice standard that calls for technologies to be demonstrated one step higher—demonstration in an operational environment.

[4]GAO, *Defense Acquisitions: DOD Has Paid Billions in Award and Incentive Fees Regardless of Outcomes*, GAO-06-66 (Washington, D.C.: Dec. 19, 2005).

[5]When calculating the percentage of award fee paid (i.e., percentage of award fee paid = total fee paid to date / (total fee pool – remaining fee pool)), we included rolled-over fees in the remaining fee pool when those fees were still available to be earned in future evaluation periods.

the F-22A aircraft more than $848 million, 91 percent of the available award fee, even though research and development costs increased by more than 47 percent, the program has been rebaselined 14 times, and delayed by more than 2 years.

Fifth, these strategies work, because they win dollars. DOD and congressional funding approval reinforces these practices and serves to undercut reform efforts. Stated differently, typically no one is held accountable for unacceptable outcomes and there are little or no adverse consequences for the responsible parties. This is a shared responsibility of both the executive and legislative branches of government.

Of course, there are many other factors that play a role in causing weapons programs to go astray. They include workforce challenges, poor contractor oversight, frequent turnover in key leadership, and a lack of systems engineering, among others. Moreover, many of the business processes that support weapons development—strategic planning and budgeting, human capital management, infrastructure, financial management, information technology, and contracting—are beset with pervasive, decades-old management problems, including outdated organizational structures, systems, and processes. In fact, these areas—along with weapons system acquisitions—are on GAO's high risk list of major government programs and operations.

DOD has long recognized such problems and initiated numerous improvement efforts. In fact, since 1949, more than 10 commissions have studied issues such as long cycle time and cost increases as well as deficiencies in the acquisition workforce. This committee just last week heard testimony regarding several of them.[6] Among these recent studies, there is a consensus that DOD needs to instill much stronger discipline into the requirements setting process, prioritize its investments, seek additional experienced and capable managers, control costs, strengthen accountability, and enhance the basis for enterprise-wide decision making.

In response to past studies and recommendations, including our own, DOD has taken a number of acquisition reforms. Specifically, DOD has restructured its acquisition policy to incorporate best practices as the suggested way of doing business. For example, policies embrace the

[6]House Armed Services Committee, "Hearing on Department of Defense Acquisition Reform," (Washington, D.C.: Mar. 29, 2006)

concept of closing gaps between requirements and resources before launching new programs. DOD is also reviewing changes to requirements setting. DOD has also strengthened training for program managers, required the use of independent cost estimating, reemphasized the discipline of systems engineering, and tried extracting better performance from contractors—by alternately increasing and relaxing oversight.

While all of these steps are well-intentioned, recent policy statements, such as the Quadrennial Defense Review (QDR), and decisions on individual programs have fallen far short of the needed fundamental review reassessment, repriortization and reengineering efforts. For example, the Office of the Secretary of Defense (OSD) does not seem to be pushing for dramatic and fundamental reforms in its acquisition process. In fact, it has either disagreed with recommendations we have made over the past year or claimed that it was already addressing them. These include reports on specific systems such as JSF, the Missile Defense program, FCS, and Global Hawk as well as reports on cross-cutting issues, such as DOD's rebaselining practices, acquisition policy, and support for program managers. We believe DOD's recently issued QDR did not lay out a long term, resource constrained, investment strategy. In fact, the gap between wants, needs, affordability and sustainability seems to be greater than ever.

Solutions

Our work shows that acquisition problems will likely persist until DOD provides a better foundation for buying the right things, the right way. This involves making tough tradeoff decisions as to which programs should be pursued, and more importantly, not pursued, making sure programs are executable, locking in requirements before programs are ever started, and making it clear who is responsible for what and holding people accountable when these responsibilities are not fulfilled. These changes will not be easy to make. They require DOD to reexamine the entirety of its acquisition process—what we think of as the "Big A". This includes making deep-seated changes to program requirements setting, funding, and execution. It also involves changing how DOD views success, and what is necessary to achieve success.

Buy the Right Thing: Develop and Implement an Investment Strategy

The first, and most important, step is implementing a revised DOD-wide investment strategy for weapons systems. In a recent study on program management best practices,[7] we recommended that DOD determine the priority order of needed capabilities based on assessments of the resources—that is dollars, technologies, time, and people needed to achieve these capabilities. We also recommended that capabilities not designated as a priority should be set out separately as desirable but not funded unless resources were both available and sustainable.

DOD's Under Secretary of Defense for Acquisition Technology and Logistics—DOD's corporate leader for acquisition—should develop this strategy in concert with other senior leaders, for example, combatant commanders who would provide input on user needs; DOD's comptroller; science and technology leaders, who would provide input on available resources; and acquisition executives from the military services, who could propose solutions. Finally, once priority decisions are made, Congress will need to enforce discipline through various authorization and appropriation decisions.

Table 1: Steps That Can Be Taken for Developing an Investment Strategy for Acquiring New Systems

Who	Under Secretary of Defense for Acquisition, Technology and Logistics in concert with other senior officials
Action	• Analyze customer needs vs. wants based on available technology and available resources • Compare analysis to DOD's long-term vision • Determine priorities for acquisitions based on this comparison • Separate other programs as "desirable," resources permitting • Enforce funding for priorities annually; measure success against the plan

Buy the Right Way: Ensure Individual Programs Are Executable

Once DOD has prioritized capabilities, it should work vigorously to make sure each new program is executable before the acquisition begins. This is the "little a." More specifically, this means assuring requirements are clearly defined and achievable given available resources and that all alternatives have been considered. System requirements should be agreed

[7]GAO, *Best Practices: Better Support of Weapon System Program Managers Needed to Improve Outcomes*, GAO-06-110 (Washington, D.C.: Nov. 30, 2005).

to by Service Acquisition Executives as well as Combatant Commanders. Once programs begin, requirements should not change without assessing their potential disruption to the program and assuring that they can be accommodated within time and funding constraints. In addition, DOD should prove that technologies can work as intended before including them in acquisition programs. This generally requires a prototype to be tested in an operational environment. More ambitious technology development efforts should be assigned to the science and technology community until they are ready to be added to future generations of the product. DOD should also require the use of independent cost estimates as a basis for budgeting funds. Our work over the past 10 years has consistently shown when these basic steps are taken, programs are better positioned to be executed within cost and schedule.

To further ensure that programs are executable, DOD should pursue an evolutionary path toward meeting user needs rather than attempting to satisfy all needs in a single step. This approach has been consistently used by successful commercial companies we have visited over the past decade because it provides program managers with more achievable requirements, which, in turn, would facilitate shorter cycle times. With shorter cycle times, the companies we have studied have also been able to assure that program managers and senior leaders stay with programs throughout the duration of a program. DOD has policies that encourage evolutionary development, but programs often favor pursuing more exotic solutions that will attract funds and support.

Lastly, to keep programs executable, DOD should demand that all go/no-go decisions be based on quantifiable data and demonstrable knowledge. These data should cover critical program facets such as cost, schedule, technology readiness, design readiness, production readiness, and relationships with suppliers. Development should not be allowed to proceed until certain thresholds are met, for example, a high percentage of engineering drawings completed at critical design review. DOD's current policies encourage these sorts of metrics to be used as a basis for decision making, but they do not demand it. DOD should also place boundaries on time allowed for specific phases of development and production.

Table 2: Steps That Can Be Taken for Making Sure Programs are Executable

Who	Military services and joint developers with support from USD AT&L
Action	• Keep technology discovery/invention out of acquisition programs • Follow an incremental path toward meeting user needs; assure all alternatives are considered • Ensure system requirements are agreed to by service acquisition executives and warfighters and that no additional requirements are added during execution unless they are fully resourced • Use systems engineering to close gaps between requirements and resources prior to launching the development process • Require the use of independent cost estimates as a basis for budgeting funds; update cost estimates annually and track against the original baseline estimate • Use earned value data at each systems engineering technical review in order to track program progress against original baseline estimates • Use quantifiable data and demonstrable knowledge to make decisions to move to next phases • Employ additional management reviews when deviations of cost or schedule exceed a certain level (e.g. 10 percent) against baseline estimates. • Place boundaries on time allowed for specific phases of development

Hold People Accountable

To strengthen accountability, DOD will need to clearly delineate responsibilities among those who have a role in deciding what to buy as well as those who have role in executing, revising, and terminating programs. Within this context, rewards and incentives will need to be altered so that success can be viewed as delivering needed capability at the right price and the right time, rather than attracting and retaining support for numerous new and ongoing programs. After all, given our current and projected fiscal imbalances, every dollar spent on a want today may not be available for an important need tomorrow. To enable accountability to be exercised at the program level, DOD will also need to (1) match program manager tenure with development or the delivery of a product;(2) tailor career paths and performance management systems to incentivize longer tenures; (3) strengthen training and career paths as needed to ensure program managers have the right qualifications for run the programs they are assigned to; (4) empower program managers to execute their programs, including an examination of whether and how much additional authority can be provided over funding, staffing, and approving requirements proposed after the start of a program; and (5) develop and provide automated tools to enhance management and

oversight as well as to reduce the time required to prepare status information.

DOD also should hold contractors accountable for results. As we have recently recommended, this means structuring contracts so that incentives actually motivate contractors to achieve desired acquisition outcomes and withholding award fees when those goals are not met. In addition, DOD should collect data that will enable it to continually assess its progress in this regard.

Table 3: Steps That Can Be Taken to Instill Accountability

Who	The Secretary of Defense and military service secretaries
Actions	• Make it clear who is accountable on a program for what, including program managers, their leaders, stakeholders, and contractors • Hold people accountable when these responsibilities are not met • Require program managers and others, as appropriate, to stay with programs until a product is delivered or for system design and demonstration • Empower program managers to execute their programs so that they can be accountable; strengthen training and career paths as needed to ensure that qualified program managers are being assigned • Improve the use of award fees in order to hold contractors accountable

In closing, the past year has seen several defense reviews that include new proposed approaches to improve the way DOD buys weapons. These reviews contain many constructive ideas. If they are to produce better results, however, they must heed the lessons taught—but perhaps not learned—by acquisition history. Specifically, DOD must separate needs from wants in the context of the nation's greater fiscal challenges. Policy must also be manifested in decisions on individual programs or reform will be blunted. DOD's current acquisition policy is a case in point. The policy supports a knowledge-based, evolutionary approach to acquiring new weapons. The practice—decisions made on individual programs—sacrifices knowledge and executability in favor of revolutionary solutions. It's time to challenge such solutions. Reform will not be real unless each weapons system is shown to be both a worthwhile investment and an executable program. Otherwise, we will continue to start more programs than we can finish, produce less capability for more money, and create the next set of case studies for future defense reform reviews.

Mr. Chairman and Members of the Committee, this concludes my statement. I will be happy to take any questions.

Scope and Methodology

In preparing for this testimony, we relied on previously issued GAO reports and analyzed recent acquisition reform studies from various organizations. We conducted our review between March 20 and April 5, 2006, in accordance with generally accepted government auditing standards.

120542

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548

PRINTED ON RECYCLED PAPER

FOR OFFICIAL USE ONLY
UNTIL RELEASED BY THE
HOUSE COMMITTEE
ON ARMED SERVICES

TESTIMONY OF

KENNETH J. KRIEG

UNDER SECRETARY OF DEFENSE

(ACQUISITION, TECHNOLOGY & LOGISTICS)

BEFORE THE UNITED STATES HOUSE

COMMITTEE ON ARMED SERVICES

April 5, 2006

FOR OFFICIAL USE ONLY
UNTIL RELEASED BY THE
HOUSE COMMITTEE
ON ARMED SERVICES

Acquisition Reform

The Honorable Kenneth J. Krieg
Under Secretary of Defense
(Acquisition, Technology and Logistics)

Chairman Hunter, Congressman Skelton and Members of the Committee:

Thank you for the opportunity to appear before you today to discuss acquisition reform. In the last few months four studies were released that make recommendations on how to reform acquisition: the Department of Defense's Quadrennial Defense Review, the Defense Acquisition Performance Assessment (DAPA) Project, the Center for Strategic and International Study's Beyond Goldwater Nichols Phase 2 Report, and the Defense Science Board's Summer Study. The Department has looked at the recommendations of all four studies, and we are currently evaluating the best path forward to implement several of these recommendations to improve the outcomes of our acquisition programs and provide the best benefit to the warfighter, our customer.

For those who don't know, I was the co-chair of the Business Practices portion of the Quadrennial Defense Review. We started our review by focusing on our customer – the joint operator. Today's warfighters are facing an enemy that requires them to be flexible and agile. Therefore, the Department's business practices and processes need be just as flexible and agile.

Implement Institutional Reform and Governance

While you have asked me here to discuss "acquisition reform", my task and vision extend beyond what that term has traditionally meant. I will be discussing what we are doing to reform how the entire institution of the Department of Defense governs, manages, and executes its activities. And in that broader context, the changes we should make in acquisition.

In order to meet the demands of the 21st century joint warfighter in an effective, timely and efficient manner, the Department is actively reshaping its business and decision making processes to make a more adept and responsive support infrastructure. As a follow-on to the QDR, I -- along with LTG Skip Sharp -- am responsible for an execution roadmap for Institutional Reform and Governance. This roadmap is aimed at improving the defense enterprise by creating more integrated and responsive decision making processes, organizations and business practices.

The roadmap seeks to develop a decision management approach that enables a clear and transparent link from strategy to outcomes. The approach will clearly delineate decision making responsibilities of the governance, management and execution levels of the Department. It will also enable senior leadership to focus on strategic choice and empower management to carryout their responsibilities in a manner that ensures transparency, accountability, and sound performance management. As part of this effort, we will work to improve the Department's analytic framework, build more transparent business information across the Department, integrate decision processes to enable

strategic choice and align roles and responsibilities in a way that maximizes decision making effectiveness across the enterprise.

"Big A" Acquisition

Our intention, consistent with the principals I have just mentioned, is to enhance our strategic governance capabilities by clarifying lines of responsibility and accountability, and establishing a closer and more effective relationship among the key business processes in the department. These include our requirements generation system, the Planning, Programming, Budgeting and Execution system, and the Defense Acquisition system -- all of which make up the "Big A" acquisition process. I should note too that we will be focusing our technology efforts to ensure we gain the greatest capability advantage from the investments we make. We will establish a closer relationship between our technology development "system" and the other principal department processes to bring technology to bear faster, and also ensure that major investment decisions carefully weigh technology maturity. Taken together, this "Big A" approach, will facilitate a more balanced and effective analysis of the capability issues we will face, help to focus our principal decision makers on the most important issues at the portfolio - or capability –level, and ensure that their decisions are supported and executed. I have been working these issues closely -- and with tremendous support and commitment -- from ADM Giambastiani here, as well as with the resource community represented today by Dave Patterson.

As I have mentioned, the Department's Planning, Programming, Budgeting and Execution process, or the PPBE, is key to ensuring efficient and effective acquisition. Budgeting for acquisition programs requires managers to continuously balance tradeoffs between cost, schedule, and performance until we can attain an acceptable level of risk and ensure affordable capabilities – since we cannot have it all. "How much is enough?" has to be balanced with "How much risk are we willing to take?"

Unstable funding makes this balancing process elusive, and can result in schedule slips, less than optimum production rates, or other inefficiencies that result in cost over-runs. I believe we should strive to budget programs as realistically as possible. Doing so should, in the long run, result in less volatility and over-runs. However, we must also be willing to wait until technologies are mature, and performance requirements and designs are stable. I also realize there are factors we cannot control, and we must remain flexible in order to balance risk so that our Nation's overall needs are met.

Develop Concept Decision Process/Address Time-Defined Acquisition

We are implementing several approaches that I believe will substantially improve the rigor and focus of our requirements development and acquisition process, while providing the means to tailor the process to the circumstances of the capability we need to field.

Develop Concept Decision Process

The Department is striving for acquisition program, funding, and requirements stability through stronger, better informed corporate investment decisions. One of the

pilot initiatives resulting from the Quadrennial Defense Review is called the Concept Decision. The Department is leveraging an existing DoD acquisition process decision point called the Concept Decision as a point where the DoD requirements, acquisition and resource processes converge at the point of investment. The Department is currently piloting this new Concept Decision methodology to experiment with this new process. These reviews are not simple to pull together, requiring analysis from all three processes to provide the knowledge required. And we are committed to avoiding more bureaucracy to do this. Our goal is to inform the leadership of each of the processes so that early tradeoffs and solution optimization can occur prior to the point of significant commitment to future investment. Action items for each process that emerge from this joint investment decision will be captured in a Concept Decision Memorandum. A prior example of this type of decision is the Joint Strike Fighter (JSF). In April 1995, the requirements, acquisition and programming leadership came together in an integrated JSF review that resulted in a stable program for 10 years.

We recently ran a pilot of this new thinking by reviewing the desired capabilities for the new Combat Search and Rescue aircraft (CSAR-X) using this new methodology. We convened a tri-chaired meeting the Joint Staff's Director for Force Structure, Resources & Assessment acting for the Vice Chairman of the Joint Chiefs of Staff, the Director, Program Analysis and Evaluation, and myself. This Concept Decision Review examined the concept of operations and requirements for CSAR; the Air Force proposed acquisition strategy for the new aircraft; and the technical risk, the overall rotary wing portfolio, and industrial base capacity to support the program. Also, it reviewed previous

analyses of alternatives. It was affirmed in the Concept Decision Review that the Department is on track for the planned August CSAR-X Defense Acquisition Board meeting for Milestone B, System Design and Development. But I want to emphasize that by having the discussion this way, we brought more context to the table and asked better questions as a result. Our goal is to do these kinds of reviews earlier in the process than we did for CSAR-X, but I viewed this first experiment as a very productive first step.

Time-Defined Acquisition

Time-Defined Acquisition [TDA] is designed to ensure our focus is constantly on the needs of the warfighter by providing agile acquisition approaches consistent with what we know about the capability required and when the customer needs it. The TDA concept employs risk-based criteria to determine which of three different but related acquisition approaches should be selected to satisfy the capability requirement. The criteria include: technology maturity, time to delivery and requirement certainty. In short, the approach employed will be directly dependent on the risks identified---the lower the risk, the more streamlined the approach, and the faster we can respond to the warfighter. The three approaches can be summarized as: 1) Rapid (low risk, 2 years or less from acquisition initiation to fielded capability), 2) Limited (medium risk, more than 2, less than 4 years), and 3) Full (high risk, more than 4 years). All three provide high confidence that substantive new capability will be provided to the user.

As the DAPA study points out so well, time matters in acquisition. But except for urgent operational needs, we have not historically considered time in the requirements process. This has tended to allow the requirements to push the edge of technology

understanding and, therefore, increased the risk to developing a program. If the money available is not sufficient to overcome the technical risk, the program slides farther to the right. As the program slides farther in time, the more difficult it becomes to either hold the requirement steady, maintain the funding or sustain the technical design. Today, we are dealing with a number of programs that are on that path.

Improve Rapid Acquisition/Agility

As you know, the Department, with your support, has been working very hard over the past couple of years to greatly improve the responsiveness of our DoD acquisition system to the urgent operational needs of our warfighters. At the OSD level, we have established the Joint Rapid Acquisition Cell, or JRAC, to ensure that Joint Immediate Warfighter Needs submitted by the Combat Commanders are reviewed, validated, funded and expeditiously fielded. The Services have also established rapid acquisition processes to improve their own responsiveness. We have had many successes, but we need some additional help from the Congress. We recently submitted a legislative change proposing that the scope of the Rapid Acquisition Authority (RAA) be broadened to include not only hardware solutions -- but also services. This change also proposes lowering the RAA approval authority from the SecDef to the DepSecDef. We believe these changes, if approved, would make the RAA not only more flexible but also more responsive.

Risk-Based Source Selection

The Department is considering adopting a "risk-based source selection process" in place of the current cost-based approach. The goal is to understand and manage program risk both before and during the source selection process to improve acquisition outcomes. The Department is studying the benefits and considerations of a risk-based approach. Our intent is to initiate programs postured for success to ensure we field the maximum capability for each taxpayer dollar.

Develop Portfolio Management/Data Transparency

Our view is that there are three levels of capability decisions, each informing the next: Strategic Choice, Portfolio Choice, and Weapon System Choice. At the corporate level, Strategic Choice, senior decision makers balance choice and prioritize across portfolios. The focus is on operational effects, and the determination of what types of capability portfolios, and how much of those capabilities are needed. An example would be balancing additional investment in Prompt Global Strike with Joint Command and Control. The next level, Portfolio Choice, balances capabilities within a portfolio to provide the most effective mix to deliver desired effects and meet objectives. At this level, managers determine the right mix of assets within a capability portfolio, such as the division of resources within Joint Command and Control. Finally, System Choice is the determination of the optimal solution to provide the needed capability, by balancing performance requirements with cost, schedule and technical risk.

As we balance investment among options and respond to strategic objectives and direction, it is important that we continue the move to make capabilities-based decisions about individual programs in a context of a wider lens. Our processes must adapt to ensure that scarce development dollars are allocated in ways that address the strategic shift towards new challenges, while maintaining strength in more conventional areas.

We intend to do this by examining capability needs and solutions in the context of joint portfolios. There are several important aspects of this change. By looking at collections of assets across the military services which can be leveraged to meet joint needs we expect to better adapt individual Service investments to meet broader joint war fighter needs. Additionally, we expect to gain efficiencies within portfolios, or "product lines" by introducing commonality, sharing technologies, and adapting existing capabilities vice initiating new developments and identifying portfolio life cycle cost drivers. This will assist us in being responsive to the American taxpayer.

More specifically, the Department is beginning to experiment with capability portfolios in selected specific areas. Those areas of experimentation include Joint Command and Control, Net Centric Operations, Battlespace Awareness (ISR) and Joint Logistics. This portfolio experiment will allow senior leadership to consider ways of conducting strategic trades across previously stove-piped areas, and also better understand the implications of investment decisions across competing priorities. We have already established senior level teams to examine these areas in a much more holistic way than would have been possible before, or by looking at things as a collection of "eaches."

The best solution for the joint operator is not necessarily the sum of the best solutions for each of the services and agencies. This set of initiatives is designed to bring the multiple efforts of the Department together, look at them from the perspective of the joint operator, and, as necessary, rearrange the portfolio of investments.

Enterprise Data

Information (Data Transparency) is a lynchpin of portfolio management within the Department of Defense. We are focusing efforts into improving organizational transparency through better data quality and better data availability. It is important that we have visibility into the current assets and development efforts across the DOD enterprise. Data transparency is key to providing the context needed to transform acquisition from a platform-specific development focus to a strategic capability-based enterprise. Redesigning the Department's data resource systems will not be easy. In fact, it will require changes and accountability at every level. Encouraging Governance using a common data language gets everyone discussing issues of substance, rather than debating which facts and data to use. We will also be able to direct our oversight focus where it is needed, on challenged programs. Our purpose is to achieve insight and clarity, and honestly balance risks at the portfolio level to get the optimal solution for the warfighter, and the best value for the taxpayer.

Defense Business Systems

DoD has recently taken aggressive steps to improve our business practices, processes and systems. The goals of which are to create streamlined end-to-end integration of our supply chain, greater financial transparency and improved personnel processes. Elements of the Department's Business Transformation include: Establishment of strong governance with active participation of senior leadership with the Defense Business Systems Management Committee (DBSMC) chaired by the DepSecDef; Establishment of a new Defense Business Transformation Agency, that will in part become a center for acquisition workforce excellence in areas involving the business best practices and business transformation; and Establishment of an Assistant Deputy Under Secretary of Defense for Strategic Sourcing and Acquisition Processes. This new leadership position is the DoD Point of Contact to improve the Department's strategic resourcing decisions; Development of a streamlined acquisition process for business systems that leverages commercial best practices

Streamline/Improve the DAB Process

The Defense Acquisition Performance Assessment report, Center for Strategic and International Studies (CSIS) Beyond Goldwater-Nichols II report, and the Quadrennial Defense Review all made recommendations that DoD streamline and improve the Defense Acquisition Board (DAB) process. Those studies support what Program Managers and Service Acquisition Executives have told me that there are too many required documents and meetings to reach the fielding/deployment milestone. The

Secretaries of the Military Departments, and their Service Acquisition Executives, should be responsible for organizing and managing programs. My role as Defense Acquisition Executive should include ensuring that a program is structured to be successful and to establish performance metrics with which to assess program progress. The DAB process should work to establish a common set of facts and bring the issues into sharp relief so senior leaders can make decisions. To move from where we are to where we should be, I have commissioned a group of senior executives to use the techniques of lean and six sigma to examine the oversight process and documentation requirements and make recommendations to me by the end of April. I have also incorporated this process improvement activity into my organizational goals and will continue to look for opportunities to streamline the oversight process, revisit roles and responsibilities, and identify opportunities to delegate those responsibilities while maintaining key knowledge required to oversee program progress and ensure focus on programs that need attention. Finally, I will use the Joint Tactical Radio System (JTRS) program as a test bed for streamlining the acquisition process.

Today, we do oversight by meetings. Major Defense Acquisition Programs (MDAPs) run through various levels of staff review inside the services and then at OSD. In addition, the Department requires lots of reports as milestone reviews. Finally, I conduct monthly reviews known as Defense Acquisition Executive Summaries that cycle through all of the MDAPs once a quarter; the service acquisition executives have similar, more detailed processes. Aligning those various processes; having their efforts based in

common data and upon common objectives; and both simplifying the review process and improving the quality of the oversight are the objectives of this effort.

Improve Program Stability

We are examining capital accounts for Major Defense Acquisition Programs (MDAPs) as a means of stabilizing program funding, which has long been cited as a significant issue in program management. The specifics of how it would be implemented are still being explored, but the intent is to commit a set amount of funding for the development portion of a project -- and hold to that commitment by not adjusting funding up or down until product is delivered. Checks and balances will be necessary, and we will have to be equally disciplined in areas beyond the resource processes. To be effective, we will also create conditions that permit programs to succeed within these kinds of resource commitments by clearly defining objectives, minimizing technology risk, setting schedule criteria, and holding performance requirements stable. Once we do that, I intend to hold managers at the right levels accountable for performing within these terms. As our thinking matures, we will work with the Congress to implement these ideas appropriately, with your oversight responsibilities in mind.

As important as it is to ensure funding stability, we must also ensure that requirements, once approved, are not altered without executive review and approval. When a requirement is changed, and there are always many apparently good reasons to do so, there is a strong likelihood that we will not achieve approved cost and schedule outcomes. As a result, costs go up, schedules are delayed and our overall investment plan

is undermined. We are exploring policy that makes it harder to make such changes in requirements, schedules or resources without understanding and taking account for the resulting effect on the program.

Authority for Execution of Acquisition Programs in "Big A" Acquisition Decisions

The initiatives outlined above, I believe, are within the Departments current authorities, and can be implemented in the near term. If we determine that some of these initiatives require legislative relief I will work with you on them.

Role of DDR&E in Maintaining Technical Edge

The QDR recognizes that we are in the fourth year of the Long War, a war that is irregular in its nature, with insurgent terrorist extremist groups presenting a new and difficult threat. The challenge of an irregular war means that the uniformed men and women of our nation need new and different capabilities to address the emergent threat. The Director of Defense Research and Engineering continues to shift focus to fight this Long War by changing the overall investment portfolio for S&T to develop new and different capabilities, and to continue to expand efforts to prototype and transition technology. Coupled with the shift in investment, it is clear we should also review our business practices to ensure they provide greater agility and flexibility in developing, maturing, and transitioning technology to operational use. The Congress has been very helpful in providing funds for Combating Terrorism Task Force and Quick Reaction Special Projects, programs which allow us to act with great urgency providing solutions

to emergent operational issues, or to quickly apply a new technology to our military needs. Moving toward the future, these kinds of programs and responsive business practices will be essential for the Department as we try to outpace an adversary who lives by no requirement, budget or procurement rules.

I believe it is also important to develop and better understand the strategy-based technology vectors for this next era of competition. In the late 1970s, the Department and the Congress began to coalesce around stealth, speed and precision as key capabilities needed for the Cold War. Behind those strategy-based vectors, the nation arrayed its impressive technical capabilities and today have advanced our capabilities in these areas significantly. The DDR&E and Defense Science Boards have work underway to begin focusing our views on this issue. Without such direction, I believe, every technology can be as interesting as the next.

Implement Supply Chain Logistics

The Department of Defense Supply Chain is a strategic weapon, used to project and sustain American power worldwide, while operating to ensure the taxpayers are receiving best value for their money. The Department's supply chain processes have performed admirably in a range of missions, from OEF/OIF to recent disaster relief around the world. With that said, we must do more to provide ever improving levels of cost effective warfighter support. To accomplish this, the DoD is pursuing a number of strategic supply chain initiatives to truly make our supply chain an offensive weapon. We have expanded the joint supply chain distribution by establishing TRANSCOM as the

distribution process owner and my position as the Defense Logistics Executive. Together we are making the Joint Supply Chain more responsive. Our success in the distribution subset of Joint Theater Logistics in OEF/OIF has shown the entire Department the benefits of collaboration and streamlining in logistics. I hope we can devote our efforts to applying these lessons learned about the benefits of joint logistics across our entire supply chain, instead of going through the time-consuming and disruptive process of creating another Command and new reporting chains for existing commands.

We continue to employ best-in-class commercial supply chains in areas such as fuels and clothing, and we are implementing supply chain best practices across our logistics operations, including Continuous Process Improvement, Lean/Six Sigma and performance based logistics. We are driving the use of data and metrics as the basis for accountability in use of resources and performance across the supply chain. Third, we are proceeding with the strategic deployment of information technology in business systems such as the Business Systems Modernization at DLA, the use of unique identification on assets and parts, and the use of both active and passive Radio Frequency Identification, or RFID, to provide materiel asset visibility in support of our forces. By doing so, we will continue to provide our warfighters with the logistic support they so richly deserve. In addition, Joint Supply Chain will be one of the portfolio experiments we undertake this year.

Joint Logistics Command

The Center for Strategic and International Studies (CSIS) in its "Beyond Goldwater-Nichols: Phase 2 Report" recommended that the Defense logistics and transportation functions should be fused into an integrated U.S. Logistics Command (USLOGCOM). I might note that although "Logistics" in the Department includes weapon systems maintenance and other functions, the CSIS report focused on forming a new command comprised of the current air, land, and ocean transportation components of the U.S. Transportation Command and the warehousing, order fulfillment, and distribution roles of the Defense Logistics Agency. Even the latter omits significant components of DLA, notably supply sourcing and procurement, as well as stockpiling and many technical functions such as cataloging. Therefore, if the command were created as proposed, it would be more aptly named "U.S. Distribution Command" rather than a true "U.S. Logistics Command." I believe the creation of a USLOGCOM will not achieve the benefits of joint logistics. The enterprise is too large and complex to create a single hierarchy to run it all. Our focus needs to be on developing the best joint processes and capabilities, rather than on creating new organizational structures.

Acquisition Workforce

Our DoD AT&L workforce analysis and human capital strategic planning efforts are progressing and we will publish our first DoD Acquisition, Technology & Logistics Human Capital Strategic Plan in June. This plan will set the stage for improved, enterprise-wide and component efforts to achieve and sustain the right acquisition,

technology and logistics workforce capability into the future. As you know, I have established as my number one goal to have a "High-Performing, Agile and Ethical Workforce." Goal objectives include: 1) a Future DoD AT&L Workforce Shaped and Recapitalized to Enable Smart Workforce Decisions; 2) Improved Outcomes by Developing an AT&L Performance Management Construct and Culture and Deploying Enabling Leadership Initiatives; 3) A Knowledge-Enabled AT&L Workforce to Support the DoD Acquisition, Technology and Logistics Mission; and 4) Ethics Awareness Training and Performance Standards Fully Integrated within the Workforce. These initiatives support the DoD and QDR human capital objectives and initiatives. I am engaged with our component acquisition leaders to improve the competency- and performance-based management of the workforce, and to continue improving the resources available to support and improve workforce performance. With respect to the DAPA Project recommendation regarding Big A acquisition, we are developing approaches to address the performance needs of all key players that contribute to successful acquisition outcomes, including requirements and budget workforce members. It is important that all Big A workforce members have the training and performance support resources they need to achieve the broader acquisition mission. We look forward to working with you and your staffs as we further improve and pursue our acquisition-related human capital initiatives.

Industrial Base Issues

The Department desires that the industrial base on which it draws be reliable, cost-effective, and sufficient to meet strategic objectives.

DoD research, development, and acquisition, and associated policies and program decisions, play the major role in guiding and influencing industry transformation by focusing market demand across a broad spectrum of industry segments to meet emerging and projected DoD requirements. First, the Department's weapons system acquisition policies and decisions shape the technological and programmatic focus of industry. Second, decisions made on mergers and acquisitions involving defense firms continue to shape the financial and competitive structure of the industry. Third, DoD assessments of sectors or specific industry issues help identify future budgetary and programmatic requirements. Finally, the Department incorporates industrial base policies into its acquisition regulations and strategies on an ongoing basis to promote competition and innovation, and in specific cases to preserve critical defense industrial capabilities and technologies.

Although the industrial base supporting defense generally is sufficient to meet current and projected DoD needs, there always are problem areas that the Department must address. Our challenge is to holistically consider and leverage these Department processes and decisions to establish and sustain the industrial capabilities needed to secure the nation's defense, generally; and address problem areas that arise.

Conclusion

In closing Mr. Chairman, there is much underway in improving the effectiveness and efficiency of the Department of Defense. We are committed to this program of change. Thank you for the opportunity to testify before the Committee about our acquisition policies and processes, and, especially, our people. I would be happy to answer any questions you and the Members of the Committee may have.

For Official Use Only
Until Released by the
House Armed Services
Committee

STATEMENT OF
ADMIRAL E. P. GIAMBASTIANI, USN
VICE CHAIRMAN OF THE
JOINT CHIEFS OF STAFF

BEFORE THE 109TH CONGRESS

HOUSE ARMED SERVICES COMMITTEE

5 APRIL 2006

For Official Use Only
Until Released by the
House Armed Services
Committee

Chairman Hunter, Representative Skelton, distinguished members of the Committee; it is my pleasure to testify today on the contributions of the Joint Requirements Oversight Council, and the requirements process it oversees, in reforming our acquisition practices in the Department of Defense. First though, on behalf of all Soldiers, Sailors, Airmen, Marines, and our families, thank you for your continued bipartisan support. That support has been exemplified this past year by Congressional visits to our troops in Iraq, Afghanistan, and elsewhere around the world; visits to those hospitalized; your funding for operations; your support of transformation and recapitalization initiatives; and the improved pay and benefits you have provided to our Service members and their families.

Improving the ability of our requirements and acquisition processes to deliver capabilities to the Joint Warfighter is a key element of the Department's ongoing transformation agenda. This transformation imperative informed the Quadrennial Defense Review's direction on business process reforms. These business process reform efforts will be driven by QDR Execution Roadmaps and overseen collaboratively by the leadership of the Department of Defense.

In my testimony today, I want to focus on the role the requirements process should play in acquiring truly "joint" capabilities and the efforts my colleagues and I on the Joint Requirements Oversight Council and the Defense Acquisition Board have undertaken to achieve this goal.

As a prelude to this discussion, numerous reviews of the acquisition process in the past have pointed to key aspects of the requirements generation process that have driven up costs and delayed delivery. Among these "cost drivers" are the establishment of unrealistic or unachievable requirements and the evolution or "creep" of requirements

over time. The first problem – unrealistic requirements - reflects an aspiration that science and technology will advance in time to deliver a desired future capability. It is often an aspect of programs with inherently long lead times and extensive research and development programs, such as some shipbuilding or aviation stealth programs. The second problem – requirements "creep" - occurs when technology advances faster than our acquisition process expects, often in those areas in which the commercially driven research and development outpaces that of the Department of Defense, in areas such as communications or information technology. In both cases, they result from a laudable desire to deliver the best possible, state of the art capability to the Joint Warfighter. But they also result in inefficient and expensive programs which often deliver late and sometimes deliver not at all.

In our efforts to improve the requirements process, my colleagues and I on the Joint Requirements Oversight Council and the Defense Acquisition Board are working to craft a process which achieves the following objectives:

- Links requirements to approved Joint Concepts of Operations
- Incorporates the capability needs of the Combatant Commanders
- Limits the technology risk at a level appropriate for the capability being developed.
- Identifies which requirements are most likely to drive costs and schedule and provides options for senior leaders to "descope" requirements when cost growth threatens capability delivery.
- Provides appropriate review by senior leadership early in the requirements process and throughout the acquisition process so

that rational and informed "risk balancing" decisions can be made by the senior civilian and military leaders of the Department.

Needless to say, this is a tall order, but not unachievable. I am pleased to report that in each of the 20 JROC meetings and 12 DAB meetings I have attended since becoming Vice Chairman of the Joint Chiefs of Staff on 8 August 2005, some or all of these topics have been addressed. We are working and learning together and taking an incremental and pragmatic approach to reforming our requirements process even as we proceed with defining the capabilities the Joint Warfighter will need for the future.

I am encouraged by the progress we have made to date. Let me share some of the highlights:

- We now have a body of Joint Concepts of Operations to inform our requirements development. Based on a Capstone Concept for Joint Operations and four Joint Operating Concepts [Major Combat Operations, Stability Operations, Homeland Defense and Strategic Deterrence], we are creating a common capability lexicon. Most recently, Secretary Rumsfeld approved 21 top tier Joint Capability Areas which map out the types of capabilities required by the Combatant Commanders in executing their missions. This will help all of us involved in capability development – Services, Defense Agencies, Combatant Commanders and the Joint Staff – think more clearly, and more jointly, about what we need to deliver for the future. And, when we consider "jointness" conceptually, we need to think more broadly to include Allied, coalition and interagency, as well as multi-service, operations and requirements.
- The JROC is evaluating capabilities documents with more concern for technology risk and cost drivers. From my personal perspective,

I always ask for the history behind the requirement; whether the Key Performance Parameters (KPPs) have changed over time; which requirements drive the cost of the program and what "requirements trade space" we can take advantage of. I have found that in some cases, the most important, the most costly and the most frequently changed requirements are not found among the JROC approved KPPs. My intention, as Chairman of the JROC, is to ensure the JROC has firm control over the KPPs and Key System Attributes (KSAs) which drive cost and risk and that the JROC is involved up front in any changes to them.

- The JROC and the DAB have begun to work together to review programs in the execution phase which are running over cost and behind schedule. As a team, we revalidate the requirements and review the acquisition strategy to put these programs back on track. As two salient examples of this teamwork, I would single out the Joint Tactical Radio System (JTRS) and the Future Imagery Architecture (FIA), the latter program also working closely with Under Secretary Cambone's team. Ideally, this work should start sooner rather than later – before the parameters of the Nunn-McCurdy Act are breached. We are working together to identify performance metrics we can use to intervene earlier and more effectively in programs experiencing difficulty.

These are just some of the initiatives that Under Secretary Krieg and my colleagues on the JROC have undertaken together. The teamwork and collaboration have been exemplary. That's good, because there is a lot more work to be done. We need to make our system more agile, more responsive, less bureaucratic and fully informed by a coherent body of Joint Concepts, Joint Experimentation and Joint Lessons Learned.

This is a challenge I am committed to meeting. It is one of the reasons I came to Washington to serve as the Vice Chairman of the Joint Chiefs of Staff – having lived with a non-optimal system as a warfare requirements director, a Service Programmer and a Combatant Commander. I look forward to continuing our work with the Acquisition Community and the Resource Community to tackle these challenges and I look forward to the support and advice we find here on this Committee.

I look forward to taking your questions.

Testimony

of

J. David Patterson
Principal Deputy Under Secretary of Defense (Comptroller)

before the

House Committee on Armed Services

April 5, 2006

FOR OFFICIAL USE ONLY
UNTIL RELEASED BY THE
HOUSE ARMED SERVICES COMMITTEE

Thank you, Mr. Chairman, Congressman Skelton, and members of the Committee. I am very pleased to be here with Comptroller General Walker, Under Secretary Krieg and Vice Chairman Giambastiani to discuss the important topic of acquisition reform.

Let me open my remarks, speaking as a relatively recent addition to the Comptroller's office that the process to acquire weapon systems and services to meet current and future capability needs can – and should – be better, especially in this era of multiple combat operations abroad, terrorist threats at home, and competition for budget. To that end, the goal of the Office of the Under Secretary of Defense, Comptroller is to provide the Department with a rational, balanced budget with sufficient internal controls to achieve efficient, effective acquisition programs that meet cost objectives.

There is nothing new about the challenge to develop more efficient, effective and less costly ways of acquiring weapon systems and services. General George Washington complained in 1777 about the risk averse, fledgling industrial base that was not responsive to the need for cannon castings. In 1861 Congress expressed concern about fraud, waste and abuse in defense acquisition. General George Custer found too late that commercially available repeating rifles would have been helpful at Little Big Horn. His adversary had the Winchesters. The historical literature is replete with descriptions of efforts to improve the Defense Department's acquisition processes. To my knowledge, before the completion of the most recent Defense Acquisition Performance Assessment (DAPA) some 128

studies had been conducted, over the course of the last several years, to address perceived and real problems with the Defense Acquisition system. In the 1980s the focus was fraud, waste and abuse. The 1990s reflected the desire to make the process faster, better, cheaper. More recently, the goal has been to make the process more flexible and responsive. Indeed, for nearly 60 years, the Department has been engaged in a continuous process of self-assessment to identify and improve the way it acquires weapons systems.

Many of the same problems, particularly those related to cost and the timely delivery of needed capabilities, have been themes in most of the studies.

In many of the reviews conducted, almost since the Department was established in 1947 with the Hoover Commission, the focus was on procurement practices, but not necessarily budget issues. And this is significant, because those practices that impact the ability of the procurement process to deliver effective capabilities on time and within cost requires the Department to create a stable budget environment.

Past reviews were also limited in their assessment of the interrelationship between workforce performance, industry responsibility, and the oversight and control mechanisms intended to make the system work efficiently with financial discipline.

While many improvements were made as a result of all of these reviews, the ability of the acquisition process to deliver major systems consistently on schedule and within predicted costs have not improved appreciably during the last 20 years.

Last June, in response to the growing concern of Congress and the Department, Deputy Secretary of Defense Gordon England authorized an assessment of every aspect of the acquisition process – from requirements, organization, and legal foundations, such as Goldwater-Nichols, to decision methodology, oversight, checks and balances, with the goal of integrating all acquisition reform activities into a single coordinated roadmap. That project became the Defense Acquisition Performance Assessment or DAPA Project.

Lieutenant General Ron Kadish (USAF, Ret) spoke to you last Wednesday about the details of the Defense Acquisition Performance Assessment or DAPA report. I served as the Director for the DAPA Project, and have read General Kadish's testimony and believe he covered well the details of that study. However, it is important to note that, broader than previous studies, the DAPA Panel's approach addressed not only the "little a" acquisition process – which tells us how to buy things, but the "big A" Acquisition System that integrates the three interdependent processes of budget, acquisition, and requirements.

Among the important findings of the Panel that are relevant here today is the idea that program stability leads to predictability in the program as measured by cost schedule and performance. When program progress is predictable, in other words when milestones are being met, estimated costs are actual costs and performance to contract specifications and Key Performance Parameters are achieved, the senior leadership in the Department of Defense and the Congress will have their confidence in the acquisition process strengthened or renewed.

Additionally, it is critical for acquisition program success that clear lines of accountability are established and maintained. When program managers have

stable programs with predictable funding, it is much easier to hold the program managers accountable for program performance and cost discipline.

Achieving stable program budgets as a key element in building and maintaining stable acquisition programs is a Department of Defense objective for implementation. To achieve that goal, the Department has an initiative underway as part of the Quadrennial Defense Review recommended roadmap on improved governance and management to implement a DAPA report recommendation for a "stabilization account" or capital funding of programs. We have established a working group that is;

- First preparing a description of exactly what such a funding program would look like; there are several ideas of what a stabilization funding process would be;
- Second, determining how rigorous internal controls would be established and maintained; gaining the confidence of Congress and the Department demands that strong spending controls be in place, and

- Third, identifying which programs would be the best candidates for successful implementation of a capital or stabilization account for major programs. Not all program profiles lend themselves to a stabilization account.

- Lastly, we are looking for solutions to the challenges that will be encountered by implementing stabilization accounts for major defense programs.

The outcome of this working group will provide the body of the report on this subject required by the National Defense Authorization Act for FY 2006 due

to Congress by July 1, 2006. But, any worthwhile solution to achieving budget stability and the resulting acquisition program stability will require a collaborative effort among the major Department players and Congress.

I'm pleased with the opportunity to discuss the important subject of acquisition reform and to answer your questions.

QUESTIONS AND ANSWERS SUBMITTED FOR THE RECORD

APRIL 5, 2006

QUESTIONS SUBMITTED BY MR. SKELTON

Mr. SKELTON. Secretary Krieg, my understanding is that you have a 23-point plan. When will you have your 23 points formally submitted to us?

Secretary KRIEG. [The information was not available at the time of printing.]

QUESTIONS SUBMITTED BY MR. CALVERT

Mr. CALVERT. I am pleased with the success of the Army's efforts to rapidly develop and field its Common Remotely Operated Weapons Station (CROWS). The testimonials from Soldiers and their leadership on the lives saved by CROWS demonstrate exactly the type of program that urgent needs acquisition authority granted by was designed to support.

However, I am concerned that significant funding is being spent on a foreign producer of Remote Weapon Stations in order to bring the foreign product up to the specifications that are already being procured in CROWS. This appears to be counter to the effort the Army undertook to develop a "Common" system. It also appears that this "non-competitive" product improvement of the Stryker RWS is an inefficient use of scarce Army resources.

Please provide this committee an understanding of why the Army is providing significant government funding to a foreign company (through a contract with General Dynamics Land Systems) to develop its stabilization and improve its sensor and display capabilities for the Stryker RWS when the Army already has developed and fielded a U.S. built and privately developed "Common" system known as CROWS.

Secretary KRIEG and Mr. WALKER. [The information was not available at the time of printing.]

QUESTIONS SUBMITTED BY MR. MARSHALL

Mr. MARSHALL. How do we have a cost-effective ability to maintain that capacity within the United States without making some major structural changes in the way we are doing world trade, in that way we are just, sort of, generally manufacturing things worldwide. That is the question.

Mr. WALKER. [The information was not available at the time of printing.]

Mr. MARSHALL. I would be very interested in seeing what you—if you could share with me whatever you supplement the record with with regard to this "Buy American" business that we were talking about.

And back to the structural deficit problem that we face. It is not going to get cured by all the things that we are talking about today, but it is going to affect our national security because defense spending is discretionary, basically.

Have you done anything that you could share with me, have you all written something on this subject? I mean, reams of things on the general subject, but specifically is it going to affect defense?

Secretary KRIEG. [The information was not available at the time of printing.]

QUESTIONS SUBMITTED BY DR. SNYDER

Dr. SNYDER. Mr. Walker, in your written statement, I am going to read a couple of paragraphs that I think really illustrate, and this is quoting you, Mr. Walker: "As I have testified previously, our nation is on an imprudent and unsustainable fiscal path. Budget simulations by GAO, the Congressional Budget Office and others show that over a long term we face and large and growing structural deficit to primarily the known demographic trends, rising health care costs and lower Federal revenues as a percentage of the economy. Continuing on this path will gradually erode, if not suddenly damage, our economy, our standard of living and ultimately our national security."

And then just before that, you refer specifically to DOD and you say, "In the past five years, DOD has doubled its planned investment in weapons systems, but this

huge increase has not been accompanied by more stability, better outcomes or more buying power for the acquisition dollar. Rather than showing appreciable improvements, programs are experiencing recurring problems with cost overruns, missed deadlines and performance shortfalls."

I think those are two very powerful statements. One is in a narrow category of what you all are focusing on and trying to do your best job of improving, and you all have pointed out that it has occurred over decades.

And then, Mr. Walker, you put it in the context of we are a nation that does not have unlimited resources, and our national security also depends on our economic strength and our fiscal strength. So we have some real challenges.

Mr. Walker, in your written statements, you have some little charts in here. You have one for DOD, I think you have one for, let's see, one for the Secretary of Defense, one for military services and joint developers. You don't have one for Congress in terms of actions that we might do, and I am one that feels like the Congress has just dropped the ball in terms of providing oversight in a whole lot of different areas. But would you create for us a chart for Congress? What should we be doing?

Mr. WALKER. [The information was not available at the time of printing.]

QUESTIONS SUBMITTED BY MR. ANDREWS

Mr. ANDREWS. Mr. Krieg, although today's hearing focuses on major defense acquisition reforms, I would like to ask you about ongoing reforms to the Prime Vendor program. I commend the Department for taking a hard look at the abuses in the Prime Vendor program. But I am concerned that you may not be drawing a needed line between the few abusers and the vast majority of vendors who play by the rules. Most importantly, I worry that your investigation is gravely slowing down the delivery of crucial equipment to warfighters on the front lines.

Please answer the following questions: 1) How many Prime Vendors are there?; 2) How many require further investigation?; 3) What is the Department's policy toward the rest of the Prime Vendors who have been cleared of any wrongdoing? 4) What are you doing to expedite the ordering process for the Prime Vendors so that the military receives their orders in a timely manner?; and 5) What is being done to create a data base of approved Prime Vendor products and pricing within DLA so that Prime Vendor Contractors can get quicker approvals on their purchase requests.

Secretary KRIEG. [The information was not available at the time of printing.]

QUESTIONS SUBMITTED BY MRS. DRAKE

Mrs. DRAKE. Under Secretary Krieg, over the last year, I have heard various witnesses and subject matter experts talk about the increased role of our combatant commands with regards to acquisition policy. It seems to me that those closer to the warfighter and those close to the front lines would be better situated to determine military need in terms of capability. In the Defense Science Board's recent summer study on transformation, an increased role for Joint Forces Command (JFCOM) in terms of concept development and experimentation was recommended. Building upon this recommendation, I would like to inquire as to the Department's views not only on the feasibility of an increased acquisition role for the combatant commands in general, but an increased acquisition role for JFCOM in specific.

Secretary KRIEG. [The information was not available at the time of printing.]

QUESTIONS SUBMITTED BY MR. MILLER

Mr. MILLER. Defense News recently reported that a new type of program review, known as a concept decision review, "was borne during deliberations over the Quadrennial Defense Review." It goes on to say that "OSD says it will help the department's leadership to 'make stronger corporate investment decisions by coordinating the DOD requirements, acquisition and programming at the point of investment.'"

My understanding is that the first review of this type looked at the CSAR–X program and on March 23 mandated no major changes to the services acquisition strategy. Additionally, the CSAR–X program is supposedly still on schedule for an August Defense Acquisition Board (DAB).

Is my above understanding correct and is it true that this program was developed during the QDR planning process?

What value added does the "concept decision review" bring to the acquisition and requirements development process and how does its personnel makeup (Under Secretary Krieg, J–8, etc.) differ from a DAB?

Secretary KRIEG. [The information was not available at the time of printing.]

QUESTIONS SUBMITTED BY MR. KLINE

Mr. KLINE. If I could just get from maybe it is from you, Mr. Secretary, a list of those things that the Department has acquired specifically under this authority granted in the statute.

Secretary KRIEG. [The information was not available at the time of printing.]

○