

S. HRG. 109-469

**NEEDED IMPROVEMENTS TO DEFENSE
ACQUISITION PROCESSES AND ORGANIZATIONS**

HEARING
BEFORE THE
COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE
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SEPTMBER 27, 2005

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**NEEDED IMPROVEMENTS TO DEFENSE
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TIONS**

TUESDAY, SEPTEMBER 27, 2005

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m. in room SR-325, The Caucus Room, Russell Senate Office Building, Senator John Warner (chairman) presiding.

Committee members present: Senators Warner, McCain, Inhofe, Sessions, Collins, Ensign, Talent, Chambliss, Thune, Levin, Akaka, Dayton, and Clinton.

Committee staff member present: Charles S. Abell, staff director.

Majority staff members present: William C. Greenwalt, professional staff member; Ambrose R. Hock, professional staff member; Gregory T. Kiley, professional staff member; Thomas L. MacKenzie, professional staff member; Elaine A. McCusker, professional staff member; Lucian L. Niemeyer, professional staff member; Robert M. Soofer, professional staff member; Scott W. Stucky, general counsel; Diana G. Tabler, professional staff member; and Richard F. Walsh, counsel.

Minority staff members present: Gerald J. Leeling, minority counsel; and Peter K. Levine, minority counsel.

Staff assistants present: Micah H. Harris, Jessica L. Kingston, Benjamin L. Rubin, Catherine E. Sendak, Jill Simodejka, and Pendred K. Wilson.

Committee members' assistants present: John A. Bonsell, assistant to Senator Inhofe; Arch Galloway II, assistant to Senator Sessions; Dirk Maurer and Mackenzie M. Eaglen, assistants to Senator Collins; D'Arcy Grisier, assistant to Senator Ensign; Clyde A. Taylor IV, assistant to Senator Chambliss; Frederick M. Downey, assistant to Senator Lieberman; Darcie Tokioka, assistant to Senator Akaka; William K. Sutey, assistant to Senator Bill Nelson; Kimberly Jackson, assistant to Senator Dayton; and Andrew Shapiro, assistant to Senator Clinton.

**OPENING STATEMENT OF SENATOR JOHN WARNER,
CHAIRMAN**

Chairman WARNER. Good morning, everyone. The Senate Armed Services Committee meets this morning in its capacity as an oversight committee on one of the most important subjects that we have had before us in some time. I first want to thank my long-

time friend and colleague, John McCain, for urging that we move forward in these hearings. He is chairman of the subcommittee that has jurisdiction of a significant part of the responsibility for overall procurement. Senator McCain, we are going to keep this subject at the full committee level, but from time to time, Senator McCain will take the lead. Senator Ensign likewise in his subcommittee has a portion of the responsibility and from time to time he will be active in operating these hearings.

We ask all members to give a certain priority to these hearings and contribute their own ideas as to the witness panel and the direction which we should proceed.

We are pleased this morning to have this distinguished panel before us. Actually, the hearing is a follow-up on Secretary England's nomination hearing, where many members of our committee expressed concerns over how well the acquisition system is working. The unfortunate events surrounding several Air Force programs, including the tanker most specifically, raised questions about the integrity of the acquisition process, while reports of continued cost overruns on major weapons systems called into question the Department's ability to effectively manage many of these programs.

Twenty years ago, the President's blue ribbon commission on defense management, commonly known as the Packard Commission—and I always pay tribute to that fine man; I was privileged to serve with him in the Department of Defense (DOD) when I was in the Navy secretariat—that ushered in an era of acquisition reform with its finding that the DOD weapons systems take too long and cost too much to produce. The Packard Commission attributed this problem in large part to unrealistic budgeting, chronic instability in funding, overstated requirements, a dilution of accountability for results, duplication of programs, and inadequate testing.

Two decades later, major weapons systems programs still cost too much and still take too long to field. It appears that, despite 20 years of acquisition reform, many of the same acquisition problems identified by David Packard still exist today. This is an issue of great concern to the committee and to Congress as a whole.

It also appears that many of the easiest reforms have been implemented. You may now be left with the most difficult management and organizational issues that will require significant management attention and perseverance to address and correct them.

Budgetary reform falls into this category. How DOD budgets for programs has been the subject of concern for decades, but DOD acquisition programs still appear hindered by underfunding, unrealistic estimates, and year-to-year budget instability.

Requirements reform, or how DOD decides what it needs to buy in the future, was to be addressed by the Packard reforms. However, it seems we still have far too many Service-specific solutions, overstated needs, and changing requirements that increase program instability. We need to ask, for example, does each Service really need to develop and procure unmanned aerial vehicles, or can joint solutions more effectively meet the warfighters' needs?

The men and women who comprise the acquisition workforce are doing the best they can within the current system. Our sailors, soldiers, airmen, and marines are still operating the best weapons systems in the world, so something is working right. However, I

think we can do better, and we have to do better tomorrow to maintain our military dominance in the future, particularly in the face, Mr. Secretary, of what could be some reduction in our budgets owing to the extraordinary situation presented in our overall fiscal problem by the recent tragedies of these hurricanes and the mounting costs to try and bring needed relief to those who suffered.

I think we have to be mindful of that situation. We need to look closely at the process of buying our weapons systems and review whether DOD is organized effectively to perform the acquisition mission. We also need to look at the professionals who comprise our aging acquisition workforce. We need a human capital management system. So many of our senior people are understandably looking towards the retirements that they have earned with hard work.

The committee is committed to doing all that is necessary to ensure that the future defense acquisition system is effective, adequately protects the taxpayer from fraud and abuse, and continues to deliver the best products and services in the world for our service members.

To address these topics, I am pleased to welcome: the acting Deputy Secretary of Defense, Gordon England; Ken Krieg, Under Secretary of Defense for Acquisition, Technology, and Logistics; the Vice Chairman of the Joint Chiefs, Admiral Ed Giambastiani; and Lieutenant General, Retired—emphasize, Retired—Ronald T. Kadish, Chairman of the Defense Acquisition Performance Assessment Project. I welcome each of you and thank you for your participation.

Senator Levin.

STATEMENT OF SENATOR CARL LEVIN

Senator LEVIN. Mr. Chairman, first let me join you in welcoming our witnesses. Today's hearing comes at a time when the costs of the DOD's major acquisition programs is skyrocketing, at least in part because the Department seems to be unable to comply with its own acquisition policies. It comes at a time when the DOD is spending more and more on contract services, with less and less competition, and less and less management attention. It comes at a time when the defense acquisition workforce has been cut so deeply that the Department has abdicated a significant part of its contracting responsibility and is sending tens of billions of dollars to other Federal agencies every year to spend on its behalf. In short, this is an area that cries out for oversight.

Looking first at the acquisition of major weapons systems, the Government Accountability Office (GAO) reported earlier this summer that 26 of the DOD's biggest acquisition programs have failed to meet cost and schedule expectations. According to the GAO, the total projected research and development costs of these programs has risen by more than 40 percent, the acquisition unit cost has increased by roughly 50 percent, and the acquisition cycle time has increased by an average of almost 20 percent from initial projections.

Why has this happened? The GAO provides a clear explanation: unstable budgets, immature technologies, and fluctuating requirements. The Department has policies in place that are designed to

address those risks. Unfortunately, the Department does not appear to have complied with its own policies.

For instance, the GAO says that 49 of 50 technologies on the Army's Future Combat System (FCS) lack the level of maturity required by the Department's own guidelines in order to ensure that it is producible in a timely manner without driving up costs. According to the GAO, the Department is unlikely to reach the appropriate level of knowledge about these technologies until at least 2008, putting the program 5 years behind schedule when it has barely gotten under way.

The GAO says that Navy shipbuilding programs have experienced a cost growth of more than \$3 billion, in large part because of poor cost estimating, unrealistic budgeting, and frequent design modifications which require the contractor to rework its program and even to rebuild completed areas of ships to accommodate the changes.

The GAO says that the Department's missile defense system is being developed without a fixed design or final architecture and without program baselines and independent cost estimates that are required by the Department's own policies. Despite DOD directives requiring that we fly before we buy, we continue to spend hundreds of millions of dollars to purchase and deploy missile defense interceptors that have not yet had a single successful intercept test.

Mr. Chairman, I wish I could say that these problems are unusual, but they're not. They're typical of the status of major acquisition programs throughout the Department. Moreover, these are the programs that get the most management focus at the DOD. DOD assigns its most capable managers to major acquisition programs and tracks them closely at the highest levels. Other types of acquisition, such as the acquisition of contract services, get far less management attention and suffer from problems that are even worse.

We have all heard about the billions of dollars in contracts awarded sole source or on the basis of limited competition to Halliburton and other companies in Iraq. We have all read the stories about inflated prices, services paid for but never received, the use of contractors to oversee the work of other contractors, and the contracts extended despite poor performance. Some of us have even had ex-employees of these contractors call our offices to complain about defective products, wasteful expenditures, and instructions to do make-work so that the contractor could run up its bill.

Unfortunately, these kind of abuses are not unique to either Halliburton or Iraq. DOD has no organizations devoted to the acquisition of contract services, no career path for those who work in the acquisition of contract services, and very little training and guidance for the acquisition of contract services. As a result, review after review has documented the use of sole source awards to favored contractors, open-ended contracts with no clear performance objectives, and an almost complete absence of contract management and oversight.

These problems are made worse by the Department's increasing practice of offloading contracts to other Federal agencies. What this means is that the DOD funnels its money to other agencies to enter and manage contracts on its behalf. The result: neither the DOD

nor the other agency accepts responsibility for making sure that procurement rules are followed and good management sense is applied.

This absence of accountability has led to a lack of acquisition planning, inadequate competition, excessive use of time and materials contracts, improper use of expired funds, inappropriate expenditures, and an almost complete failure to monitor contractor performance. Errors are more easily hidden and swept under the rug when this offloading process, this funneling of DOD money to other agencies, is utilized.

The use of contractors to interrogate detainees is one dramatic example of how this practice can lead to abuse. DOD officials in Iraq hired contract interrogators by routing DOD money through a Department of the Interior contracting center in Arizona. The GAO has found that both the DOD and the Department of the Interior officials effectively abdicated their responsibilities, leaving almost the entire contracting process in the hands of the contractor, who actually drafted the papers needed to use this offloading, funneling process.

As a result, a series of audits identified numerous abuses, including the issuance of orders that were outside the scope of the contract, the failure to comply with competition requirements, and the failure to adequately monitor contractor performance. The lack of clear accountability within the Department for contractor employees at Abu Ghraib which resulted from this offloading or funneling of dollars through the Department of the Interior also contributed to the well-documented abuse of detainees at Abu Ghraib.

American taxpayers will spend almost \$500 billion this year for national defense. When we spend that kind of money, or any kind of money, for that matter, we have an obligation to spend it wisely. Unfortunately, it appears that the Department is doing far less than it should to live up to that obligation. We have great hopes that you, Secretary England and Secretary Krieg, in your new positions will promptly and decisively take on these problems.

Thank you.

Chairman WARNER. Thank you very much, Senator Levin.

As I indicated when we opened the hearing, I am extremely grateful to Senator McCain for his constant encouraging to progress with this series of hearings, as well as Senator Ensign, who has also joined us this morning, both of them being subcommittee chairmen with jurisdiction over this subject. So I will first recognize Senator McCain.

Senator MCCAIN. Thank you very much, Mr. Chairman. I want to thank you for your commitment on this issue and your continued interest and involvement. I know that all of us look forward to working with you and Senator Levin and others as we try to address this problem.

I want to thank the witnesses for being here. Let me just describe the dimensions of the problem to some degree so that we can inject a note of realism into what some may view as sort of a policy issue, which it is, but it has real-time and real-term impact. Cost for the second *Virginia*-class submarine is now expected to be \$2.7 billion, \$520 million more than originally estimated. A new aircraft carrier could well reach \$14 billion. Projected costs for the DD(X)

have risen over 400 percent when research and development costs are included. This is for a program with a planned acquisition of 12 ships. The Congressional Budget Office estimates the lead ship could cost \$4.7 billion, with the cost of additional ships \$3.3 billion. That is for a destroyer, \$3.3 or \$3.4 billion for a destroyer.

Initial estimates for the total costs of the Army's FCS were around \$90 billion, with estimates now reaching as high as \$130 billion. The C-130J cost \$65 million. In 2005 dollars, a 1964 version, the C-130B, cost \$11.8 million.

The Air Force's FA-22 will average nearly \$250 million each. The Navy will spend \$600 million to buy about 3,000 guided missiles, even though it originally expected to pay half that amount for over 8,000 missiles.

The numbers go on and on. It is exacerbated by, the FCS's contract was let under provisions of the law which were clearly intended for small corporations and companies who are just entering into the business—an obvious violation of the intent of the law and Congress.

In the case of the C-130J, that contract was let under the expectation that it would also be a commercial enterprise as well. What was the effect of both of those? It was that the normal constraints and accounting and reporting and auditing procedures were avoided. So guess what? The FCS has gone from \$90 billion to \$130 billion and the cost of the C-130J is now \$65 million.

How much do you have to pay to fly cargo? A C-130 flies equipment and personnel around. We could lease a commercial aircraft today for a very small amount of money, and yet we are paying \$65 million each for what is basically a cargo plane.

Well, this is, as the chairman pointed out, the first in a series of hearings because it is going to take a while to figure all this out. We thought it was very important to have the experts before us today to open a series of hearings. There is a lot of work being done, including from the Center for Secure Information Systems (CSIS) and others who have come up with some ideas and thoughts.

Finally, in a little bit of straight talk, in times of large budget deficits and domestic crises defense spending goes down, and yet we are seeing defense costs going up at a rather dramatic rate. There is going to be some kind of a crunch time, and if we are already at a point where we can only acquire four ships for the United States Navy in 1 year that obviously has significant national security implications over time.

I thank the chairman. I thank the witnesses for being here today. I have the highest regard for all four of the witnesses and I think they represent a degree of expertise and knowledge that is very important and a way for us to begin this examination of the procurement situation. I thank you, Mr. Chairman.

Chairman WARNER. Thank you, Senator. I anticipate that we will have hearings this year following this and we will go on into next year. This is going to be a long process.

Senator ENSIGN, thank you again for your participation in urging that we move these hearings.

Senator ENSIGN. Thank you, Mr. Chairman. Just a couple of brief remarks.

I think that among Senator Levin, Senator McCain, and yourselves, you have laid out some of the problems. This is a highly complex issue and a lot of people have talked about it, from the Packard Commission on down, of what needs to be done. We have obviously looked at this problem and you can certainly point out one glaring issue in that the acquisition workforce has been cut by one-half over the last 10 years or so.

There are serious problems with people. Everybody here today has not been in their positions a tremendously long time. Every year it seems that when we come up and do these hearings and try to figure out what is going on, people say, well, just give us a little bit of time to figure this out. Then the next time we have those hearings we have new people saying, well, just give us a little bit of time to figure this out.

I think that it is a glaring part of the problem, because when there is not leadership from the top and consistent on the direction that we need to go you can end up with some of the problems that we have. There have been a lot of good ideas over the years, but there has not been consistency in the follow-through of those ideas.

The military is all about systems and yet this is one of the places where the system is not working. It is vital to the national security of the United States that we get this right for the future, because there are limited dollars and we do not have for the future, if it continues down the line that we are going in—we are not going to have the type of weapons systems that we need to keep our warfighters far ahead of the rest of the world.

The rest of the world does not have some of the same problems that we have with weapons development. They do not seem to have some of the bureaucratic nuances. Some of them do, but a lot of them do not, and some of the newer countries do not seem to have those kinds of problems. So we must make this a national priority to figure out.

I appreciate the leadership from you and Senator McCain on this issue, and we are going to have to go forward and take a serious look into the future. Thank you.

Chairman WARNER. Thank you, Senator, for your leadership.

Given the importance of this subject, I think the chair would be happy to have short statements by any others. Any other colleagues wish to address this issue? [No response.]

If not, Secretary England. This all started with your hearing.

**STATEMENT OF HON. GORDON R. ENGLAND, ACTING DEPUTY
SECRETARY OF DEFENSE**

Mr. ENGLAND. Yes, it did, and I appreciate the opportunity to be back, sir. I do appreciate the opportunity to be back. Also, know we are very sensitive to the concerns you have expressed. As a matter of fact, we have some of those same concerns. I do appreciate the opportunity to be at the hearing today. I thank this committee for investing the time and the commitment because, first of all, in the past Congress has been very helpful. There has been a lot of legislation that is very helpful to the Department.

I can tell you that it will take Congress and the Department working comprehensively together on these issues to come at a long-term solution. I am pleased that you are committed, as we are,

to work this over a period of time because there is no quick solution. This is just hard work.

Now, are likely aware anyway, the Department is working on our Quadrennial Defense Review (QDR) and that QDR defines future military capabilities to meet the challenges our Nation will face in the future. Now, this year, unlike prior years, in the QDR we are also what I call addressing the other side of the defense coin. That is, one side is the needed capabilities, but the other side of the same coin is the business practices and the acquisition processes that will allow us to efficiently and effectively identify and acquire these new capabilities. So we are comprehensively addressing this in the QDR this year, which will be submitted to Congress in February.

I am pleased with the panel that you selected to be here today. Ken Krieg in the QDR is leading the business practices and acquisition activity. So he is the point person for this in the QDR. Retired Lieutenant General Ron Kadish is leading a Federal advisory committee and he is conducting a separate acquisition assessment study that I specifically asked that he put together. So these two acquisition efforts, the one in the QDR under Ken Krieg, the one under Ron Kadish, combine with the work previously accomplished by CSIS, which was the beyond Goldwater-Nichols work. They will guide our recommendations to address the challenges we face today.

Then finally, Admiral Ed Giambastiani, who is the Vice Chairman of the Joint Chiefs, is with us today. He co-chairs the QDR with me and he has broad experience in defining requirements, both as a Navy flag officer and as the prior commander of the U.S. Joint Forces Command. So hopefully we have the group today that can be responsive to you and help point the way forward.

Chairman WARNER. Mr. Secretary, could I interrupt. Do you have some sort of general time schedule for the completion of these important reports?

Mr. ENGLAND. Mr. Chairman, we do. Our objective is to bring all of this together, integrate it, later this year and have it in the QDR final report, which will be provided to Congress in February.

So the CSIS study is complete. General Kadish's study will complete in late November time period and the QDR effort under Mr. Krieg has part of the QDR will complete in time for the conclusion of the QDR. So they will all be integrated into what will then be our formulation of the way forward for this whole area of acquisition.

Chairman WARNER. Would we be able to get the reports as they are finished, prior to the integration? Or is the Department—I hope that that could be arranged.

Mr. ENGLAND. Sir, they will definitely be available. I do want to tell you that in all of this effort, the key to this is transparency, which I believe is very important as we go forward, both as a Department in formulating our approach—we have reached out, Mr. Chairman, to members of your staff. We appreciate the help of this committee, other Members of Congress, industry personnel. So this is very broad-reaching.

Transparency is the key, transparency not just in putting the process together, but then in implementing this as we go forward.

I do want to comment, Senator Ensign, you are right about the time of people. So you know my intent is to help put this together and then see it to completion. My sole objective is to put a program in place and be able to measure progress and stand before this committee and be able to defend what we are doing and show progress in this regard. So you do have my commitment. I intend to see this through and make sure that this works well for America. That is my commitment to you.

I do want to say, at the core of all of this, of all the regulations and everything we do, at the core in my judgment it is highly ethical leaders with extensive experience and tempered by some common sense, frankly, to evaluate requirements, balance the risks and rewards, and make the best possible decision in each case. There is no way you can substitute for experience because at the end people do make decisions in terms of programs and processes.

With that, I will turn it over to Ken Krieg for some comments. But I do want this committee to know that the Department takes this very seriously. This group before you takes it very seriously. We are committed and we are invested to make improvements. I appreciate the fact that the committee is working with us and we look forward to this relationship to show some positive improvement in this area as we go forward. So I thank you also for your commitment and investment of your time in this project.

Thank you very much.

[The prepared statement of Mr. England follows:]

PREPARED STATEMENT BY HON. GORDON ENGLAND

Mr. Chairman, Senator Levin, members of the committee, thank you for the opportunity to appear before you today to discuss acquisition in the Department of Defense. My sincere thanks to everyone on the committee for investing your time and energy in this very important topic. In the past, Congress has been most helpful in crafting legislation that has been beneficial to the Department in gaining acquisition flexibilities, improved training for acquisition professionals, improving the management and oversight of acquisition processes and many others. It will require both the Department and Congress working together to address comprehensively the issues that face us today, and I thank you for that commitment.

As this committee is aware, the Department is engaged in a Quadrennial Defense Review (QDR) to define future military capabilities to meet the challenges our Nation will face in the future.

In addition, the QDR this year is also addressing what I call the other side of the Defense coin; the business practices and acquisition processes that will allow the Department to efficiently and effectively identify, acquire, manage and then deploy the needed new capabilities.

I am particularly pleased that Ken Krieg is here today. Ken is leading these business practices and acquisition activities in the QDR. I am also pleased that retired Lieutenant General Ron Kadish is with us today, as I have asked Ron to lead a Federal advisory committee in a separate Acquisition Assessment Study. These two acquisition efforts, combined with the study previously completed by the Center for Strategic and International Studies (CSIS), "Beyond Goldwater-Nichols", will guide our recommendations to address the DOD acquisition challenges. Finally, Admiral Ed Giambastiani, the Vice Chairman of the Joint Chiefs, co-chairs the QDR with me, and he has broad experience determining requirements both as a Navy Flag Officer and as a prior Commander of U.S. Joint Forces Command.

In all of these studies and efforts, the Department is reaching out to experienced military personnel, civilian acquisition professionals, industry leaders, this committee, other experienced Members of Congress, and your staffs.

It is vitally important that we make substantive progress. To be very frank, in spite of all the efforts of many smart and dedicated people before us, we still do not have it right. Defense Acquisition is an especially complex undertaking, involving myriad interests, regulations, changing technologies and requirements. It takes leaders with extensive experience, tempered by the rare gift of common sense, to

evaluate the requirements, balance the risks and rewards, and make the best possible decision in each case.

It is essential that the Department continue to adapt its acquisition processes to better support the warfighter and to better manage the taxpayer's money. The Department is committed, and I am personally committed and invested in bringing about positive change. I'm hopeful that perhaps this time we have all the right people in the right places in Congress, in the military, in industry, and in key civilian government positions to make real progress.

I want this committee to know that the Department is conducting this effort in a very open and transparent manner and that we value the advice from this committee and other experts to design a fair and well-managed acquisition process. Once again, thank you for the time and energy you have committed to this topic and for your cooperation in the future as we proceed together to address this very important issue.

Chairman WARNER. Thank you, Secretary England.
Secretary Krieg.

**STATEMENT OF HON. KENNETH J. KRIEG, UNDER SECRETARY
OF DEFENSE FOR ACQUISITION, TECHNOLOGY, AND LOGIS-
TICS**

Mr. KRIEG. Thank you, sir. Chairman Warner, Senator Levin, members of the committee: Thank you for the opportunity to appear here today, as the acting Deputy said, to discuss this important work that we all have in front of us and building a roadmap toward acquisition excellence.

During my confirmation hearing before you, I committed to work with you to guide the necessary changes throughout the acquisition process with both integrity and a commitment to making objective, fact-based decisions. I am quite pleased that, 100 days into my tenure or so, we are having these conversations because I think it is critical that we deal with these issues as a Nation.

Our primary customer, the warfighter, expects our acquisition community to deliver the capabilities they need to defend America and its interests, not only today but long into the future. But at the same time, we have a clear responsibility to wisely invest taxpayer dollars. As I think about the challenges we have ahead of us, I am mindful of a certain staff member who sat in the back benches of the Packard Commission, namely me, and of David Packard's view that he said over and over, that we have to ensure a tight relationship between the three departmental processes, those processes being requirements, acquisition, and resources.

Though the Department and the Nation have instituted many of the recommendations of that commission, I believe that we must better integrate these three processes to get the kind of commitment to systems and commitment among all the members and all the interests represented. It is only with better integration that we can make the timely and coherent decisions about potential trade-offs among cost, performance, and schedule. To find the right trade-offs and achieve the balances, I plan to use three basic principles.

First, we must understand and define success in terms of the customer's success, that being the warfighter, not simply our own functional view of the world.

Second, we must align authority and responsibility and hold those in charge accountable.

Third, we must base our decisions on data that links acquisition to requirements and resource allocation, so the facts are in front of us.

Finally, we must all accept the fact that we are in a period of great change and that change is not an exception. It is the constant we must manage.

In addition to changing the way we do business, we also need to reassess the way we use new technologies. As you pointed out, our force currently enjoys a competitive advantage, but the global pace of technology development continues to increase. To address this issue of rapid change, we began implementing a year or two ago technology maturity assessments to determine if acquisition programs require more mature technology before entering the next phase—part of the tradeoff between performance, cost, and schedule. In addition, we have increased the number of demonstrations and prototypes, as the Packard Commission recommended.

As we reassess our technology use, we must be mindful that we cannot wait too long to field those technologies that give our warfighters the advantage.

I look forward to working with this committee in particular to identify the next generation technologies that can provide the future disruptive and irregular capabilities. Identifying those priorities will be a critical important task before us.

Now I would like to briefly touch on three other important—

Chairman WARNER. I am going to interrupt you just for a minute. There appear to be some technical problems with the acoustics, so I am going to ask all witnesses and encourage my colleagues to address the microphone directly as you speak. Thank you.

Mr. KRIEG. Yes, sir. Thank you.

I would like to briefly touch on three other important acquisition issues which you opened in your statement. First, our people. I agree with my predecessor's concern with the statutory reductions to the acquisition workforce that occurred while workforce demands were beginning to increase significantly. Developing opportunities that Congress has helped us with, like the National Security Personnel System, should give us the flexibility to hire and develop the appropriate people to complete our missions, and I look forward to continuing to work with Congress as we learn how to manage this workforce better.

As the Deputy noted, the foundation for all acquisition improvement efforts depends on a highly qualified workforce that conducts itself in an atmosphere of transparency and integrity. To that end, we are instituting tools of performance management, 360 degree feedback tools for the senior leaders, and a number of other changes recommended by the committees and groups who have looked into this issue in the last year or so.

In addition, I have made it mandatory that our acquisition staff complete an online ethics module by the end of the year.

Now let me address the issue of service contracting. My staff is now reviewing all acquisition of services valued at \$2 billion or more. Big number, but we are starting a process by which we will at the conclusion of this review assess the effectiveness of existing policy, management techniques, and oversight techniques, and

make or recommend any necessary changes that we should to this important effort.

In addition, we are working to ensure the sound use of performance-based acquisition approaches for services, so that we understand pricing techniques, schedule, cost, and quality management.

Regarding contracting for both products and services, we are working to ensure the sound use of performance-based acquisition approaches.

Finally, I would like to address the issue of our use of contract vehicles that belong to other Federal agencies. We are continuing to examine those processes of interagency contracting. They can serve useful purposes in cases where we are acquiring the right kinds of things, as we do through the General Services Administration (GSA) schedules, to meet some of those requirements for services and supplies.

But the recent Inspector Generals' reports for both the GSA and DOD provided numerous lessons learned to the Department and to the Nation. In fact, the Department recently issued policy in this area and we have charged the military departments and the other defense agencies to assess their compliance with those kinds of policy changes. We will be doing that over the next several months. The Department is also evaluating the fees we pay assisting other agencies for their support.

Finally, we have developed in concert with others an online training and conducted onsite regional training with both GSA and Defense Acquisition University and established a community of practice among the professionals who work in this area.

In conclusion, as the acting Deputy noted, we are working on many of the broader issues in defense acquisition and they are being addressed through two studies. I just add that in the defense acquisition review Duncan McNabb, who is currently serving as the J-4, has been my co-chair in working on that group. We are, as the Deputy said, working to develop those results to build a roadmap by February. I look forward to continuing to work with this committee and look forward to the advice, counsel, and support that you have provided in this area and will continue to provide.

Thank you for your time.

[The prepared statement of Mr. Krieg follows:]

PREPARED STATEMENT BY HON. KENNETH J. KRIEG

Chairman Warner, Senator Levin, and members of the committee: Thank you for the opportunity to appear before you today to discuss acquisition excellence. During my confirmation hearing before this committee, I stated my commitment to guiding change; to integrity, and to making objective fact-based decisions consistent with good governance and to maintaining a constructive dialogue with the committee. Today, I am providing additional insight into my philosophy and vision for improvements and excellence in acquisition, technology and logistics.

My primary focus in Acquisition, Technology and Logistics (AT&L) is on the customer—the warfighter of both today and tomorrow. Customers expect our acquisition community to deliver the capabilities they need to defend America and its interests, not only today, but into the future. In doing so, we must also provide timely information and analysis to assist Secretary Rumsfeld in his efforts to balance resources against requirements. As stewards of the American taxpayer, those of us in the acquisition community have a responsibility to wisely invest and manage the hard earned tax dollars of our citizens to enhance and expand our national defense capability. To ensure that the American people stay informed, we must make sure that all Members, including this committee, are well informed of our efforts.

PEOPLE

As I participate in the Quadrennial Defense Review (QDR) and other reviews, I am convinced that an integrated, strategic focus on people is a necessary and important requirement for improving acquisition outcomes and processes. Workforce capability is a reflection of the right quantity and the right skills and competencies. We have previously expressed our concerns about statutory reductions to the AT&L workforce. Workforce demands have increased significantly. Using 2004 constant dollars, the contract dollars have increased from \$118 billion in fiscal year 1998 to \$241 billion in fiscal year 2004, a 105-percent increase. Contracting actions over \$100,000, often our most complex, increased from 101,663 in fiscal year 1998 to 160,388 in fiscal year 2004, a 58-percent increase. The increasing use of interagency acquisitions has added further complexity. We need flexibility to have the right numbers of the right people with the right skills to support current and future warfighters. We will exercise these flexibilities to ensure resources are used wisely, with integrity, and with effective accountability.

Shortly after assuming my position, I immediately focused on improving our workforce initiatives. I am fostering a more integrated and strategic approach to AT&L workforce human capital planning, workforce initiatives, and training. I have initiated a comprehensive review of the AT&L workforce and will soon have in place (120 days after the QDR) a human capital strategic plan incorporating National Security Personnel System (NSPS) and aligned with the QDR results and our analysis of the current AT&L workforce and evolving workload requirements (services, contingency operations, etc.).

The problem of an aging workforce is still very real and needs to be addressed. The average age of our civilian workforce is 46.7 years old and the number of workforce members with 30-plus years of experience continues to increase. We face losing a significant amount of corporate knowledge, experience, and capability. I also have a specific concern about the impending talent gap created by a 10-year workforce drawdown. I am personally engaged and pushing hard to define processes and tools to assess workforce capability; and to tactically recruit, develop, and retain the right talent, with emphasis on smart execution and implementation.

Let me end my thoughts on workforce by saying that thoughtful human capital strategic planning and leadership development is critical for our future success. The foundation for all acquisition improvement efforts depends on a highly capable and qualified workforce that conducts the business of government in an atmosphere of transparency and integrity. To that end, I have initiated action to deploy performance management and multi-dimensional 360 degree feedback tools for the senior leadership team. Over 100,000 people have completed the online ethics module that we initiated this year and I have made it mandatory that the remaining members of the acquisition workforce to complete this training before the end of the year. Ethical behavior is a function of leadership. I have already met with my senior Flag and Senior Executive Service officers to share my expectations and the expectations of the Secretary. As the Secretary stated in his September 7, 2005 department-side memorandum entitled "Ethics and Integrity," "Ethical conduct and integrity must be modeled by the Department's leadership." I fully agree, and have sent this message to every member of the AT&L workforce.

ACQUISITION PROCESS

Our Nation currently has warfighters in harms way and we can not definitively predict who our next adversary will be or where the next conflict will occur. As a result, we need an agile, capability-based acquisition system that provides our primary customer—the warfighter—with the means to achieve victory regardless of whom we fight or where we fight.

I believe the Department has taken important steps to achieve that objective by implementing policy aimed at reducing acquisition cycle time while controlling cost. These new policies are streamlined and flexible and based on an evolutionary or phased acquisition approach. That approach mandates clearly stated requirements, developed in conjunction with the warfighter and the acquisition community, a thoughtful analysis of available alternatives, mature technologies and independently assessed costs. My intent, now and in the future, is to enforce these important disciplines while preventing requirements creep and ensuring overall affordability.

I should note as well that we have taken important steps that will help us to produce improved capability on time and within budget by re-energizing our approach to systems engineering. This critical discipline has always contributed significantly to effective program management at every level and will receive sustained emphasis during my tenure.

However, more must be done in the larger context of acquisition if we are to achieve success in the uncertain conditions we will face. Consequently, as part of our Quadrennial Defense Review, Acting Deputy Secretary England has directed me to review our acquisition and other business processes to ensure they are capable of meeting customer needs. While doing that, I have identified a number of key principles I believe we must follow to be effective and that I would like to share with you.

- First, we must understand and define success in terms of the customer's success. In other words, we must be successful in the customer's eyes, not simply our own.
- Second, we must align authority, responsibility and accountability—all conceived in a joint context with associated standards. This will facilitate delegation of authority and decentralization of execution, while ensuring accountability consistent with identified standards.
- Third, we must base our decisions on authoritative data captured in a comprehensive management information approach linked not only to acquisition, but also to requirements, and the planning, programming, budgeting and execution system. This will help us to achieve insight and clarity, and honestly balance risks at the portfolio level to get the best value for the taxpayer.
- We must develop policy that allows even greater agility so we can acquire, mature, transition, and field advanced technology in ever shorter cycle times.
- Finally, we must accept forever the fact that our acquisition environment is in constant change and our acquisition system must also change consistent with that dynamic. Change is not the exception, it is a constant that we must manage. History has proven to us that those that respond to changing conditions survive and succeed and those that don't will inevitably fail. I am very much aware of that fundamental lesson and will do all I can to develop an acquisition system capable of responding to the rapidly changing world we live in.

INTERAGENCY ACQUISITION

Besides QDR, there are several examples of the Department examining its processes for interagency acquisitions and acquisition of services. The Department relies on "Interagency Acquisitions" and the assisting agencies (General Services Administration (GSA), National Aeronautics and Space Administration (NASA), Interior, Treasury) to meet many of our requirements for services and supplies. The Department's recently issued policy in the area of interagency acquisitions is designed to ensure that interagency acquisitions are properly accomplished. The recent GSA Inspector General (IG) and DOD IG review of GSA's "Client Support Centers" has provided numerous lessons learned to the entire Federal acquisition workforce in this area.

I recently issued a memorandum to the Military Departments and the Other Defense Agencies requiring them to assess their compliance with the policy, and specifically with section 803 of the National Defense Authorization Act (NDAA) for Fiscal Year 2002 (competition requirements for contracts for services). The Department will also evaluate the fees that we pay assisting agencies (section 854, NDAA for fiscal year 2005) for their support. We have developed online training, conducted on-site regional training with GSA and Defense Acquisition University, and established a Community of Practice on <http://www.acq.osd.mil/dpap/specificpolicy/index.htm>.

We are committed to properly using interagency acquisitions to meet DOD requirements.

SERVICES CONTRACTING

In order to more effectively manage the significant expenditures being made in contracting for services, my staff is reviewing individual service acquisitions valued at \$2 billion or more. At the conclusion of the review, we will assess the effectiveness of existing policy and develop any necessary changes.

We are working to ensure the sound use of performance-based acquisition approaches; pricing techniques; and schedule, cost and quality management. In addition, we are adopting a private sector "best practice" of applying a strategic approach to our contracts for services by developing a Defense-wide strategic sourcing process. Pilot test programs include administrative clerical support services; wireless services; and medical services. We believe the strategic approach to acquiring services will enable the Department to reduce total ownership cost, improve our ability to strategically address socio-economic goals, and employ more standard ac-

quisition business processes. For example, this approach to administrative clerical support services is resulting in a strategy that is 100 percent set aside for small business with contracts planned to be available for use in early 2006.

TECHNOLOGY

Our current force enjoys a huge capability advantage as a result of the Department's development of technologies such as night vision, the global positioning system, and stealth, but the pace of technology development globally continues to increase. A stable research and development program is necessary to maintain a technology. Over time, potential adversaries will develop technologies to counter the current U.S. advantage, so continued technology refresh is critical. To meet this need, the Department is refocusing its science and technology program to provide future disruptive and irregular capabilities, such as hypersonic flight and weapons, oil independence, and nanotechnologies, to name a few. The recently established Research and Engineering Goals provide the framework to mature technology in specific areas of emphasis and to field the disruptive technologies of tomorrow.

Technology maturity is a factor in reducing program risk, thereby reducing near- and long-term program costs. We implemented Technology Maturity Assessments to assess if acquisition programs require more mature technology before entering the next phase. In addition, we have increased the number of demonstrations and prototypes, further ensuring adequate technology maturity and military utility by "trying before buying."

While most programs use the traditional acquisition process, we have also established several alternate methods for transitioning technologies to meet emergent needs. For example, the Quick Reaction Special Projects (QRSP) program which demonstrates technologies within 1 year and most importantly are able to respond to technological surprises encountered in the field. For instance under QRSP, the Urgent Testing and Evaluation Alternative Materials for Small Arms Protective Inserts (SAPI) Production identified, developed, and evaluated additional qualified materials to allow manufacturers to increase their production rate for SAPI and enhance the warfighters' Interceptor Body Armor System.

The QRSP also supports the Combating Terrorism Technology Task Force (CTTTF) and funded initial development of the Yuma Arizona Joint Experimental Range Complex which is now used 24 hours per day. This test range provides a representative environment in which all technical and operational testing for the Department's counter improvised explosive device (IED) countermeasure development is conducted.

The Advanced Concept Technology Demonstration (ACTD) Program is helping to establish an agile, rapid, and adaptive acquisition process. This program partners with science and technology producers to rapidly insert technology into the appropriate phase of the deliberative acquisition process, with the goal of providing on-ramps for acceleration. The new Joint Capability Technology Demonstration Program (JCTD) furthers this concept by developing and maturing technologies to support the unique needs of the joint community in an even more adaptive and responsive process.

ACTDs demonstrated their ability to rapidly insert technology in recent use by U.S. Northern Command (NORTHCOM) in responding to the Hurricane Katrina relief effort. NORTHCOM deployed products from two ongoing ACTDs: the Homeland Security/Homeland Defense Command & Control communication van. The communication van and an online information-sharing system provide a seamless voice and data communications capability between coordinating authorities. The communications suite can relay phone and video communications via satellite, providing immediate voice, data, and teleconferencing capabilities almost anywhere. On September 21, the communication van was redirected and pre-positioned for needs arising from Hurricane Rita. Although the ACTD does not complete until fiscal year 2006, the spiral development of this communication van is already transitioning, providing critical capabilities that might take years longer in the normal acquisition process.

Continued development of technology capability options requires innovation from a stable workforce of science, math and engineering (S&Es) skills. However, several trends show continued erosion of domestic S&E production to a point where the U.S. may no longer be the primary innovator in several areas crucial to national security.

To shore up this shortage in home grown technical talent, the Department is actively engaged to institutionalize and expand the fiscal year 2005 congressionally-directed Science, Mathematics and Research for Transformation Program. The expanded program, called the National Defense Education Program, should increase the pool of U.S. scientists, mathematicians, and engineers eligible for security clear-

ances, thereby building our future workforce and enhancing our future national security.

INDUSTRIAL POLICY

U.S. defense systems lead the world and the U.S. industry that develops and builds them continues to be the most technologically innovative, capable, and responsive in the world. Although the American way of warfighting is evolving, the Department expects that U.S. industry leadership will continue into the foreseeable future. The Defense Industrial Base Capabilities Study (DIBCS) series of assessments, represent a strategic (15–20 years into the future) assessment that measures industrial base sufficiency against a new warfighting focused, capabilities-based construct. The first round of DIBCS reports¹ identified 19 cases (less than 6 percent) where there was a potential U.S. industrial base insufficiency. My office now is reviewing the results of the assessments to determine how the Department can best address the issues raised by the DIBCS assessments.

The Department's research and development, acquisition, and logistics processes result in funding decisions that are normally sufficient to establish and sustain those industrial capabilities needed to secure the Nation's defense. 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 defense firm mergers and acquisitions involving defense firms continue to shape the financial and competitive structure of the industry. Third, DOD evaluations and 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 to promote competition and innovation.

The industrial base supporting defense which includes an increasing number of nontraditional suppliers is generally sufficient to meet current and projected DOD needs. Nevertheless, there are and will always be problem areas that the Department must address. The Annual Industrial Capabilities Report to Congress summarize those industrial issues of most importance to the Department and discuss DOD plans and actions to address those problems.

CONCLUSION

There are two significant reviews underway that will certainly provide additional insights and recommendations that will guide acquisition change in the future. One—the Defense Acquisition Performance Assessment Project (DAPA)—was initiated by the acting Deputy Secretary in June. This important review is being conducted through a Federal Advisory Committee and includes not only senior officials from government but also industry officials. Issues and solutions are being sought via public forums from a wide cross-section of interested parties, interviews with government and industry program managers, and collaborative teams of intermediate and senior members. The DAPA Director regularly briefs the Deputy Secretary, me, and the Service Acquisition Executives as well as congressional staff members on the progress of the report. I look forward to reviewing the findings and recommendations when the report is submitted to the acting Deputy Secretary on November 15, 2005.

As I mentioned before, I'm part of the Quadrennial Defense Review the Department is undertaking. We're trying to do something different with this QDR than we've done in the previous two or three. Duncan McNabb, who is currently serving on the Joint staff in J-4, is co-chairing QDR business practices with me. We are working business practices as part of strategy development.

The work that Duncan and I have underway includes five broad business areas, including (1) supply chain, (2) medical readiness and performance, (3) acquisition—not little “a,” or how you procure, but big “A,” thinking through demand and supply, and then tying it to logistics over time—(4) strategic process integration, or tying planning to resource allocation and execution management, and finally, (5) corporate governance.

I should note that I was a junior member of the Packard Commission staff and I am ever mindful of his direction that we ensure a tight relationship between the three Department processes. I think what we have missed so far is the integration of requirements, acquisition and resources—working together—to permit early and

¹These reports can be downloaded at www.acq.osd.mil/ip.

regular trade-offs between cost, performance and schedule. Duncan and I are working hard to ensure that an effective and complimentary relationship amongst those processes is clearly and permanently institutionalized.

In closing Mr. Chairman, 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.

Chairman WARNER. Thank you.
Admiral, you are going to follow.

**STATEMENT OF ADM EDMUND P. GIAMBASTIANI, JR., USN,
VICE CHAIRMAN, JOINT CHIEFS OF STAFF**

Admiral GIAMBASTIANI. Mr. Chairman, Senator Levin, members of the committee: I too thank you for the opportunity to appear before you today to discuss the acquisition process and organizations inside the DOD and in particular the military's role in this acquisition process. As I stated in my confirmation hearings in answers to committee questions, both verbal and in written form, I look forward to not only working with Congress in improving our performance, but I give you my personal commitment to improve in this incredibly important area. As you have stated, we owe our best effort to our men and women in uniform.

I look forward to your questions, sir. Thank you.
Chairman WARNER. General Kadish.

**STATEMENT OF LT. GEN. RONALD T. KADISH, USAF [RETIRED],
CHAIRMAN, DEFENSE ACQUISITION PERFORMANCE ASSESSMENT
FEDERAL ADVISORY COMMITTEE**

General KADISH. Chairman Warner, Senator Levin, and members of the committee: I would like to thank you for the opportunity to appear before you today representing the Defense Acquisition Performance Assessment Federal Advisory Committee, which we refer to as DAPA, to outline the work being done by our project.

The project was established as an independent review in a June 7, 2005, memo from Acting Deputy Secretary of Defense Gordon England. When complete, the project's work will provide the Secretary of Defense and the 2006 QDR with recommendations on how the DOD can improve the performance of the defense acquisition system for major programs and restore confidence in the process.

The work of the project is being accomplished by a Federal advisory commission established in accordance with the Federal Advisory Commission Act of 1972. To date our committee has held four public meetings, received briefings from over 60 practitioners and stakeholders in the acquisition process, placed in operation a Web site to encourage submission of public comments, commissioned independent surveys and interviews of industry and government program managers and acquisition executives, as well as organized labor, and established a baseline of previous acquisition reform studies and recommendations.

We have regularly updated congressional staff and DOD leadership regarding the progress of this assessment. We have developed a database of observations based upon this input and subsequent committee decisions and discussions and are submitting the work of the committee to additional review teams for analysis and comment.

We have heard from many people inside and outside of the process, and we looked at the history of our country's attempts to improve this process. The committee is nearing completion of our data collection and starting the issue development, recommendation, and implementation planning phase.

Now I would like to briefly comment on some of the observations we have made to date. We all want the defense acquisition process to deliver effective warfighting capability as efficiently as possible. Although this process has been the focus of numerous studies and reform initiatives, it still remains plagued by numerous and highly publicized shortfalls in efficiency, and efficiency measured in terms of cost and schedule.

For example, 20 years ago the President's blue ribbon commission on defense, most commonly known as the Packard Commission, ushered in an era of acquisition reform with its findings that DOD weapons systems take too long and cost too much to produce. Many reforms have been undertaken since then. Two decades later, many still believe that systems, programs, cost too much and take too long to field.

This committee and others have asked a very key question: Why is that the case? Yet the system, however flawed, has produced the most capable and best equipped, most effective military in the history of the world. We have met the effectiveness test in the past. Now we need to do so for the next generation in a very different and challenging security environment.

I am convinced the sheer complexity of the system is a major impediment to its efficiency and contributes much to the confusion about the acquisition process itself. If you allow me, I would like to briefly explain what I mean.

There are three fundamental and very complex processes that the DOD operates. I will refer to these as big "A" acquisition, if you will allow that term. They are the requirements process, the planning, programming, and budgeting process, and the acquisition process. I will refer to the acquisition process alone in this context as little "a" because it is embedded in that big "A" triumvirate.

As I read through the pages of the Packard Commission report, the words characterizing the problems of weapons acquisition ring as true today as they did 20 years ago. Achieving a satisfactory acquisition system, the big "A" and the little "a", will be a significant challenge to this country.

As I have listened in panel meetings and studied this problem over the past few months—and I have lived in this system and in this environment for over 25 years—I am convinced we can do better. But we must address the difficult and long-entrenched problems, while ensuring and insisting on personal and system integrity.

In our deliberations as a panel, we currently have more problems identified than solutions. But I believe you can expect us to offer ways to do better. Most reform and improvements tend to focus only on that little "a" process. We will address the key structural deficiencies in the big "A" acquisition processes as well, along with the workforce that supports it and the industry that is its backbone. Simply focusing on improvements in that little "a" acquisition portion of this system, instead of the larger acquisition process,

cannot and will not substantially improve the acquisition performance.

Our collective challenge, then, will be to overcome the myriad of interests, conflicting policies, and incentives, the inherent conflicts, so that we can exploit technology to support our warfighters as efficiently as practicable. Otherwise, we will have another effort in a few years addressing the same issues we have today.

We must ensure that in our efforts to improve the system we do not degrade our existing ability to provide our warfighters with the systems and technologies they need to dominate on the battlefield.

Thank you for the opportunity to appear before you today. I want to emphasize that the work of the independent DAPA committee is still in progress. I would be pleased to return when the panel has completed its work and brief you on the findings and recommendations in detail. On behalf of the panel members, thank you for your efforts to improve our acquisition performance and we look forward to working with you in the future.

[The prepared statement of General Kadish follows:]

PREPARED STATEMENT BY LT. GEN. RONALD T. KADISH, USAF (RET.)

Chairman Warner, Senator Levin, and members of the committee: Thank you for the opportunity to appear before you today as the Chairman of the Defense Acquisition Performance Assessment (DAPA) Federal Advisory Committee to outline the work being done by the DAPA Project. The DAPA Project was established as an independent review, in a June 7, 2005 memo from Acting Deputy Secretary of Defense Gordon England. Deputy Secretary England directed “an integrated acquisition assessment to consider every aspect of acquisition, including requirements, organizational, legal foundations, decision methodology, oversight, checks and balances—every aspect.” The Deputy Secretary also requested that the output of the project be “a recommended acquisition structure and process with clear alignment of responsibility, authority and accountability.” When complete, the project’s work will provide the Secretary of Defense and the 2006 Quadrennial Defense Review with recommendations on how the Department of Defense can improve the performance of the Defense Acquisition System for major programs and restore confidence in the process.

The work of the DAPA Project is being accomplished by a Federal Advisory Committee, established in accordance with the Federal Advisory Committee Act (FACA) of 1972 (Public Law 92-463). As a Federal Advisory Committee, we are able to seek the advice and assistance of the public as well as the input from all practitioners and stakeholders in DOD’s acquisition process. The FACA construct, under which the DAPA operates, ensures that the committee remains independent of DOD and other ongoing reviews and is objective in developing its findings and recommendations. Responsive to the requirements of FACA, we have adopted operating procedures and practices to ensure transparency of process, established mechanisms to obtain maximum input from the public and provided a venue for input from acquisition practitioners and stakeholders.

To date, our committee has held four public meetings, received briefings from over 60 practitioners and stakeholders in the acquisition process, placed in operation a Web site to encourage submission of public comments, conducted over 100 personal one-on-one independent surveys and interviews of industry and government program managers and acquisition executives as well as organized labor; and established a baseline of previous acquisition reform studies and recommendations having accumulated over 630 documents. We have regularly updated congressional staff and Department of Defense leadership regarding the progress of this assessment. We have developed a database of observations based upon this input and subsequent committee discussion and are submitting the work of the committee to additional review teams for analysis and comment.

We have heard from many people in the process and looked at the history of numerous attempts to improve the Acquisition System. The committee is nearing completion of data collection and starting the issue development, recommendation and implementation planning phases. While still early in the process, I can comment on some key observations that have been developed to put the problem in perspective.

First, we want the Defense acquisition process to deliver effective warfighting capability as efficiently as possible. Although this process has been the focus of numerous studies and reform initiatives, it remains plagued by numerous and highly publicized shortfalls in efficiency. For example, 20 years ago, the President's Blue Ribbon Commission on Defense (most commonly known as the Packard Commission) ushered in an era of acquisition reform with its finding that DOD's "weapon systems take too long and cost too much to produce." Many efforts at reform have been undertaken since then. Two decades later, many believe major weapon systems PGMS "still cost too much and take too long to field." This committee and others have asked a key question—why?

Second, the existing system, however flawed, has produced the most capable, best equipped, and most effective military in the history of the world. We have met the effectiveness test in the past, now we need to do so for the next generation in a very different and challenging security environment.

Third, achieving satisfactory efficiency suggests fundamental structural change in our processes is required. I am convinced the sheer complexity of the system is a major impediment and contributes to much confusion about the acquisition process itself. Let me explain. There are three fundamental processes the DOD operates. I will refer to these as the big "A" Acquisition process. They are the requirements process, the planning programming and budget process and the acquisition process. I will refer to the acquisition process alone as "little a" because it is embedded in the big "A" processes.

Delivering capabilities which the warfighter needs, on time and on budget, requires the effective integration and operation of the processes used to articulate what the warfighter needs (i.e., the requirements process), the processes used to define, obtain, and apply resources (i.e., the budget and programming process) as well as the acquisition (procurement) process. Simply focusing on improvements to the "little a" acquisition portion of this system, instead of the larger Acquisition process, can not and will not substantially improve Defense Acquisition Performance. The larger Acquisition process was designed and optimized to respond to a security environment dominated by a single strategic threat, the former Soviet Union. The security environment is very different today—therefore, the processes need to meet the demands of this environment. We must have the flexibility and agility to respond to more dynamic security environments and rapidly changing needs.

Fourth, adapting the larger Acquisition process to the realities of a new security environment cannot be considered independently of the organizations charged with its conduct and the system used to recruit, train, develop and retain its workforce. The "little a" acquisition workforce has been downsized and reorganized over the past 10 years resulting in significant loss of experience. To make up for this loss it appears we've imposed even more regulatory approaches to oversight and introduced strategies that insert industry where we used to have government with many unintended consequences. Key functions of the "big A" Acquisition process such as requirements development, system engineering, operational testing and transitioning of science and technology are being pursued as separate or independent entities adding to the cost and complexity process.

Finally, the industrial environment has changed in fundamental ways. Globalization and industry consolidation over the last 15 years, as well as our "outsourcing" policies affect the processes and strategies and techniques that we use and are required to be used. This raises many key questions. Does competition produce desired outcomes? Can we accommodate globalization? Why don't nontraditional suppliers compete for defense business?

In conclusion, as I read through the pages of the Packard Commission, the words characterizing the problems of weapons acquisition ring as true today as they did 20 years ago. Achieving a satisfactory acquisition system—"Big A" and "Little a"—will be a significant challenge. As I have listened and studied this problem over the past few months—and lived in this environment for over 25 years—I am convinced we can do better. In our deliberations as a panel, we currently have more problems identified than solutions, but I believe you can expect us to offer ways to do better. Most reform and improvements tend to focus only on the little "a" process alone. We will address the key structural deficiencies in the big "A" acquisition process as well and the workforce that supports it and the industry that is its backbone. Simply focusing on improvements to the "little a" acquisition portion of this system, instead of the larger Acquisition process, cannot and will not substantially improve Defense Acquisition Performance. Our collective challenge will then be to overcome the myriad interests, conflicting policies and incentives and inherent conflicts so that we can exploit technology to support our warfighters as efficiently as practicable. Otherwise we will have another effort in a few years addressing the same issues we have today. We must ensure that in our efforts to improve the system,

we do not degrade our existing ability to provide our warfighters with the systems and technologies they need to dominate the battlefield.

When the panel has completed its work and I would welcome the opportunity to return to brief you on our findings and recommendations.

Chairman WARNER. Thank you very much.

We will now proceed to a 6-minute round with our members. First a question to you, Secretary England, on just procedure. I find it very encouraging that the DOD on its own initiative has begun to look at this situation and you have so many different reports and wheels rolling towards trying to prepare a comprehensive position for the QDR.

At the same time, I know my colleagues certainly on this committee and perhaps others in the Senate are anxious to make their contributions. I will talk with you in consultation with my colleagues as to how we can have somewhat of a coincidence of our work product such that we have an impact, we this committee, on your analysis which will be reported in the QDR process.

So let both of us think how best that can be done, with the realization that we anticipate Congress will be concluding its work for this year—I will not even mention when that will be, but I know in the hearts and minds up here what it is—and then we do not reconvene until the January time frame. So that leaves precious little time for the confluence of viewpoints to come together and influence your final report.

Do you have some thoughts initially?

Mr. ENGLAND. Mr. Chairman, we have been working with your staff, so our personnel, General Kadish's personnel, have been working with the staff of the committee to receive input and discussion. I value this interchange greatly, so I would just be delighted if we had some mechanisms other than just a hearing, which is fine. But I would value that.

Chairman WARNER. I want to get the views of my colleagues, but we will definitely work some system whereby our thoughts can hopefully influence your outcome.

Mr. ENGLAND. We would welcome that, sir, and I would appreciate it. Thank you.

Chairman WARNER. I come back to really one of the most extraordinary chapters in my career here, and that is with the problems associated with the tanker leasing program and the revelations that ensued. You recall that this contract was moving through Congress until it came to this committee, at which time a group of us felt very strongly that we would not concur in the reprogramming, and from that point on an extraordinary sequence of revelations occurred.

In March 2005, the Defense Science Board (DSB) task force issued a report on management oversight in acquisition organizations and found that, and I quote, "No structural or policy mandates," exist to prevent a reoccurrence of a similar case to the Darlene Druyun, who amassed considerable power over the acquisition process without sufficient oversight and external controls.

I hope I am incorrect in that, in that something has been done since the issuance of that March 2005 DSB task force report. Could you acquaint the committee with what you believe has been put in place?

Mr. ENGLAND. We have, and I would like to have Mr. Krieg address that directly because he has implemented a number of those corrective actions, Senator.

Chairman WARNER. Thank you.

Mr. KRIEG. Yes, sir. A number of steps have taken place in the decisionmaking process and oversight process about centralization of control, and it goes to who can make decisions. We can get you the specifics on those.

One of the things I think is interesting in the report was—and we have gone to it with the 360-degree evaluation—there were a number of reports of her behavior that over the tenure of time had different management in positions. So the use of a 360 tool between an employee and a supervisor that allows you to get a full-cycle evaluation of a person's behavior and relationship would, I think, have helped unlock that. At least that was the view of, I think, the DSB as it looked at it, and that is one of the tools we are going to try to put in place.

We have put in a number of ethics training, to go and recertify what people are responsible for. That was one of the clear needs, is to continually train people in their responsibilities. So there are a number of those recommendations that the DSB recommended to meet the needs of the concerns that they had. There were 20 specific recommendations. I can get the committee exactly what we are doing on each 20. We report on it regularly and I would be happy to provide you with those details.

[The information referred to follows:]

The DSB report contained 20 recommendations and highlighted the need for the Department to emphasize the importance of ethics and integrity. The Secretary of Defense agrees that ethics and integrity need to be at the forefront of everything we do. We have actively and expeditiously been working to implement the DSB recommendations as outlined below. This will be an ongoing process that does not end with just implementing the specific recommendations. Rather, we need to ensure that ethics and integrity are part of the Department's values and day-to-day operations.

The DSB report included 18 recommendations categorized in 4 main areas: Processes, Oversight, Leadership, and People. The DSB also recommended that DOD address two additional areas. The 20 recommendations and current implementation status follow:

Processes (1–5)

1. Recommendation: For major procurements, the Under Secretary of Defense (Acquisition, Technology & Logistics) (USD(AT&L)) codify best practices into policy.

Status: USD(AT&L) will field a Best Practices Clearing House in fiscal year 2006 at the Defense Acquisition University (DAU). The Best Practices Clearing House will share and highlight "best-in-class" examples for the benefit of the acquisition workforce. Additionally, the task force recommended that we use mistakes and failures as case studies and communicate them broadly. We already have started action on this recommendation, and one example will be an ethics-related series of articles to be published in the bi-monthly Defense AT&L magazine.

2. Recommendation: USD(AT&L) ensure process for meaningful feedback to bidders.

Status: OUSD(AT&L) is reviewing the feasibility of instituting Acquisition Process Reviews (APRs) of the military departments. One aspect that would be reviewed is whether the military departments have instituted processes that provide meaningful feedback to offerors.

3. Recommendation: USD(AT&L) ensure distribution of delegated acquisition responsibilities for major procurements.

Status: On March 1, 2005, the acting USD(AT&L) asked the military departments and defense agencies to prepare policy/procedures that ensure the separation of functions in acquisitions, so that complete authority does not reside in one person.

Currently, we are analyzing responses to determine if additional guidance/policies are required.

4. Recommendation: Oversight, source selection and contract negotiations should not reside in one person.

Status: Addressed by the action described in response to recommendation 3 above.

5. Recommendation: Provide many avenues for voicing concerns.

Status: As part of the APRs described in response to recommendation 2 above, OUSD(AT&L) would review whether there are multiple avenues for voicing and addressing of concerns.

Oversight (6–11)

6. Recommendation: USD(AT&L) should oversee processes as well as programs.

Status: The APRs addressed in recommendation 2 above would address this recommendation. In addition, in line with, but not undertaken to specifically implement this recommendation, Acting Deputy Secretary Gordon England established a Federal Advisory Committee, “The Defense Acquisition Performance Assessment Project”, on June 7, 2005. The Committee is considering all aspects of acquisition, including requirements, organization, processes, legal foundations, decision methodology, oversight, and checks and balances. The Committee will report to the Deputy Secretary in November 2005.

7. Recommendation: USD(AT&L) should identify and share best practices.

Status: The Best Practice Clearing House described in the action taken in response to recommendation one addresses this recommendation. Also, the Director, Defense Procurement and Acquisition Policy, fielded the Defense Acquisition Guidebook, which contains a repository of best practices.

8. Recommendation: USD(AT&L) should question unusual practices and organizational structures.

Status: Policy implementing this recommendation is expected to be issued by November 2005. Also, the DAU will incorporate the policy and best practices into its Acquisition Executive Courses.

9. Recommendation: USD(AT&L) should use mistakes and failures as case studies and communicate them broadly.

Status: The DAU will develop case studies based on mistakes and failures and incorporate them into senior level courses. In addition, OUSD(AT&L) has developed on-line ethics training for the Acquisition Professional Community.

10. Recommendation: USD(AT&L) should require defense components to perform periodic self-assessments and demonstrate continuous self-improvement.

Status: The OUSD(AT&L) commenced 360 degree assessments on key leaders in October 2005. They will cover approximately 1,500 SES and non-SES acquisition personnel. Inclusion of non-SES personnel expands the pool of individuals that was recommended by the DSB.

11. Recommendation: USD(AT&L) should develop and periodically review metrics rollup on senior acquisition leaders.

Status: The OUSD(AT&L) and (P&R) are developing metrics on senior acquisition leaders.

Leadership (12–15)

12. Recommendation: DOD should articulate more explicitly its vision and values as a high integrity organization and expect the same of its contractors.

Status: The Secretary of Defense and all of the senior Department leadership understand the importance of integrity and this recommendation. While this will involve ongoing emphasis from the Department’s leadership, some communications already issued include: Secretary of Defense memorandum of September 7, 2005, “Ethics and Integrity”; USD(AT&L) memorandum of September 26, 2005, “Acquisition Integrity and Ethics”; USD(AT&L) memorandum of March 22, 2005, “Acquisition Integrity & Ethics”; and USD(AT&L) memorandum of March 1, 2005, “Ethics and Integrity.”

13. Recommendation: DOD/SECDEF should put ethics at the forefront of Department communications.

Status: The Secretary of Defense issued a memorandum on September 7, 2005, to the entire Department workforce emphasizing the importance of ethics and integrity in all of our work.

14. Recommendation: DOD/SECDEF should institutionalize an orientation program in OSD for incoming senior leadership that addresses:

- Values/objectives of DOD and SECDEF.
- Importance of leadership to sustain an ethical culture.

- Performance expectation tied to both of the items above.

Status: OUSD(Personnel & Readiness) is reviewing the recommendation and expects to implement it by March 2006.

15. Recommendation: Senior DOD leadership ensure flow-down.

Status: This will be addressed as part of the Department's action on recommendation 14.

People (16–18)

16. Recommendation: SECDEF place priority on filling political acquisition positions.

- Champion reforms to streamline nomination and confirmation processes.
- Institute a succession planning process.
- A void more restrictions that would limit interest by experienced personnel.

Status: The Department supports the efforts of the administration to address this issue. The Department appreciates the importance of this issue.

17. Recommendation: Under Secretary of Defense (Personnel & Readiness) (USD(P&R)) modernize SES performance management practices

- Institute 360 degree feedback (see response to recommendation 10).
- Implement 5-year DOD-wide rotation policy.
- Reissue bonus and new award system.

Status: See the response to recommendation 14.

18. Recommendation: Standards of Conduct—add disclosure requirement for employment of majority children.

Status: OUSD(AT&L) is considering issuance of a memorandum addressing the importance of being aware of such associations. A decision is expected by November 2005.

DSB Additional Issues Raised (19–20)

19. Recommendation: DOD needs to closely monitor new defense component services acquisition oversight processes as they mature, especially in confirming that these contracts represent the best use of DOD resources.

Status: The OUSD(AT&L) has commenced a comprehensive review of the Services Acquisition Oversight Processes that have been implemented by the military departments. Completion of this review is expected by January 2006.

20. Recommendation: DOD leadership undertake a top-down internal assessment to simplify and streamline the acquisition system and better align the workforce as a result.

Status: Although not undertaken specifically to respond to this recommendation, the acting Deputy Secretary Gordon England established a Federal Advisory Committee, “The Defense Acquisition Performance Assessment Project”, on June 7, 2005. The Committee is considering all aspects of acquisition, including requirements, organization, processes, legal foundations, decision methodology, oversight, and checks and balances. The Committee will report to the Deputy Secretary in November 2005. This report will also be used by the Quadrennial Defense Review that is ongoing.

Chairman WARNER. Anyone else wish to contribute to that response? [No response.]

To both Secretary England and Mr. Krieg: In your testimony, you cite that the CSIS report on, “beyond Goldwater-Nichols,” as a potential source for ideas to improve the acquisition system. Indeed, this committee will soon access the knowledge of that distinguished group of people at CSIS in the course of our ensuing hearings.

A fundamental point made in the report is that the requirements process has to be taken out of the hands of the Services and structured around the combatant commanders so that the advocates for solutions are not also writing requirements. This would require a restructured Joint Requirements Oversight Council (JROC), on which service vice chiefs or chiefs are replaced by deputies to the combatant commanders.

This is quite a recommendation. Have you all had a chance to review that?

Mr. ENGLAND. I am going to turn it over to Admiral Giambastiani. But first let me say we did have CSIS come into the Department and brief all of the results, Senator. So we have considered all the results. But frankly, we have also held them all in abeyance until we also get the results of the other two efforts that are under way. We would like to be informed by all three of these studies before we really start reaching our own conclusions.

So CSIS, the issue dealing with requirements is obviously critical because if requirements are stable and if they are affordable and if we have the right balance between affordability and requirements, then of course we are a long way in terms of having affordable weapons systems. How you do that in terms of a JROC, or today we have what we call Joint Capability Integration and Development System (JCIDS), is still open for decision. But they have definitely identified, I think in all of our views, a very key aspect of this and that is the setting of requirements, requirements that are affordable and also requirements that reflect reasonably mature technologies so we have confidence in the schedule and cost for the program.

I would defer a specific answer, although I would appreciate it if Admiral Giambastiani would make a few comments here because that function is under his perusal.

Chairman WARNER. I wonder if I might superimpose this question. In your opinion, should the service chiefs have primary responsibility for acquisition management and execution of acquisition programs? So that sort of ties it up.

Mr. ENGLAND. Can I make a comment on that before I turn it over? These areas are hugely important questions, and I will tell you it is going to take a lot of deliberation to come to a conclusion. I will tell you the issue here. First of all, the Packard Commission, that was one of the decisions, was to take it out of the Service chain. So one of the decisions was not to have it—on the other hand, my view, at least on a preliminary basis, is that we have diffused the authority and the responsibility, because Mr. Krieg has the full authority for the acquisition itself, and that goes back to the acquisition executives in the Service; on the other hand, the service secretaries and the service chiefs have budgetary authority.

So while they can be reconciled, nonetheless you cannot point to one person who has actual responsibility for the entire acquisition process. So this is a very critical point that needs to be examined.

Chairman WARNER. I am not asking you to pronounce today how you are going to decide it, but I tell you, I really believe that our service chiefs—I like the idea of one person, one accountability. So we will see how we go along.

Admiral, do you have a view? That will complete my question time.

Admiral GIAMBASTIANI. Yes, sir. If I could, let me just follow on the deputy's comments with regard to the requirements process. Having lived in the Pentagon and been on the requirements side of a Service and now on the requirements from the joint perspective, and having lived as a combatant commander with a deputy and in the case of Joint Forces Command dealing with about 1.3

million service personnel under that combatant command and preparing them and doing concept development, experimentation, and the rest, I have been asked this question numerous times, and we will have debates and discussion internally on it, but I would tell you that replacing—my own personal view is replacing the service vice chiefs with deputy commanders will not solve this problem, because those combatant command deputy commanders do not have the staff and are focused on different types of problems.

However, those deputy commanders and those combatant commanders should be intimately involved in the process of joint requirements, and that is one of the areas that I think needs to be emphasized significantly. We have gone up and down on how much or how little combatant command involvement is required, but that integration of their thoughts and what capabilities they believe are necessary for us out in the hinterland for the regional combatant commands and in the case of the functionals, like Strategic Command, Transportation Command, Special Operations Command, the integration of that is essential to coming up with reasonable requirements.

So just simply stated, I would tell you we could work on this for a long period of time, but I am not sure that that is going to be an answer, just snapping our finger and making an organizational change like that. I think it requires better integration of the Services and the combatant commanders. That is part of what we are trying to do inside the Joint Requirements Oversight Council (JROC).

With regard to the service chiefs, let me follow on to Secretary England's comment. I have been, once again, on the resource side of this three-legged stool as a resource sponsor and also been on the requirements side. But I was not on the acquisition side formally under the current system, but I found being embedded with the service acquisition executive while I was a resource sponsor was critical to the success of any program I was involved in. I was fortunate to have one that welcomed me in every discussion—this transparency that Secretary England was talking about.

So I have met with the service chiefs and talked to them about this very issue, and they all have somewhat different opinions on this recommendation out of the CSIS. Some range from, sure, I would love to have it all, to others saying, I am very happy with the level of involvement. It all depends on which department you are in, service department that is, and what the relationship is with the Secretary and the senior acquisition executive.

But what I would tell you is that if you do not bring acquisition requirements and the resource side together in a way where you are working constantly together, we will not have what we want out of this incredibly complex acquisition process, the big "A", as Ron Kadish has mentioned.

So my experience has been that you can reside all of this responsibility in one person, but it is such a complicated process that it requires a lot of people to be very dedicated to the success of the overall end product, cost, and schedule and what the product is. So what I would tell you with this is I am going to follow on with Secretary England on it. I think there are things we can do to make this process work much better, and I look forward to working with

you on this. But I do not think just arbitrarily saying the service chiefs take it over, it is going to work, will be the answer.

Chairman WARNER. We will not decide that now. Thank you very much.

Senator Levin.

Senator LEVIN. For years the DOD has understood that its efforts to incorporate immature technologies into weapons systems are a major factor in delays and in escalating program costs. The acquisition guidance of the Department has been revised continually to require a greater level of technological maturity. We have acquiesced in new acquisition techniques, such as incremental acquisition and spiral acquisition, and in effort to get the Department to focus its efforts on mature technologies that are actually ready to be produced.

Despite that, according to the GAO only 15 percent of the Department's programs begin development with mature technologies, as required by the guidance. With the Army's FCS program, with over \$4.5 billion already invested, 2 years after its launch, only one of the 50 technologies on the program meets the Department's maturity requirements. In the Global Hawk program, we have several critical technologies needed to provide the advanced capabilities that it has and hopes to have. Several of them are so immature that they will not even be tested on the new air vehicle until late in the program, by which time most of those UAVs will have been bought.

What has been the problem with the Department complying with its own policy guidance? Why has it not followed its guidance? Mr. Secretary?

Mr. ENGLAND. Senator, this is sort of a conundrum here if you think of the situation we are in. On the one hand, it takes too long to get weapons systems developed, meaning by the time they are fielded the technology is old rather than new technology. On the other hand, we try to get the latest technology because that is what wins on the battlefield. So on the one hand we try to get the very latest breakthrough technology to help our men and women in combat.

I will say, I think in some of those cases we aggressively go after new technology and it ends up by delaying the program. It has the perverse effect that, instead of getting the technology faster, it is actually slower.

I am not sure there is an answer to this, except to have good developmental programs, good research and development programs, and go forward from a baseline that we clearly understand and that experienced people make rational decisions in terms of how they go forward. But we do need research and development (R&D) programs with outputs that we can rely and count on before we go forward in our development programs.

So again, it is a judgment issue. There is a pressure, frankly, in both directions on this and there is no question there has been some programs where we have missed and missed by a lot and it has cost us money and it has taken us a lot of time.

Senator LEVIN. But there is policy guidance that resolves these conflicting goals, right?

Mr. ENGLAND. Senator, I just do not know if there is policy guidance per se. There is definitely guidance relative to science and technology (S&T) development, relative to R&D, baseline technologies. I do not know if I would call that policy per se, but there is at least practices that we go by. Perhaps Ken Krieg is a little more familiar with that. He might comment a little bit more.

But it is a conundrum that we face in this area.

Senator LEVIN. There is always that. There are always those competing goals.

Secretary Krieg.

Mr. KRIEG. There is clearly policy guidance. As you said, the challenge comes in the will to trade between the desire for more technology and more requirement with the technology maturity at the point of decision. It is that point of trading between cost and performance and schedule, because you have immature technology, schedule is often the result.

So I think your point is the will to trade off. The policy is clear.

Senator LEVIN. On the question of contract services, we are at the point now where the Department spends perhaps as much on acquisition of contract services as it does on acquisition of products, including major weapons systems. But despite that fact, the Department has no organizations that are devoted to the acquisition of contract services, no career paths for those who work in the acquisition of contract services, very little training and guidance for the acquisition of contract services. Rather, the responsibility for services contracts remains dispersed throughout the DOD, with little management or oversight.

What are you going to do to change that?

Mr. ENGLAND. Senator, first of all, I believe they are all valid comments. Services have grown over the years until they have become a very large part of our expenditure. We have had discussion just recently, as a matter of fact, Ken Krieg and I, on this whole area. Now, he has started some initiatives with some of the larger procurements, because obviously they are the ones that are most at issue to us now, which is over the \$2 billion, in terms of understanding that.

But we do need to have practices, just like we do for hardware in the DOD. Still working that. That is something that has grown and has not had the right sort of attention in the past, is on our—is on our agenda to go work and put those processes in place. So it needs a lot of attention yet. We have started that. Perhaps Ken can comment on his larger, the \$2 billion and up sort of categories. But it is an issue that requires attention. It is part of what we are working.

Senator LEVIN. Let me then move on because I want to get to one other area. Sorry, I do not want to interrupt that flow, but I am afraid I have to.

Because of the low priority given to the acquisition of contract services and the chronic understaffing of the defense acquisition workforce, what the DOD does is send billions of dollars every year to other agencies. It funnels this money to other agencies, leaving it up to those agencies to award and manage contracts on its behalf. At least it is supposed to manage contracts on its behalf.

The DOD Inspector General (IG) reviewed 72 interagency purchases earlier this year, determined that 67 did not have an adequate interagency agreement, 64 of the 72 did not have an acquisition plan that justified the use of this process, 44 improperly used government funds. This is out of 72. 44 of 72 improperly used government funds. The DOD did not adequately monitor contractor performance on any of the 72.

Just to give you one example of the kind of problem that results from this so-called, interagency contracting, the IG of the GSA reported last December on a \$230 million award to the Titan Corporation to provide employee assistance and counseling services to military families. According to that GSA IG, Titan immediately subcontracted the job to a subcontractor, which did substantially all the work. Titan's role was to charge a 10-percent fee, \$23 million, for which the DOD got nothing.

Now, I made reference before to this interagency contracting for at least some of the people who did interrogation of detainees at Abu Ghraib, and I believe the same thing is true at Guantanamo. Here you have a situation where the DOD offloads, funnels money to the Department of Interior (DOI), which does not have the slightest idea as to what it is doing, except acting as a funnel for the DOD.

Then a contractor is hired. That contractor takes care of interrogations. Now, you talk about transparency. This is opaqueness at its rawest form. You have a contractor out there, hired by an agency which does not engage in interrogations of detainees, is doing it on behalf of the DOD, is paid by the DOD, so the DOI is given money by the DOD to perform this function through this contractor.

Now, who is responsible to see that the contractors who are engaged in detainee interrogations did not engage in inappropriate conduct? When we go through this offloading process, who is responsible here? Secretary England? I am just using this as one example of offloading, which is a big contracting problem now. But in that particular one, who is responsible at the DOD to make sure that that contractor—I think it is Consolidated Analysis Centers, Inc. (CACI) is doing what it is supposed to do under the contract? Do you know?

Mr. ENGLAND. Senator, I do not know for sure, but I would expect if it had to do with interrogation issues in theater it would be under the combatant commander to make sure that was being done—

Senator LEVIN. But that is not a contracting officer. Who is the contracting officer for the DOD?

Mr. ENGLAND. If it is a contract from DOD then the responsibility would be in DOD. That would be my view.

Senator LEVIN. But it is not. It is a DOI contract, through the GSA, that is twice removed. Who at the DOD is responsible to see that that that contractor is performing appropriately when you use this offloading mechanism, this funneling of dollars through another agency?

The answer, I will give you the answer. You can disagree with it if you want, but the answer is nobody is accountable at the DOD. That is the answer, in terms of making sure that that contractor

is performing that contract appropriately. There is no one up the line at the DOD who is responsible to see to it that that contractor is performing that contract appropriately and is not behaving inappropriately. The DOI does not have the vaguest idea, but they are the contractor here.

Why do you use the DOI? Why the offloading?

Mr. ENGLAND. Senator, I just do not know. I do not know why. I can understand in some cases why they are in different departments, because they are proficient in whatever we are buying, so we do things with GSA. There are obviously things that make a lot of sense to do. I obviously do not know every reason that we go through another department. Certainly there are reasons why that is good business for DOD and for the government. But I am not at all familiar with every case.

Ken, perhaps you can comment?

Mr. KRIEG. Yes, I just note, Senator, that we work closely—I will not comment on the specific case you are working, but in the general case—with the DOD IG and with the IG at GSA. We agree with their findings. We are evolving that policy. We are trying to put the management controls in place that clearly have us use interagency contracting for those kinds of purposes for which it should be used and not for others.

That will be—you are obviously right that we have a management challenge in front of us and we accept that.

Senator LEVIN. I would close by asking you to report to this committee, with the approval of the chairman: Using that contract as the example, who is it that is reviewing the activities of that contractor to see to it that that contractor complied with the contract that was entered into, which had no relevance to the DOI, like most of these offloading contracts? According to the GSA IG, 64 of the 72 interagency purchases did not have a plan that justified the use of that offloading approach.

But I'm going to ask you, subject again to Senator Warner's approval, to look into that contract and to tell us who was looking into that contract, who was overseeing it on behalf of the DOD, and whether or not that contractor carried out the contract that was entered into and did not act inappropriately. Because, as far as I know, there has been no oversight.

[The information referred to follows:]

The contract to which you refer actually was 11 delivery orders placed by a DOI contracting officer against a GSA Federal Supply Schedule. These orders have been terminated. The current DOD contract for interrogation, intelligence, and security services in Iraq is overseen by the Department of the Army, as the Executive Agent.

The Department is working to ensure use of non-DOD contracts and interagency acquisitions is done properly. Specifically, in October 2004, the acting Under Secretary of Defense (Acquisition, Technology, and Logistics) (USD(AT&L)) and the Principal Deputy Under Secretary of Defense (Comptroller) jointly issued a policy memorandum on the "Proper Use of Non-DOD Contracts." The memorandum provides criteria that must be considered before a DOD organization acquires products or services under a non-DOD contract to ensure that is the best method to satisfy the requirement. It also requires each of the military departments to establish procedures to ensure that the use of non-DOD contracts is the right business decision, which they have all accomplished. On July 20, 2005, USD(AT&L) issued a memorandum to the military departments and defense agencies asking them to report on their compliance with the "Proper Use of Non-DOD Contracts" policy. Reports are due in December 2005. The Department is working closely with other Federal agen-

cies, such as the GSA and the DOI, to ensure that interagency acquisitions are properly justified and executed.

The Department is working with four of the assisting agencies (GSA, DOI, NASA, and Treasury) to establish a Memorandum of Agreement that will address not only compliance with statutes, regulations, and policies but also other areas of concern, such as oversight and surveillance, data capture, and fees. In response to recommendations made by recent GAO reports regarding interagency contracting and service contracts, the Department is also modifying the Defense Federal Acquisition Regulation Supplement requiring that contracting officers appoint a properly trained contracting officer's representative, in writing, before performance commences on any contract action for services awarded by a DOD component or by another Federal agency on behalf of DOD.

Senator MCCAIN. The Senator's time has expired some time ago.

Senator LEVIN. Thank you very much. Thank you.

Mr. ENGLAND. We will get back with you, Senator.

Senator MCCAIN. I thank the witnesses again for being here. I read carefully the statements that were submitted and also listened carefully to the oral statements that were given here this morning. From both experiences, one would think if one just walked into the room that this is a new issue, that somehow we just discovered that we have procurement problems.

I did not see one single concrete recommendation—and maybe you can help me out here—as to how we can fix this problem. I know we have the QDR. I understand the parameters of the problem and it is helpful to know the parameters of the problem.

So I will begin by asking each of the witnesses, beginning with you, Secretary England: give me one concrete proposal as to how to fix this problem?

Mr. ENGLAND. Senator, I can give you a few proposals how to fix the problem. First of all, obviously make sure you have stable requirements, make sure we understand the requirements, make sure—

Senator MCCAIN. Give me one specific fix?

Mr. ENGLAND. Okay. Put a—make sure within the Department, through what we now have is a JROC, but if you want, strengthen that process so that we have firm requirements—

Senator MCCAIN. How do you do that?

Mr. ENGLAND. We can do that by making sure in the JROC process we have the right people reviewing those, along with the budget people, because we need to—and I think the comment was made earlier, requirements do not stand alone. They have to be tied in with the budget and make sure we do the right tradeoff. So the process of doing that tradeoff is really what we are looking to do to make sure we understand, that we do not go try to buy something we cannot afford.

So the budgeting process, the resource process, tying in with the requirements, I think all of us at this table would agree is the key to make sure that we contain costs and meet the needs of the warfighter. Now, the mechanism to do that within the DOD is what we are trying to come to grips with in these various approaches, because every single thing we do also has a down side to it. Everything is not just a benefit. We do have to look to see if we bring in other issues and problems.

So I think we all agree that fundamentally we need to tie the resources, the budget, and the requirements closely knit together, and in that way we will have much greater confidence in our pro-

grams. The mechanism to do that is a large part of what these studies are about, so we understand how to implement this within the DOD.

Senator MCCAIN. Secretary Krieg, I repeat my request: one specific fix?

Mr. KRIEG. I can give you a specific. As we come to milestone reviews, particularly early, the Vice Chairman and I are going through, particularly in challenged programs, having the program manager or program executive officer, whichever one it is, sit and go through what are the key performance vectors, what is the relative technical maturity of the knowledge to fix, to provide that capability, and what is the relative cost given the desire, the technical maturity, and the cost.

We have literally worked on several programs where we have gone through and said, interesting that we had that desire, we are not at the state of maturity to get there, and we have begun collectively to work at the trade space in major milestone, early milestones A and B, to get that tradeoff between cost, performance, and schedule, all three parties together.

Senator MCCAIN. Admiral?

Admiral GIAMBASTIANI. I would echo what you just heard Secretary Krieg say. Specifically what I mean by that is where you bring in the requirements people into the Defense Acquisition Board from the JROC side so that we can combine the requirements and acquisition process to see what makes sense.

For example, there may be five capability areas for a system. We have done this, for example, in the Joint Tactical Radio System to try to get a handle on this and get a grip on the overall system. Look in capability area A, for example, and say: This is the range of requirements and capabilities that we are looking at; in order to get from this side to the other side, it costs a huge amount of money. We say, we can live over here at something less than that because that makes sense and is the art of the possible.

We then go to capability B. It may be that the cost to get to the highest level of capability that we had written as requirements over on this end is very small. Okay, let us go all the way; it is possible industry-wise, technologically, program manager-wise. In other words, we are trying to remove risk from the program.

This is something we are doing on the requirements generation side. We have just done it in a series of satellite imagery programs in the last 6 weeks since I have been here and we have done this now in one of our defense acquisition boards. So that is a concrete way we think we have to proceed in the future. We need to refine this and we need to improve on it, but that is where we are going, to bring both of these sides together. That is something that the Packard Commission and almost every acquisition review I have ever seen say you must do.

Senator MCCAIN. I wonder why we have not over 20 years.

General KADISH.

General KADISH. Senator, I would just choose the workforce improvement recommendation that we discussed in the panel, but have not come to a conclusion at. I would require, just as we have required the acquisition personnel at all levels in that little "a" stovepipe to be certified, trained, educated, and experienced, I

would require the same for requirements officers and budget officers in this activity.

Senator MCCAIN. Thank you.

Finally, Secretary England, recently the Defense Science Board (DSB) released a report in March: "One of the task force's key findings is that, while current acquisition practices make an incident on the scale of the Druyun case unlikely, there are currently no structural or policy mandates in place that would prevent this situation from recurring."

Did that finding of the DSB in March concern you?

Mr. ENGLAND. Senator, we put a lot of corrective actions in place. It did say that there is a remote possibility that this could happen again.

Senator MCCAIN. Actually, they say that: "there are currently no structural or policy mandates in place that would prevent this situation from recurring." That is the DSB report last March.

Mr. ENGLAND. Ken, I will let you address it. But Senator, my understanding from the report was they recognized a lot had been accomplished and there was still the possibility that things could obviously go wrong in the future. But my discussions with the DSB were not quite that strong, frankly. Their view was there was a remote possibility you could still have a problem in the future, and we agreed to work with them.

Senator MCCAIN. I do not want to quote from their report to you for the third time, but I would like very much for you to submit for the record, because my time has expired, actions that have been taken to prevent a reoccurrence. I would appreciate it.

Mr. ENGLAND. I will, will do, Senator.

Senator MCCAIN. Secretary Krieg, I am sorry I am out of time, but go ahead real briefly, please.

Mr. KRIEG. Just to note, they had 20 specific recommendations. We are implementing a number of them. We will provide you those, where we are in status and where we are working through it.

Senator MCCAIN. Thank you. Maybe you could submit that to us so we would be better informed.

Mr. KRIEG. Will do. We would be very happy to.

[The information referred to follows:]

The DSB report contained 20 recommendations and highlighted the need for the Department to emphasize the importance of ethics and integrity. The Secretary of Defense agrees that ethics and integrity need to be at the forefront of everything we do. We have actively and expeditiously been working to implement the DSB recommendations as outlined below. This will be an ongoing process that does not end with just implementing the specific recommendations. Rather, we need to ensure that ethics and integrity are part of the Department's values and day-to-day operations.

The DSB report included 18 recommendations categorized in 4 main areas: Processes, Oversight, Leadership and People. The DSB also recommended that DOD address two additional areas. The 20 recommendations and current implementation status follow:

Processes (1-5)

1. Recommendation: For major procurements, the Under Secretary of Defense (Acquisition, Technology & Logistics (USD(AT&L))) codify best practices into policy

Status: USD(AT&L) will field a Best Practices Clearing House in fiscal year 2006 at the Defense Acquisition University (DAU). The Best Practices Clearing House will share and highlight "best-in-class" examples for the benefit of the acquisition workforce. Additionally, the task force recommended that we use mistakes and failures as case studies and communicate them broadly. We already have started action

on this recommendation, and one example will be an ethics-related series of articles to be published in the bimonthly Defense AT&L magazine.

2. Recommendation: USD(AT&L) ensure process for meaningful feedback to bidders.

Status: OUSD(AT&L) is reviewing the feasibility of instituting Acquisition Process Reviews (APRs) of the military departments. One aspect that would be reviewed is whether the military departments have instituted processes that provide meaningful feedback to offerors.

3. Recommendation: USD(AT&L) ensure distribution of delegated acquisition responsibilities for major procurements.

Status: On March 1, 2005, the acting USD(AT&L) asked the military departments and defense agencies to prepare policy/procedures that ensure the separation of functions in acquisitions, so that complete authority does not reside in one person. Currently, we are analyzing responses to determine if additional guidance/policies are required.

4. Recommendation: Oversight, source selection and contract negotiations should not reside in one person.

Status: Addressed by the action described in response to recommendation 3 above.

5. Recommendation: Provide many avenues for voicing concerns.

Status: As part of the APRs described in response to recommendation 2 above, OUSD(AT&L) would review whether there are multiple avenues for voicing and addressing of concerns.

Oversight (6–11)

6. Recommendation: USD(AT&L) should oversee processes as well as programs.

Status: The APRs addressed in recommendation 2 above would address this recommendation. In addition, in line with, but not undertaken to specifically implement this recommendation, Acting Deputy Secretary Gordon England established a Federal Advisory Committee, “The Defense Acquisition Performance Assessment Project”, on June 7, 2005. The Committee is considering all aspects of acquisition, including requirements, organization, processes, legal foundations, decision methodology, oversight, and checks and balances. The Committee will report to the Deputy Secretary in November 2005.

7. Recommendation: USD(AT&L) should identify and share best practices.

Status: The Best Practice Clearing House described in the action taken in response to recommendation one addresses this recommendation. Also, the Director, Defense Procurement and Acquisition Policy, fielded the Defense Acquisition Guidebook, which contains a repository of best practices.

8. Recommendation: USD(AT&L) should question unusual practices and organizational structures.

Status: Policy implementing this recommendation is expected to be issued by November 2005. Also, the DAU will incorporate the policy and best practices into its Acquisition Executive Courses.

9. Recommendation: USD(AT&L) should use mistakes and failures as case studies and communicate them broadly.

Status: The DAD will develop case studies based on mistakes and failures and incorporate them into senior level courses. In addition, OUSD(AT&L) has developed on-line ethics training for the Acquisition Professional Community.

10. Recommendation: DSD(AT&L) should require defense components to perform periodic self-assessments and demonstrate continuous self-improvement.

Status: The OUSD(AT&L) commenced 360 degree assessments on key leaders in October 2005. They will cover approximately 1,500 SES and non-SES acquisition personnel. Inclusion of non-SES personnel expands the pool of individuals that was recommended by the DSB.

11. Recommendation: USD(AT&L) should develop and periodically review metrics rollup on senior acquisition leaders.

Status: The OUSD(AT&L) and (P&R) are developing metrics on senior acquisition leaders.

Leadership (12–15)

12. Recommendation: DOD should articulate more explicitly its vision and values as a high integrity organization and expect the same of its contractors.

Status: The Secretary of Defense and all of the senior Department leadership understand the importance of integrity and this recommendation. While this will involve ongoing emphasis from the Department’s leadership, some communications already issued include: Secretary of Defense memorandum of September 7, 2005, “Ethics and Integrity”; USD(AT&L) memorandum of September 26, 2005, “Acquisi-

tion Integrity and Ethics”; USD(AT&L) memorandum of March 22, 2005, “Acquisition Integrity & Ethics”; and USD(AT&L) memorandum of March 1, 2005, “Ethics and Integrity.”

13. Recommendation: DOD/SECDEF should put ethics at the forefront of Department communications.

Status: The Secretary of Defense issued a memorandum on September 7, 2005, to the entire Department workforce emphasizing the importance of ethics and integrity in all of our work.

14. Recommendation: DOD/SECDEF should institutionalize an orientation program in OSD for incoming senior leadership that addresses:

- Values/objectives of DOD and SECDEF.
- Importance of leadership to sustain an ethical culture.
- Performance expectation tied to both of the items above.

Status: OUSD(Personnel & Readiness) is reviewing the recommendation and expects to implement it by March 2006.

15. Recommendation: Senior DOD leadership ensure flow-down.

Status: This will be addressed as part of the Department’s action on recommendation 14.

People (16–18)

16. Recommendation: SECDEF place priority on filling political acquisition positions.

- Champion reforms to streamline nomination and confirmation processes.
- Institute a succession planning process.
- Avoid more restrictions that would limit interest by experienced personnel.

Status: The Department supports the efforts of the administration to address this issue. The Department appreciates the importance of this issue.

17. Recommendation: Under Secretary of Defense (Personnel & Readiness) (USD(P&R)) modernize SES performance management practices.

- Institute 360 degree feedback (see response to recommendation 10).
- Implement 5-year DOD-wide rotation policy.
- Reissue bonus and new award system.

Status: See the response to recommendation 14.

18. Recommendation: Standards of Conduct—add disclosure requirement for employment of majority children.

Status: OUSD(AT&L) is considering issuance of a memorandum addressing the importance of being aware of such associations. A decision is expected by November 2005.

DSB Additional Issues Raised (19–20)

19. Recommendation: DOD needs to closely monitor new defense component services acquisition oversight processes as they mature, especially in confirming that these contracts represent the best use of DOD resources.

Status: The OUSD(AT&L) has commenced a comprehensive review of the Services Acquisition Oversight Processes that have been implemented by the military departments. Completion of this review is expected by January 2006.

20. Recommendation: DOD leadership undertake a top-down internal assessment to simplify and streamline the acquisition system and better align the workforce as a result.

Status: Although not undertaken specifically to respond to this recommendation, the acting Deputy Secretary Gordon England established a Federal Advisory Committee, “The Defense Acquisition Performance Assessment Project”, on June 7, 2005. The Committee is considering all aspects of acquisition, including requirements, organization, processes, legal foundations, decision methodology, oversight, and checks and balances. The Committee will report to the Deputy Secretary in November 2005. This report will also be used by the Quadrennial Defense Review that is ongoing.

Senator MCCAIN. Thank you.

Senator DAYTON.

Senator DAYTON. Obviously there are a lot of culprits here. One of my concerns stems from the involvement that Senator Inhofe and I had with the decision to terminate the Crusader program, because that was an incident where the contractor, United Defense,

by their account—and I never saw it disputed—was ahead of schedule, under budget, meeting performance requirements, doing everything properly, and then had the rug literally pulled out from under them, and that cost of terminating the program, through Senator Inhofe's leadership efforts and others of us involved, salvaging some aspects of it. But the cost of that way of proceeding on a project and then reversing the decision and then trying to pick up the pieces after the proverbial egg has been shattered just to me is one of the reasons why these lack of cost accountability can accumulate.

What are the incentives for either the procurement officers, the contractors, anybody in this system, to be doing things well, as opposed to, and properly and under budget and ahead of schedule and meeting performance? What are the rewards and, conversely, what are the penalties for failing to do so?

Mr. ENGLAND. Senator, I go back to my Navy experience. We tried to build in incentives into the contract so that there were incentives for the contractors to perform well and, on the other hand, there were generally financial penalties if they did not perform well. So profitability was based on good performance, and if you were—that is, we would have a target cost and expectations for the programs in terms of technical performance, and if you did not meet those objectives then there was basically a financial penalty for the contractor.

So we tried to structure the contracts—many of them had already been in place, but a number of them we were able to renegotiate to build those incentives into the contract. So we tried to build in and negotiate with the contractor levels of performance and expected performance in terms of schedule and cost, and that was the way we tried to handle that on at least all of our major procurements.

Senator DAYTON. Is that standard operating procedure or contracting procedure throughout the four service branches now? You said you tried to go back and restructure existing contracts. Is that standard contracting procedure?

Mr. ENGLAND. Senator, I do not know—that was before my time. I do not know how the Crusader contract was structured. I am just not familiar with that contract. It was not in my area of responsibility at the time.

Senator DAYTON. Going back to the point Senator Levin made about some of the sole source contracts in Iraq and at least some of the published reports of failure to perform, regarding those, are there penalty clauses in those contracts? Have they been invoked?

Mr. ENGLAND. Senator, I do not know.

Senator DAYTON. Would you find out, please?

Mr. ENGLAND. Yes, I can.

Senator DAYTON. And respond to that?

Mr. ENGLAND. Yes, I can.

[The information referred to follows:]

The U.S. Army is the executive agent for program and acquisition management for the reconstruction mission in Iraq. It supports reconstruction through the Joint Contracting Command—Iraq/Afghanistan, which to date has awarded 18 firm fixed-price sole-source or limited competition contracts, including purchase orders, using the Iraq Relief and Reconstruction Fund (IRRF). These contracts contain the same remedies that other contracts for similar services or supplies contain, which may be

exercised in the event a contractor's performance falls short of what is required by the contract.

Additionally, some contracts contain provisions that authorize such things as incentive fees or award fees that are designed to encourage good performance.

Finally, the contracts contain a termination for default clause, which provides the harshest remedy for failure to perform. To date, none of the 18 contracts has been terminated for default.

Senator DAYTON. Thank you.

The other question I have relates to the disconnect between what is going on in the field with the troops and procurement decisions. I came across just last month in Minnesota the father and mother of a soldier from Minnesota who is a tank crewman in Iraq. I can give you more of the details of his company and the like, but basically they were repairing these tanks in the 115-degree temperatures of the Iraq summer and their gloves that they were using were literally burning off their hands. They were not sufficient to protect them. They were tearing the sleeves off of their shirts and using those to protect their hands, burning their hands, while they were doing these tank repairs.

The soldier himself had the idea, being a NASCAR aficionado, of the fact that those pit crews have gloves that protect their hands under very hot conditions. They were not able to obtain those, so the father has set up his own project to purchase these NASCAR gloves and send them to his son and others in that situation.

But I guess my larger question is, when there is that disconnect between procurement and the sufficiency of the product in the field or, conversely, if someone in the war zone experiences a failure of an item, how do you get that? How do you empower people to make that decision to buy something different, and how do we unshackle procurement so that we can be responsive in those situations? Anybody who wants to respond?

Mr. ENGLAND. Senator, with the help of Congress, we do now have quick acquisition processes, so situations like that—I mean, if something like that occurs, we do have mechanisms in place that we can rapidly respond and buy those types of goods. So that now—again, I do not know what the situation was in that particular case, but there are mechanisms in place that we can respond very, very quickly to buy whatever those kinds of goods are that we need to buy. So those mechanisms are in place in the DOD now.

Senator DAYTON. Mr. Secretary, this is present tense. It is still ongoing. The father is still sending gloves as we speak over there. So if you could put me in touch with the proper person who can—all right. Secretary Krieg, I will follow up with you then subsequently.

Admiral GIAMBASTIANI. Senator, if I could just add.

Senator DAYTON. Please.

Admiral GIAMBASTIANI. There is a burden on the chain of command. If we are failing to take care of these service personnel, then we are not doing our job. So we will have to look at this. I have not heard about these burned gloves. I am sure we have other instances of these types of things, but our job is to go figure out how to give them the tools to do their job.

Senator DAYTON. Thank you, Admiral. I would just point out, my time has expired, but this is one instance of what we have also

found with the armoring the vehicles, the armoring of the troops over there. I do not know where—and again, this is not a perfect world, but whatever needs to be done to make these more efficient and to have a direct connection between people who are feeling the needs or the failures and then getting them resolved I think is essential.

Thank you, Mr. Chairman.

Admiral GIAMBASTIANI. If I could just add one last thing. Senator Dayton, each of the Services has an urgent requirement process to try to deal with these, to follow on Secretary England's comment. These urgent requirements are designed to do just what you are looking for and what really that soldier is looking for, so that we do not have to go to this other extreme. We will have to look and find out why this was not done.

Senator MCCAIN. Senator Inhofe.

Senator INHOFE. Thank you.

Let me just follow up on something Senator Dayton has said that does concern me. I am a real believer in the JROC process. I think it is very deliberative. You have the right people. You have the vice chiefs. They determine what our critical needs are going to be for the national defense. They deal with organizations that they charter, such as the Functional Capabilities Board, and it goes on and on. They get the information and a lot of input from the combatant commanders.

So this process works, I believe. I have looked at it. Now I am addressing not the costs in the process that the hearing is really addressing, but the fact that JROC does work. Now, it seems to me that you used the example of the Army Crusader. You had all this process determining that we had this need, this critical need for the Crusader for the future, for national defense. Then all of a sudden this is cancelled, and nobody knew it was going to be cancelled. In fact, we were in markup at the time that it was cancelled.

Now, when it was cancelled, I was a supporter of the program. I called up three of the combatant commanders at the time. They were all unaware of the proposed cancellation and they felt it should not have been cancelled. I called up the chief of staff of the Army and they were not consulted either.

I guess what I am saying is if we have a system that is identifying our critical needs and it is working somewhat successfully, why can you not during this process you are going through right now see to it that if there is going to be a change in the program or a cancellation of a program that they go through just as elaborate a process as they did when they established it? Do you have any thoughts about that? [No response.]

I guess not.

Admiral GIAMBASTIANI. Senator Inhofe, what I would say to you is that if we do not get a bite at the apple, if you will, on the requirements side of the business, obviously from the military perspective, from the JROC perspective and the Services—we state requirements and we bring them into the system. But I guess what I would tell you is that on the Defense Acquisition Board when we terminate problems we get a bite at the apple on that side.

I am a co-chair along with Secretary Krieg on this. I cannot speak to the Crusader, if you will.

Senator INHOFE. I am not really concerned about that. Forget about the Crusader. The fact is that you go through this elaborate process in determining what our needs are going to be, our critical needs, and then all of a sudden they are completely left out of the process when they totally terminate a project.

I am only suggesting that we use the resources and the effort you are involved in right now to make sure that that does not happen and that they are involved in the downsizing or the elimination the same as they are in identifying the needs and building the project.

Admiral GIAMBASTIANI. Could I further my answer and just tell you that we have just done that in a series of satellite imagery programs. What happened is there was a proposal to terminate some of these classified programs and I convened the JROC. We brought forward all of the original requirements for all of the programs that we laid down on the military side. We went and reviewed what we call a senior warfighters requirements review (SWaRF) and we went through every one of those requirements and restated the need in certain areas for what we felt was our red line, if you will, on a military perspective.

We brought those forward to the acquisition system. We brought them forward to the Director of National Intelligence and we negotiated through that, and we were able to come out to a satisfactory conclusion. So I think we are trying to do exactly what you are talking about.

Senator INHOFE. I hope so, Admiral. You might go back and look at that particular project and see. Maybe that is an isolated case, but it is one that certainly is worth looking at.

First of all, let me compliment you, Secretary England, for the choice of calling up General Kadish to do the job that he is in the process of doing right now. I do not think there is anyone who has had a longer background in acquisition than he has. He has handled some—I think you were the point man of the C-17 program, of course the missile defense. Those are successful programs.

Back during the 1990s when they were talking about the peace dividend, they did the downsizing of the acquisition force. I was chairman of the Readiness and Management Support Subcommittee at that time and I remember I was quite outspoken, asking the question, did we do too much? We reassigned a lot of the military components of the acquisition process. We had a hiring freeze on the non-military or the civilian side.

I guess, General Kadish, in taking on the project they are taking on now, do you think we may have downsized too much and do you have the personnel still now necessary to do the job that you are trying to do?

General KADISH. Senator Inhofe, what we have seen in the commission meetings and in the data that we have been gathering and looking at, I think the trend is that we probably have gone too far in that regard. That is where the complexity of the process gets very onerous to be imposed on a workforce that is neither experienced nor in a position to make some common sense judgments that you need for these types of efforts.

So that is a problem that has long been brewing over 10, almost 15 years now. It may take a little bit of time to fix it. But we have to go back to basics in our workforce and start teaching them what

they need to do. As I tried to say earlier, one of the fixes that seems to be emerging is not only for the little “a” acquisition workforce, the traditional ones we have been talking about, but also a reorientation of the people who write requirements at all levels, who handle the budget systems at all levels, to be more aware and more accountable for what they do and the decisions they make. So this is a very serious problem.

Senator INHOFE. I would suggest if you find that you do not have the resources or the personnel resources that you let us know, so that we can try to correct it.

My time is expiring right now, but I would just like to ask one last question, a little differently than Senator McCain asked it. Does anything specific come to your mind right now that you did that was different back in one of the two successful programs, either MDA or C-17, that might be elements of those successful programs that you might want to use or resurrect for your current mission?

If nothing comes to mind, maybe you could answer that for the record.

General KADISH. I would be happy to answer it for the record. But the situations that I have been in, especially in the C-17 program, that was very troubled at the time, having the same kind of things we were talking about today in terms of its problems, it ended up being a management process with short lines of communication, very quick decisionmaking, stabilized requirements, and the willingness to trade requirements and put the costs and stability issues in front of us to allow us to fix the problems. That is a major characteristic of successful programs in the end, and what we should try to do is emulate that as much as possible.

[The information referred to follows:]

See response to QFR number 3.

Senator INHOFE. Thank you, gentlemen.

Thank you, Mr. Chairman.

Senator MCCAIN. Thank you.

Senator CLINTON.

Senator CLINTON. Thank you very much.

General Kadish, the last sentence in your prepared testimony says when the panel has completed its work you would welcome the opportunity to return. When do you expect to complete the work of the panel?

General KADISH. Senator Clinton, we are on track by the end of November to have a report and an initial set of recommendations at that time. Now, we may be a little bit later than that, depending on how it plays out between now and then. But that is the target area that we are shooting for.

Senator CLINTON. So could this committee expect to welcome you back some time after the first of the year?

General KADISH. I would be happy to come back, Senator, about that time period.

Senator CLINTON. General Kadish, does your charge for the Defense Acquisition Performance Review Project include contract services?

General KADISH. Secretary England's charge was very broad in chartering us and we have looked at the operations and service contracting activities. But right now our major focus is on weapons systems and hardware procurements and not services as the top priority.

Senator CLINTON. So does that mean—and this is not a comment about your work. I am just trying to understand the scope of your responsibility. Does that mean then that when you finish this report in November it will not cover contract services?

General KADISH. I am not willing to say that now, Senator Clinton. We are looking at all these areas and how it affects everything the DOD does. We will have to—just because of the sheer volume, we will have to make cuts somewhere. But I am fairly confident that a lot of these recommendations will affect service contracting in general and the way we procure services as well.

So it may not be a specific area of concentration or a chapter in a report, but it certainly will apply.

Senator CLINTON. General, are you aware of a study that the British government did in the last several years looking at their acquisition process?

General KADISH. We have done a literature search of all the acquisition systems, not only the United States. I am pretty sure it included the foreign systems as well. I am not sure I am aware of that specific study. But if there is something of interest there, we can certainly look at it.

Senator CLINTON. Secretary Krieg, you are nodding your head. Are you aware of that study?

Mr. KRIEG. I am not aware of a specific study per se, but aware of the kind of changes. In fact, I have been over once. They have divided their requirements group from their procurement group. They have centralized their procurement function. They are struggling with many of the same kinds of issues. We actually use them as—we use each other and try to share lessons learned, because we have pursued some different paths. But we are in close communications with them both through the acquisition side and the requirements side and work together on that.

Senator CLINTON. I would be very interested in additional information about that, because it is my understanding that they went totally outside. They went to an international consulting firm. They did not use retired people. They went to people who had expertise in supply chain and just in time inventory and the like. They embedded consultants with their troops in southern Iraq.

Out of that experience, I am told, came some very useful recommendations. They were able then to cut lots of the red tape and the bureaucracy. Now, that might or might not be directly applicable to large weapons systems, but it certainly did help to solve some of the problems they faced, which are problems we still face in getting adequate materials into combat theaters and all of the problems we have had now going on 3 or 4 years with up-armored High-Mobility Multipurpose Wheeled Vehicles (HMMWVs), body armor, et cetera.

So I would like very much to know more about what they determine. But based on what you just said, then, am I to assume or not that you have done some lessons learned coming out of Iraq

and Afghanistan about some of the procurement acquisition challenges we faced in very real-time situations? Secretary Krieg, have we done that, or Secretary England?

Mr. ENGLAND. Senator, if I could just address at least one of the specific cases, one I am particularly familiar with. That is how we counter improvised explosive devices (IEDs) which are obviously a serious issue for our men and women and also for the Iraqi civilians. We have in that particular case, the group responsible, they have budgetary authority directly to the general, so the general can literally himself authorize \$25 million of expenditures. He reports directly to me also with the vice chairman, so he has a direct pipeline to both of us.

They have people literally embedded in the field with the operating people. We have operating people here. We have dedicated test sites set up that we have put together here in the United States to test equipment. So we put together as a result of lessons learned in Iraq, we have tried to apply a lot of those lessons learned in literally how we develop what the requirements are, how we field, how we train, comprehensively trying to deal with those kind of problems.

So I can tell you that there are examples where I think we have learned a lot and applied a lot of those lessons learned in terms of what we do every day to be as quick and responsive as we can to our men and women in Iraq and Afghanistan.

Senator CLINTON. I think the IED story is a good story, because clearly there has been a concerted effort to try to deal and defeat this particular form of attack. But I for one have never quite gotten straight all of the problems we had on a lesser level with adequate vehicles, with adequate armor. We have read lots of news accounts, but have there also been lessons learned that you are applying in this ongoing process that General Kadish is running as to what we have learned that will inform the decisions that this panel is making about recommendations? General Kadish?

Mr. ENGLAND. Go ahead, Ron.

General KADISH. Senator Clinton, we did an extensive set of sessions on the agile combat support type of activities that each of the Services are putting in place, have put in place. Those lessons learned will trickle—"trickle" is the wrong word—will be a part of the overall process that we are going to recommend.

There are some wonderful things that happened in these processes. Some of the other issues were very interesting—I just might point out—is that people in the process that were trying to do these very difficult, fast-paced type of activities, did not think they had the authorities to do them in the bureaucracy.

What one of the major lessons learned, at least for me, was that we have to fix that somehow, because they did have the authorities. That is a training issue, it is a workforce issue. So I think you will see that that will be a major part of our emphasis.

Senator CLINTON. I appreciate that, because you know we are now getting reports that, for the Guard that was assigned to the Gulf Coast, their equipment was inadequate, their communications systems were scarce. It all is part of the same set of issues that we are trying to confront. So thank you.

Admiral GIAMBASTIANI. If I may, just to add, Senator Clinton. There is a very extensive lessons learned effort going on for this hurricane relief, both in Katrina and in Rita. Joint Forces Command has upwards of 25, 30 people forward deployed, in addition to reach-back. We have a governmental lessons learned effort we are participating in right now. Northern Command has embedded personnel. We have sent teams forward. They were there before, during, and after Rita, for example. So we are trying to collect a significant amount of this to report on those types of issues.

Thank you.

Senator MCCAIN. Senator Ensign.

Senator ENSIGN. Thank you, Mr. Chairman.

I want to—first of all, I think that one of the points that Senator Clinton was making about getting an outside view sometimes can be very helpful. We all know that private industry does that quite often. They will bring in somebody or a team from the outside to take a look at something, because sometimes when you are down in the weeds it is hard to see a clear view of what is going on.

So I want to try to maybe raise this up to 30,000 feet and look down and try to look at maybe a different way. I mentioned in my opening statement about we have cut the acquisition workforce. Some have suggested that that is part of the solution, is beefing the acquisition workforce back up.

But when we had the acquisition workforce beefed up we still had these problems. We had the Packard Commission reports. As everybody said, this is not a new issue. This has been going on. So whether the acquisition workforce is up or down, that does not seem to have fixed—or maybe it has worsened the problem, but it certainly does not—it is obviously not the major fix in the problem.

So what I want to try to look at here is, we have the budget system. We have talked about that with acquisition and acquisition reform. Those to me—and maybe we can get you to comment. How do you fix one without fixing both of them at the same time? It seems to me that they are integral to each other.

Secretary Krieg or Secretary England, would you like to start?

Mr. ENGLAND. Senator, just let me make a comment. I think General Kadish said it very well when he said it is a big “A”. It is not little “a”, it is big “A”. Big “A” is the entire system, so it is requirements, it is the budgeting system, and it is the resources and it is the balance between those, and then along with all the other things, the tests that you do. But it is the big “A”.

So we have asked, like in Ron Kadish’s advisory group, Federal advisory group, to look at big “A” and to look at every aspect of this, because you can get down into the acquisition itself and that is not, frankly, where the solution is. I believe he made that in his opening statement. This is a big “A” issue and that is why we have asked to address this comprehensively.

I actually worry about doing piecemeal implementation of things without understanding the whole system. I also want to comment, my general feeling about this is, I know everyone wants to increase the size of the acquisition workforce. My feeling looking at this, I believe it is too complex. I believe the system is overly complex. Over the years it has just become, frankly, bureaucratic. We have maybe too much in place.

I tend to think that when we look at these recommendations that we will want to simplify. Frankly, if we simplify it then it is easier in terms of authority and responsibility and oversight. Part of this is just—the difficulty is just understanding on any program what has happened, because there is a high degree of complexity in these systems.

Now, maybe that is unavoidable. Maybe when all this work is done we conclude we need this degree of complexity. But will tell you my instincts, after a lot of experience in both industry and now government, is if you can simplify it is much easier to manage, much easier to control. So my tendency is to try to make this a simpler process rather than a more complex process.

Again, maybe that is not the point here. We will know in a few months as we get more and more insight in terms of how we actually do business.

Senator ENSIGN. Secretary England, that is why I asked the question the way that I asked it. General Kadish, you made that point about simplifying and that was the question that I had written down, is actually how do we simplify. When Senator McCain mentioned, give me one thing, that was going to be my, give me one thing that we can do to simplify. But there is no one thing. I realize there is no one thing that we can do.

In my just short period of time that I have been on the committee here, we have all these rules and regulations and laws put into place for us to have oversight of what you do. You have all of the internal regulations and everything that goes on to make sure that everybody is informed along the processes and all of—basically, we have a lot of CYA type of regulations in place because nobody wants to get in trouble for making the wrong decision.

When you look at the private sector and when they have reformed themselves, because bureaucracies, whether they are private sector or whether they are government bureaucracies, have a tendency to put these rules into place, it ends up a lot of times costing more money, becoming less efficient, the more oversight that you are doing.

So I am glad that you are looking at that idea of simplification, because I honestly believe, my gut tells me that that is the direction that this whole process needs to go as well. But it is going to be difficult and we are going to need some concrete reasons why, so that we can simplify the processes that we make you all go through as well.

This has to be a joint process that we are going through with you. As we have all said, it is complicated and we need to simplify that complexity.

Mr. ENGLAND. That is my tendency, Senator. If you think about it, if you think about what makes a defense contractor, it is not the products that they build; rather, it is understanding the complexities of how to do business with us. That is what makes them unique. Commercial companies are separate because they do not understand how to do business with us. They do not understand the complexities of these rules and regulations and processes.

So frankly, to the extent we can simplify the way we do this in the DOD, I believe we then open up more of American industry to do business with the DOD, which helps us from a competitive point

of view. So I believe there are some structural issues that we need to address long term and not just fixes to “acquisition.” That is sort of my vision of where we need to go longer term in this endeavor.

Senator ENSIGN. Secretary Krieg?

Mr. KRIEG. I would only add one thing and that is, in comparison to private industry where you have—a grand challenge for us is to create a commonality of data available, that integrates the data from the acquisition world, from the resources world, from the actual performance world, that gives general managers an ability to see it all and creates a transparency about plan versus performance.

That tool, which the private sector uses very well to discipline both choice and behavior in the back side, is one of the grand challenges we have in the public sector, in government, and clearly one of the things that the deputy and all of us are engaged in trying to get to.

General KADISH. Senator Ensign, I just want to try and clarify one thing. My remarks on the workforce should not imply increasing the workforce. I am looking and I would like to see more quality issues associated with that, to lower complexity, get more common sense experience into the force, because the way the downsizing was done did not backfill the middle management and the people to gain the experience we need. So the numbers are not necessarily the issue.

We have to do the big “A” acquisition workforce, not just the one we have been laying off.

Senator ENSIGN. Thank you, Mr. Chairman.

Senator MCCAIN. Senator Akaka.

Senator AKAKA. Thank you very much, Mr. Chairman. I want to add my welcome to our distinguished panel this morning and I look forward to your responses.

I have been here long enough to have been a member of this committee and also in particular a member of the Readiness and Management Support Subcommittee with my friend Chairman Ensign from Nevada over the years here. I have been concerned about what has happened to our defense acquisition workforce over the last 15 years. We have cut our acquisition workforce in half over this period. These cuts continued even after the procurement holiday of the early 1990s came to an end and even after the global war on terrorism brought record levels of procurement expenditures. It continued even as we took on new procurement challenges with vastly increased purchases of services and information technology.

We have made these cuts in a haphazard way, I feel, without giving consideration to the recruitment, training, and career-building needed to ensure the ongoing vitality of our acquisition organizations.

At a Readiness and Management Support Subcommittee hearing earlier this year, Mike Wynne, who was then Under Secretary of Defense for Acquisition, Technology, and Logistics, told us: “I believe we are at a point where any further reductions”—and this is reductions in defense acquisition workforce—“will adversely impact our ability to successfully execute a growing workload. The numbers are startling. The defense acquisition workforce has been

downsized by roughly half since 1990, while the contract dollars have roughly doubled during the same period. The global war on terrorism and an increasing defense budget places greater demands on acquisition workers' ability to support the warfighter. We need to continue to renew and restore the defense acquisition workforce. We need to ensure that we have the right people in the jobs to perform the functions required to support our warfighters. Now more than ever, I believe we need to increase the size of the acquisition workforce to handle the growing workload, especially as retirements increase in the coming years."

I would like to ask each of you, beginning with Secretary England: Do you agree with Mr. Wynne's assessment of the state of the acquisition workforce? If so, what do you think we should do about the problem? Will this issue be addressed in your acquisition reviews? Secretary England, good to have you here.

Mr. ENGLAND. Senator, thank you. Senator, the issue will be addressed in all of our work looking at the whole acquisition problem. Again, as General Kadish said, it is an issue of not just number, but the quality and the training of the workforce, and also again in my judgment hopefully simplifying the system so it is not as complex and does not require as many people with as much specialized knowledge.

But this is an integral part. We cannot operate this whole system of requirements and budget and resources without a well-trained and well-qualified workforce. So at the core, it is indeed about people and it is about experienced people who can make the kinds of decisions and judgments that are necessary at every step along the process. This is not just a single decision. These are decisions made every day by people on the front lines, particularly with our major weapons systems.

So it requires experienced people, very capable people, and people who can exercise wise judgment in terms of understanding problems and progress. So people, vitally important, and we will be working to shape and do everything we can to have the right kind of workforce consistent with the total acquisition process that we will be recommending come February.

Senator AKAKA. Thank you, Mr. Secretary.

Secretary Krieg, if you have any further comment?

Mr. KRIEG. I just echo all of what the deputy said, but add the additional: If you look at the age distribution of the workforce. By the way, it is an issue not just for the defense acquisition workforce, but for the DOD workforce and I think for the Federal Government workforce largely. Our average age in the civilian acquisition workforce is 46.7, 48 years of age, with a big gulf of people in their 30s. So it is in front of us now that we have to begin replenishing the workforce.

I just note that this committee has worked with us over time on acquisition demonstration reform. The advent of the National Security Personnel System (NSPS) built off of many of those learnings, gives us a tremendous opportunity, a new set of tools to address this, that have not been in front of us before. So implementing NSPS becomes a very critical part of continuing to renew the defense acquisition workforce.

Senator AKAKA. Admiral, do you have any further comments?

Admiral GIAMBASTIANI. What I would say, Senator, is that my experience is from a uniformed side of the business, is if you do not have highly professional, experienced people who have been in this business for a while and understand it, as you have just heard, you are not going to be successful in it. It is absolutely imperative to have that kind of workforce in this operation.

Senator AKAKA. General, any further comments?

General KADISH. Senator Akaka, I think most of that has been answered. The only thing I would add is that the workforce that we are training today will be the workforce of the future. So we cannot look at this only as a today issue, and by today I mean the next year or 2 or even 3. It is for the next generation, because these things have lead times associated with it. It took us 10 or 15 years to get where we are. It will probably take about the same amount of time to get to a solution that the next generation can live with.

So we have to take a long view here and a consistent view of the workforce and not declare victory if we just fix it once. So I would argue for a longer term view of the workforce improvement.

Senator AKAKA. Mr. Chairman, I thank the panel for their responses and I will place my further questions in the record. Thank you.

Senator McCAIN. Senator Sessions.

Senator SESSIONS. Thank you, Senator McCain. I will be submitting some specific questions for the record dealing with space programs and some other ideas and areas that have some difficulties.

I would say that we do have difficulties. I think those, the chairman and Senator McCain and others who have called for these hearings, are correct. It is time for us to really confront this issue. We have been going somewhat spasmodically, as Senator Inhofe discussed with the Crusader. That was going full speed ahead 1 minute and it is gone the next. Obviously that is not the best way to do business.

I would note this. Nearly half of our discretionary budget is defense. We have had nice increases in the last number of years, particularly under President Bush's leadership. I am not sure we are going to be able to sustain those increases. We have funded the war pretty much with supplemental spending, and I hear that perhaps defense is able to effect some positive changes out of that supplemental. That would be good for the long-term future. But we cannot expect that to continue.

There will be some in the Defense Department who say, well, you do not love us any more. But this budget—this train wreck is coming. I think Secretary Rumsfeld has been clear about it from the beginning. We know that we have a procurement crunch coming, a bow wave that leaves us in difficult circumstances under the best of conditions. But when we are over budget and way over budget in some instances, that makes things even more difficult.

So I do not see any alternative to confronting the issue honestly and directly. I think the Defense Department is committed to that. We have a war to fight, but we have some things to do.

I would ask you to do a couple of things. One is, try to use plain language, please. I do my best to understand the jargon of the Defense Department, but the American people need to participate in

these discussions and were they listening in—and some are—I am not sure they could understand much of what we say. Sometimes that leads to an impression that we really do not want people to understand and it creates power in those who know how to use the acronyms. I do not like it myself.

Costs have overrun more than we can justify and I am concerned about that. I hope that we can do a better job of allowing small businesses to participate. We are concerned about a consolidation in a few big companies. Maybe we need to look at how we contract. Maybe we could create some bigger companies if we made it easier for smaller companies to be a player in some of these matters. This bundling and things like that might be easier for managers so they have to look at one company, but in the long run I am not sure that has proven to be effective for us. I think we should look to allowing smaller businesses to participate.

We could get into a long discussion of this, but it seems to me that we fund a lot of research and development, we move forward with new technology, we develop a new expensive weapons system, and then the next thousand or so are just as expensive as the first one. Secretary England or Secretary Krieg, can we do a better job of recognizing that once the technology has been developed and the aircraft or system has been produced that the reproduction of that is far less expensive as each unit goes by?

Mr. ENGLAND. Senator, I believe where you see reasonable rates we do have learning curves. My experience, industrial experience, on the F-16 is there is a learning curve every year. That is, the costs went down at a predictable rate as we got better and better and better and learned how to build it better and better and workers became more efficient and proficient.

So we do have learning curves where we have reasonable build rates. Now, even on our ships the cost goes down across the ships, even if it is 8 or 10 ships. But mainly I think we are plagued with small quantities. So small quantities, you do not get much of a learning curve when you are only building small numbers or you build one and it takes you a few years and you build it again. So where you have a long cycle time and small quantities you do not get the same benefit as a large quantity with a short cycle time.

Senator SESSIONS. Some of these ships, for example, are going up rather than down in cost, it seems.

Mr. ENGLAND. I would expect with spiral new capability—I have to look at each specific case. I just do not know the specific case, Senator.

Senator SESSIONS. I do not think the HMMWV costs went down.

Mr. ENGLAND. Pardon?

Senator SESSIONS. I do not think the HMMWVs' costs have gone down in any significant way. Those kinds of things can be driven down. It seems to me once they have learned how to make this and the system is in place and we negotiate or have the right kind of contracts, we might do better in that area.

I remember on ships—this stuff has been going on a long time. Matthew Fontaine Maury in the 1850s, the pathfinder of the seas, wrote a speech in which he said: “Why is it it costs more to refurbish a ship than to build a new one,” and scathingly criticized some

of our contracting procedures. So we have been at this for some time.

General Kadish, you were involved in the missile defense process and did a superb job. You had an evolutionary process, a spiral development. Could you briefly share with us what role that may have in the future of contracting from your opinion?

General KADISH. When you are in an environment where the technology is either immature or has not been invented yet, you need a mechanism to mature that technology over time, while at the same time you are building things and gaining experience with it. That is what this idea of evolutionary development gives us.

The traditional requirements process does not allow you to do that in a major sense because they want a final design type of activity. So as we go forward and recommend ways of doing this in terms of acquisition strategies and so forth, we are going to have to balance the need for what I call a grand design by requirement, the perfect missile defense system, if you will, versus the way we actually build it, to mature the technology to get there. That is the major difference between the two approaches.

If you have a grand design, you will spend any amount of time and money trying to reach it, and we are seeing that today in our weapons systems programs. Schedule lengthens. Schedule lengthens, costs go up. Schedule and cost are directly related. As opposed to a more deliberate approach, to take chunks of the maturity at a given time.

That should not be mandated for everything, because you have to use common sense when you apply these issues. But the lessons of evolutionary development activities are things that we ought to try to encourage. I give you the example of the F-16. The first F-16 did not—could not pass an operational test today, could not pass it, because it was basically a day, no weather type fighter. You would have to ask yourself, why would we spend millions building an airplane that basically could fly in the daytime?

Well, we built it so we could make it better. Now today we have 4 or 5,000—I cannot remember the number—of the most sophisticated airplanes that the world has seen in that class, and we did it evolutionarily. So there are structural issues we have to address.

That is kind of a long answer, but fundamentally there are ways we can do this, that we can make things better.

Senator SESSIONS. Your experience in aircraft and national missile defense should really qualify you for this commission, and we are hoping and looking forward to good things from it.

General KADISH. Thank you, Senator.

Senator SESSIONS. Thank you, Mr. Chairman.

Senator MCCAIN. Thank you.

Senator Chambliss.

Senator CHAMBLISS. Thank you, Senator McCain. Let me thank you for being the person pushing behind the scenes to make sure this hearing happened. You and I have talked about this issue for a long time now. We are going to make something happen here and it has a lot to do with your commitment to making sure that we spend our tax dollars wisely.

General Kadish, what you said is truly interesting relative to the F-16. I know we could look at virtually every weapons system that

we have out there and we could see similar problems. But what you highlight is the fact that, along the lines of what Secretary England said earlier, and that is that we are at the point right now where providing the latest technology on a weapons system slows down the acquisition process.

Obviously, 20 years ago with the F-16 we just built it, and then we started making positive changes to it after we started flying it. Secretary England and I have talked about the F-22. If we had done that with the F-22, we would have had that weapons system in the inventory years ago and we would still be making these improvements to it. But instead, now we are continuing to put the latest technology on board before we ever get it to the testing stage.

I do not know. We have to find the right happy medium here that causes the angst among folks, everybody on this committee, but I think Senator McCain said it best, why in the world we are paying what we are paying for specific weapons systems now versus what we used to pay for them, somewhere along the line does not make sense.

Secretary England, in talking about making sure that we get this latest technology on a weapons system, the one thing that has kind of always bothered me—and I am more familiar with the F-22 from a parochial standpoint because I am so appreciative of the weapons system than others—is the fact that we compete these weapons systems early on and we award a contract to develop a weapon system, such as the F-22 as an example. But we have been really in the R&D and the acquisition stage and now we are in the production stage, but this has been about a 20-year process.

The competition that we had to award that contract got left behind at the time the contract was awarded. Now, I do not know how we continue this competition as we move through the changes from a technology standpoint that we add to these weapons systems. There may not be a way to do it, but it is pretty obvious that, having gone through building a house, every time you made a change it cost you a lot of money. So we know that when you make a change on a weapon system it is going to cost you a lot of money, and it is money we cannot afford any more.

So my question is that, as we develop new weapons systems now is there a way to make sure that we either take advantage of off-the-shelf technology or can we devise a way to continue that competition all the way through from the time the contract is originally awarded until the time we get to the procurement stage?

Mr. ENGLAND. Again, sort of an interesting dichotomy, Senator. An example: We are buying the multi-mission maritime aircraft (MMA) airplane, which is basically a modified 737, for the United States Navy. It replaces another airplane in inventory, but it is a modified commercial airplane. Now, once you go under contract you do want, as Senator Sessions said, you do want long enough a run that you get the benefit of a production run, with learning curves and efficiencies and quality improvements, et cetera.

So once you let these contracts, it is for a significant number, and to have another competition later would be very expensive. So we do rely on the competitive process at the front end, which is generally a development program and then a production program with options for the government that we can elect in terms of num-

bers of production to buy at certain prices. So we try to lock in production.

We do have the competition early on. When you look at the number of contracts let without competition, a lot of that is follow-on to what we are doing. We do try to find competitive environments. That said, we only have one submarine producer, we only have one aircraft carrier producer. The industry has consolidated, plus some of those systems do not lend themselves because other people do not have the capability in unique areas, like submarines or aircraft carriers, et cetera.

So each area you have to look at independently. We do try, whenever we can, obviously to get competition. Again, I like to try to find more companies to come into this environment and be able to compete in the defense industrial place. I believe that would be beneficial, frankly, for the country and for the DOD. So it is a complex issue. Every program has to be examined on its own.

Senator CHAMBLISS. I do not know how we do this, but you and any number of other folks at the DOD now bring a vast amount of private sector contractor experience to the table. We are going to have to do it a little bit differently than is done in any other area of the government that I can think of, because this is so—to purchase a weapons system, particularly complex weapons systems, is a very complicated and sophisticated business. But there has to be a way to continue that competitive edge on the part of the government or insist on that competitive edge.

Secretary Krieg, along that same line, it is a fact that many of the things that we are now accusing you of doing, such as commercial contracting or using other agencies to pursue inter-agency contracts and downsizing the acquisition workforce, we in Congress and this committee specifically told you to do that. So with that in mind, I think we should partner with you to make this process better. I know Senator McCain and I are committed to making sure we do that.

I would like to note for the record that there are some programs at DOD that are working well and that have produced tremendous results. The C-17 is a good example of that. Both the procurement program as well as the public-private partnership for sustaining that weapon system is a success by any standard.

Also, the C-130J program, which this committee has focused on so much, and rightly so, is without question a success story, particularly when you talk to those folks that are flying it, as we are doing today, hurricane hunting as well as delivering troops and supplies in Iraq. The people that are criticizing that program are inside the Beltway and the folks outside the Beltway that are flying it love that weapons system, but they do not have to worry about the price of it like we do.

I think, Mr. Krieg, you would agree that there is a time and a place for commercial contracting and in fact that it does save money and can be used effectively in the right circumstances. Can you elaborate on when you think the use of commercial contracting is appropriate?

Mr. KRIEG. Yes. I tie commercial contracting to generally commercial products. When the military is buying military-unique products, we enter a different domain. That does not mean nec-

essarily that there are not streamlined ways to do it, there are not better ways to think about it. But I tend to think that commercial contracts should be used in the domain of commercially available products with good competition and other factors out there that discipline the system.

Where you move to military-unique programs, there is not the disciplining of the market that exists in a commercial environment and therefore we need other tools to do that.

Senator CHAMBLISS. Thank you.

Senator MCCAIN. Thank you very much.

Do you want to add something, Secretary England?

Mr. ENGLAND. Could I clarify one thing, though? Pardon me, Senator. Senator Chambliss, I commented on one submarine maker. There are actually two companies, but they each build half the submarine. So for purposes of competition it is like having one company. But to clarify, there are two companies that actually build the submarines for the United States Navy. Pardon me. I just wanted to clarify the record.

Senator MCCAIN. Thank you.

Thank you, Senator Chambliss, and I look forward to continued working closely with you on this issue.

Just a couple of points. General Kadish, I think you have to think outside the box here a little bit. One of the areas that I think you are going to have to consider is the nature of the threat, because that has obviously a direct impact on procurement policy. There are a lot of threats that do not require F-22s to respond to. There are a lot of threats that some low-tech old military presence aspects of it are important.

One of the greatest public relations acts of the United States of America was having an aircraft carrier to supply the tsunami victims. It did not take a \$4 billion destroyer to do that or a \$14 billion aircraft carrier. So I hope you will look at that end of our requirements as well.

Another area that I hope that you and DOD would look at. We have a very successful high-tech information technology industry in this country that is the engine of our economy. Maybe we ought to look at the way they do business. Maybe we ought to try to ring them into some kind of involvement in our acquisition process.

The smartest people in the world now reside in Silicon Valleys all over America. I would argue that somehow they are able to compete, somehow they are able to keep costs down, somehow they are able to mass produce, and each advance in technology lowers costs, rather than in the case of defense acquisitions costs go up with improvements in technology.

So I hope you will maybe expand your charter a bit, General, into looking at other aspects of this issue besides simply why widget A costs more than it used to, et cetera, as I was guilty of in my opening statement.

So we need to do some innovative thinking and look at new ways to fix this process. By the way, one of the lessons of history I think is that in the 1980s we basically did away with cost-plus contracts. We had incentive contracts. Somehow we have crept back into cost-plus contracts and I still do not understand why we have, why we have done that.

Then of course, we have to confront, as Secretary England brought up a long time ago, this issue of single sources for specific weapons systems. If there is only one company, corporation, in America that is capable of building an aircraft carrier, then we may have to regulate costs if there is no competition. You get the worst of all worlds when you have an unregulated monopoly.

So there may be—as a free marketer, everything that I believe in cries out for not doing it. We may have to look at some kind of regulation of costs if there is only a sole source contractor and if there is a lack of competition. But we also ought to look at ways to instill competition in some of these areas.

I think there are a lot of success stories and we can look at those. But I also would argue that we are almost in a crisis when we look at our capability of acquiring a lot of weapons systems which now have basically reached such a point where our defense appropriations simply will not handle very much of those badly needed systems.

So I would ask if there are any final comments, beginning with you, Secretary England.

Mr. ENGLAND. Senator, I guess my final comment: This is a very complex, vexing problem. Obviously, a lot of smart people before us have worked this problem and here we are today. I think, as General Kadish said, 20 years after Packard you have about the same description. My view is there are some structural changes we need to make in this system. It is more than just how we do a specific item.

I can just tell you this, Senator. We are committed to work this problem, to try to put a system in place. We will work with Congress to do this. It will take both of us working together, because I am convinced we will want some changes in terms of the regulation and law as we go forward with this. So we will work with you in this.

I can tell you we are trying to tap all the best people we can. We have been out to a lot of industry, even outside our defense industry. We will tap into the Silicon Valley folks. Everybody who can help us, we will take whatever help we can get in this and input to put together a system that is responsive to our military and affordable to our taxpayers. So you do have our commitment to go work this earnestly, to try to solve some of these systemic problems. We will be working between now and February with a number of efforts under way that will be culminating in about that time period. It will be very transparent, so we will deal with you in a completely open process throughout this whole effort.

Senator MCCAIN. Secretary Krieg?

Mr. KRIEG. Just to echo that, those thoughts, and say I look forward to continuing to work with this committee, look forward to input from the members and the staff. We have a lot of work ahead of us, but we look forward to working with you to handle these problems.

Senator MCCAIN. Admiral?

Admiral GIAMBASTIANI. Senator, I personally and our joint requirements group is committed to working with you and working within the DOD to deliver the capability the country, our soldiers, sailors, airmen, marines, and coast-guardsmen require to get the

job done that this Nation demands, at an affordable rate. We are going to do the best we can. I will just tell you, I am dedicated to do that with you.

Senator MCCAIN. Thank you.

General?

General KADISH. Senator McCain, we will take your admonition to heart and we will provide some interesting grist for the mill for consideration.

Senator MCCAIN. Thanks very much.

This hearing is adjourned. Thank you.

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR JAMES M. INHOFE

JOINT REQUIREMENTS OVERSIGHT COUNSEL

1. Senator INHOFE. Secretary England, Secretary Krieg, Admiral Giambastiani, and General Kadish, I support the need for acquisition reform. I believe there are programs, such as the C-17, that the Department of Defense (DOD) brought online very effectively. However, as we have seen recently, programs such as a new generation refueling aircraft (767) or tactical airlift (C-130-J), have not been managed as successfully, for very different reasons. The Joint Requirements Oversight Counsel (JROC) is set up to identify critical needs to support and enable our national defense. The Joint Staff and organizations they charter such as the functional capabilities board encourage early and continuous collaboration with the acquisition community to ensure that new capabilities are conceived and developed in the joint warfighting context. In other words, these vital programs, programs that JROC reviews, develops, and integrates into our Services, in conjunction with the acquisitions community, are based on input from our combatant commanders, those on our warfighting front. However, it seems that when there is a decision made by DOD to cancel such a program, the service chiefs and combatant commanders have no input. Let me give you an example. The Army's Crusader was deemed a critical mission system by the U.S. Army and by our combatant commanders. I was a vehement supporter of this program. When I was notified that it was being cancelled I called up three of the combatant commanders at the time. They were all unaware of the proposed cancellation and felt strongly that we still needed the Crusader. The Chief of Staff of the Army was not consulted either. It seems to me that whereas we value the combatant commanders' input in identifying the mission gaps that we then green-light for program development, when it comes to canceling or augmenting a program, we do not give these experienced, highly informed military leaders who are in the fight, the same degree of consideration. It strikes me as wrong-headed, that this is the way the process flows. As you look at acquisitions reforms, can you please tell me how JROC, and by extension the combatant commanders, will weigh in on program cancellations and augmentation?

Mr. ENGLAND and Mr. KRIEG. The chair of the JROC is responsible for serving as the spokesman for the commanders of the combatant commands, especially on the operational requirements of their commands.

If a program has significant augmentation calling for adjustment of its Key Performance Parameters (KPPs), the program is required to vet those changes through the JROC before proceeding. We consult with the JROC on program cancellations and seek their recommendations on alternative capabilities solutions to develop future capabilities consistent with cost, schedule, and technical feasibility.

The JROC provides the best military advice on the requirements being addressed by the program, their continued validity and the effect of program cancellation on meeting these warfighting requirements.

Furthermore, as the Defense Acquisition Board (DAB) looks at any review of a program for cancellations and augmentation, the Vice Chairman of the Joint Staff is also the Vice Chairman of the DAB. The Vice Chairman is able to provide the best advice to the DAB, and the Defense Acquisition Executive (the Under Secretary of Defense for Acquisition, Technology, and Logistics), and represent the combatant commanders, weighing in on program cancellations and augmentation decisions.

Admiral GIAMBASTIANI. Having been delegated by the Chairman of the Joint Chiefs of Staff, as the Chairman of the JROC, I am empowered to bring any program into the JROC for review, at any time. The JROC's responsibility in those instances remains the same—to validate warfighter capabilities and to meet the three statutory purposes of title 10 USC, section 181:

- (1) identify and assess the priority of joint military requirements (both systems and equipment) to meet the military strategy;
- (2) consider alternatives to any acquisition program by evaluating cost, schedule, and performance criteria; and
- (3) ensure that the assignment of such priorities conforms to and reflects resource levels projected by the Secretary of Defense.

If a program has significant augmentation calling for adjustment of its KPPs, the program is required to vet those changes through the JROC before proceeding. If a program is a possible candidate for cancellation, I am committed to involving the JROC leadership in this decision to afford the JROC the opportunity to review and evaluate the program from a capabilities standpoint. The JROC can then provide their best military advice on the requirements being addressed by the program, their continued validity and the effect of program cancellation on meeting these warfighting requirements. Furthermore, representing the JROC and combatant commanders in my capacity as Vice Chairman of the DAB, I will weigh in on program cancellation and augmentation decisions under consideration at any DAB program review.

General KADISH. The combatant commanders should be involved in major program decisions. The Panel proposes that the combatant commands play the lead role in defining needed capabilities and Services and Department of Defense agencies compete to provide the solutions. Our proposed requirements development process includes two major activities designated to help the Department procure a balanced portfolio of capabilities that is responsive to current and future operational needs of the combatant commands to buy the right things. The first activity is a 2-year, recurring process to produce an integrated time phased and fiscally informed Joint Capabilities Acquisition and Divestment (JCAD) Plan. The second is a continuous Materiel Solutions Development process to identify and initiate development of materiel solutions to satisfy needs identified in the JCAD Plan.

RECOMMENDATIONS TO IMPROVE PROCESSES

2. Senator INHOFE. General Kadish, you are an experienced military program director with an extensive background working in acquisitions. As such, Secretary England has called on you to lead the Defense Acquisitions Performance Assessment Project, as we look to innovate and tighten our acquisitions process. You directed the C-17 systems program office, one of the Air Force's development and acquisitions success stories that I mentioned earlier today. You were also the director of the Missile Defense Agency (MDA) one of DOD's most involved acquisitions programs. We have had other witnesses testify before this committee and offer insight into this acquisitions issue. We have heard that as we have downsized our military, in search of a so-called peace dividend during the Clinton administration, one of the areas we have hurt critically is that of our acquisitions professionals. Based on your history in this career field, can you comment on the effect of the elimination of so many of these military and civilian positions?

General KADISH. A successful acquisition program requires a professional, dedicated workforce with subject matter expertise. No doubt, there has been a concerted effort to reduce the government acquisition workforce since 1990. As a result, the government workforce has become increasingly overburdened as the demands have increased with the nature and complexity of the acquisition system and with the technology challenges of our programs and requirements.

One unintended consequence of removing the Army and Air Force Chief of Staff and Chief of Naval Operations from acquisition is that the Services are now isolated from their acquisition workforce stewardship responsibilities. We recommend seeking legislation to retain high performance military personnel to include allowing military acquisition personnel to remain in uniform past the DOPMA mandated years of service. Also we recommend increasing the number of the Department's acquisition Federal employees and establishing new systems command structures with four star leadership.

3. Senator INHOFE. General Kadish, what two or three key elements have you seen in the MDA, the C-17 program, or other programs you have managed that DOD should strongly consider in its acquisitions reform initiative, that will permit the flexibility needed by DOD and yet preclude recent missteps we have seen in the process, like the 767 contract?

General KADISH. Three key processes have to work together for programs to be successful. The processes are defined as acquisition, requirements, and budget. The theory is that requirements, budget, and acquisition work together to provide both

flexibility and discipline in the system. In practice they are disconnected and unstable. Therefore, we are continually surprised and frustrated by the outcomes produced by this instability. The people who work in this system succeed in producing our systems and capabilities despite the processes not because of them.

There are fundamental disconnects in DOD management systems and congressional oversight that is driven by competing values and objectives that create government induced instability in our acquisition programs. Incremental improvements in any area will not be successful unless the entire system is stable and operate in a predictable manner. The DOD needs a new and integrated acquisition system to deal with this instability as we face a new security environment in the coming decades.

ACQUISITIONS REFORM REVIEW

4. Senator INHOFE. Secretary England, I laud the work that the DOD is doing to improve the defense acquisitions process. There are multiple parts to this reform process and we all play a role in its progress, progress as you said in your opening statement that must be substantive. I appreciate the fact that many smart and dedicated people have been working on this and that you believe there is still some substantial work to do. This is an involved endeavor with complex wheels and cogs. I believe you state accurately, that input is required by Congress, military leaders, the DOD's acquisitions professionals, both military and civilian and industry leaders. You have General Kadish's Acquisitions Performance Assessment and Secretary Krieg's role in the QDR that will both contribute vitally to this necessary reform. I don't question the dedication of this group. I don't question the honesty and dedication of the larger group you have assembled to look at this issue. However, after reform proposals are made, should we consider an independent review to ensure we have the best improvements in the interest of the taxpayer and all parties?

Mr. ENGLAND. As you know, I have initiated the activities you mentioned to accelerate review of the acquisition process and of our department-level business processes. Our objective is to improve our ability to satisfy warfighter needs while achieving cost and schedule goals. We will be describing our plan to achieve that objective in the QDR report we will submit to you early next year and look forward to the opportunity to discuss our approach with you as soon as feasible thereafter. I intend to sustain the partnership we have established as we continue to pursue our common goals and initiate process improvements that are in the best interest of the taxpayer and service men and women.

SMALL BUSINESS INITIATIVES AND INCENTIVES

5. Senator INHOFE. Secretary Krieg, the industrial base shrinks with more buyouts and mergers between defense contractors which wind up with fewer and larger conglomerations. In this country, historically, innovation has begun with small businesses. Over the last two decades, the advent of a few large contractors has made it more difficult for small business to effectively engage in the contracting process. My office has gotten many calls on such issues. For example, consider when big business competes for a bid against a small business and that contract is awarded to the small business. The big business is able to protest the bid and keep it embroiled in legal purgatory for so long that the small business eventually is worn down, has no money to continue the fight, and gives up. These large military businesses have deep pockets compared to the small business entrepreneur. This situation is exacerbated further when the big business already had an existing contract that is up for renewal. Many times the prolonged protest process allows the large business to continue to supply the government with the product while the protest is settled. In the interest of the taxpayer and our national defense, small business provides competition to keep costs realistic as well as innovative approaches and solutions that "group think" can sometimes eliminate in large corporations. What are we looking at with regard to small business representation to ensure the improved acquisitions process includes consideration for small business?

Mr. KRIEG. Small businesses have, indeed, been the source of much of our important innovation; the changes in the industrial base do present new challenges to them; small businesses do provide competition, and small businesses are often the antidote to "group think."

Bid protests are, most frequently, filed with the Government Accountability Office (GAO). Relevant regulations are at part 4 of the Code of Federal Regulations. While any manipulation is too much manipulation, and while those regulations are within the purview of GAO, not DOD, we note that the bid resolution process is designed

to be both inexpensive and relatively speedy. From the receipt of the protest by GAO to its final disposition by GAO, the process takes 100 calendar days (65 calendar days if using GAO's express option). Additionally, frivolous protests can be dismissed even before an agency submits the report that is required prior to the 30th day after the agency is given notice of the report.

In situations where the protest has been made before award, the contract award can proceed if the head of the contracting agency determines that there are urgent and compelling circumstances that significantly affect the interest of the United States which will not permit awaiting the decision of the GAO. This aspect of the bid protest rules also helps discourage manipulation.

Some protests are filed with the contracting officer conducting the procurement. Agencies are directed to make best efforts to resolve agency protests within 35 days of the filing of the protest.

The Department of Defense recognizes the contributions of our Nation's small business community are essential to supporting our industrial base, and to meet future national security challenges. Existing programs such as the Department's Small Business Innovative Research (SBIR) program have been very successful and hundreds of SBIR contracts are awarded each year to non-traditional, innovative small businesses to provide technologies that quickly respond to warfighter needs.

QUESTIONS SUBMITTED BY SENATOR PAT ROBERTS

SPACE ACQUISITION

6. Senator ROBERTS. Secretary Krieg, the Evolved Expendable Launch Vehicle (EELV) procurement makes up an overwhelming portion of the annual military space launch budget. In April 2005, the Air Force issued requests for proposals on a sole source basis to existing providers for 23 launches from "fiscal year 2006 through fiscal year 2011 or beyond." The RFPs indicate that the Air Force already has allocated all of these launches to the two existing EELV providers. Would it not better serve the national interest to encourage market competition?

Mr. KRIEG. The Air Force EELV acquisition strategy, as recently revised for Buy 3, allows for competition by awarding launches on a year-by-year basis. A Notification of Contract Action (NOCA) in the Commerce Business Daily will precede these awards. The current EELV Request for Proposal (RFP) will result in orders for fiscal year 2006 only, with projected launch dates in fiscal year 2008. These orders cover only the first 3 of the 22 planned national security launches in the EELV Buy 3 plan. Presently, two launch vehicles meet EELV requirements. No emerging new launch provider has yet demonstrated the required capability to meet the EELV program requirements. When and if another supplier demonstrates such capability, the Air Force EELV acquisition strategy and the U.S. Space Transportation Policy allow that supplier to compete for launch orders.

7. Senator ROBERTS. Secretary Krieg, what is the rationale for locking up EELV launches over the long-term through "fiscal year 2011 or beyond"?

Mr. KRIEG. The current EELV RFP will result in orders for fiscal year 2006 only, with projected launch dates in fiscal year 2008. We must order these launch services beginning in fiscal year 2006 because there is a 2-year lead-time from order to launch. Future launch procurement will continue on an annual basis. Currently, only two contractors, Boeing and Lockheed Martin, have the launch vehicles and facilities that satisfy EELV requirements. Therefore, for the purposes of mission and manufacturing planning, the Air Force has allocated planned upcoming missions to the EELV provider on which they are likely to be flown if other capability is not developed. The Air Force will review and adjust this allocation as necessary annually prior to the award of a new contract.

8. Senator ROBERTS. Secretary Krieg, what is the Air Force doing to allow maturing EELV class providers to participate in the EELV market?

Mr. KRIEG. Should a third company develop a reliable EELV class launch capability that meets program requirements, the Air Force EELV acquisition strategy already allows new suppliers to participate in future procurements, consistent with the U.S. Space Transportation Policy (National Security Presidential Directive NSPD-40). Section 1.4 of NSPD-40 directs that "New commercial space transportation capabilities that demonstrate the ability to reliably launch intermediate or larger payloads will be allowed to compete on a level playing field for United States Government missions." Any launch providers who develop a capability to launch

EELV-class payloads will have the opportunity to submit proposals for evaluation by the Air Force for future Buy 3 launches.

QUESTIONS SUBMITTED BY SENATOR JEFF SESSIONS

TRANSFORMATIONAL SATELLITE PROGRAM

9. Senator SESSIONS. Secretary Krieg and General Kadish, the Department's new approach to space acquisition appears to be evident in the Transformational Satellite (TSAT) program: requirements appear to be locked in; critical technologies appear to be maturing before product development begins; and there appears to be strong government oversight of the program and the contractors. Nevertheless, both the Senate and House Armed Services Committees expressed some unease about TSAT's ambitious acquisition schedule, given the integration challenges one might expect from such a complex program. For fiscal year 2006, the House reduced funding by \$400 million, while the Senate Armed Services Committee bill includes a \$200 reduction from the President's \$835 million request. Quite frankly, much of the unease associated with the TSAT program derives from the troubled record of space acquisition programs. This begs an important question: how will Congress know when the space acquisition process is sufficiently reformed such that Congress can have confidence that TSAT—and other satellite programs—will be delivered on schedule and close to cost?

Mr. KRIEG. The space acquisition process will be sufficiently reformed to deliver programs on schedule and cost when these programs exhibit:

- Well-defined and stable requirements
- Mature technologies for program success
- Stable budgets
- Robust risk management process
- Mature test programs that provide rigor and prove-out the developing system design
- Robust systems engineering and end-to-end systems integration
- Production processes which are under configuration control

The DOD has implemented key recommendations from the joint Defense Science Board and Air Force Scientific Advisory Board task force on Acquisition of National Security Space Programs into the TSAT program. These changes show DOD's commitment to keeping this program on track. Technical demonstrations will continue to be conducted to ensure progress in program development and to help maintain program confidence.

General KADISH. There are unique challenges that space acquisition issues present. It is unfortunate that new programs still labor under the lack of confidence produced by a series of missteps over the last 5 to 10 years in space programs. There is a lead time for any improvement or fix to take affect and be recognized. I suspect programs like TSAT will have to prove that they could be successful under the circumstances. One caution, however. Strategic technology exploitation is a key factor that allows the U.S. to maintain dominant military capabilities. One factor in exploiting this advantage is to fund programs adequately in the start-up phase and not to expect that schedules could be met or costs controlled if the resources don't match the task.

10. Senator SESSIONS. Secretary Krieg and General Kadish, are there a set of criteria one can use to assess the viability of space acquisition programs?

Mr. KRIEG. While there is no "one" set of criteria that can be used to assess the viability of space acquisitions, there are a number of recognized criteria that are used to assess an acquisition program's overall viability. The Department currently tracks a program's progress using a number of criteria to include the cost, schedule, and performance parameters associated with a space program's approved Acquisition Program Baseline (APB). This includes tracking accomplishment of key program events, design reviews, and critical developmental test (DT) activities. In addition, cost and schedule adherence of key contracts is tracked via our Earned Value Management System (EVMS). These and other management parameters are assessed quarterly and highlighted as part of our Defense Acquisition Executive Summary (DAES) process.

General KADISH. Time should be the key performance parameter. Move the Department's preferred acquisition strategy for developmental programs from delivering 100 percent performance for any cost and schedule to delivering useful military capability within a constrained period of time.

11. Senator SESSIONS. Secretary Krieg and General Kadish, should Congress rely on independent assessments?

Mr. KRIEG. Independent assessments are very useful for evaluating a program's status. As noted by the joint Defense Science Board and Air Force Scientific Advisory Board task force on Acquisition of National Security Space Programs report, implementing independent senior advisory reviews (using experienced, respected outsiders) at critical acquisition milestones will help ensure realistic budgets and cost estimates.

However, there is also great value in getting feedback directly from senior DOD and industry executives after they have observed and evaluated program demonstrations and participated in critical milestone reviews. With support of the executives serving as the key decision makers for the program, detailed issues can be addressed, focus can be adjusted, and solutions can be agreed on in an efficient manner that avoids delays. To foster this success, the DOD is committed to maintaining senior executive involvement in critical program reviews.

General KADISH. Independent assessments have a place especially in dealing with an entrenched bureaucracy. However, extensive reliance on this approach indicates a loss of confidence in the leadership and workforce. Rather than rely on independent assessments, we should recognize the systematic problems that result in the lack of trust that generates the need for such assessments. The Department must be transparent in all acquisition decisions and programs.

COST ESTIMATES

12. Senator SESSIONS. Secretary Krieg and General Kadish, GAO and the Defense Science Board task force have reported that cost estimates are intentionally low-balled by DOD and its contractors to allow more programs to be started and funded. What incentives or procedural changes would encourage more realism in cost estimates?

Mr. KRIEG. It is not DOD's intent or its policy to intentionally understate program costs. In fact, I believe it is essential that those estimates be accurate to ensure we have a clear understanding of program affordability at every staff level. Realistic cost estimates are founded on clearly articulated and achievable requirements. Once the requirement is well understood and formally approved we employ multiple independent entities, such as our Cost Analysis Improvement Group, to develop an estimate. We rely on the objectivity and historic accuracy of those estimates to ensure that programs are adequately funded and to support our assessment of contractor cost realism. These are sound procedures we will continue to employ and enforce.

General KADISH. The Panel determined that successful acquisition requires a stable environment of trust and confidence between government the industrial partners. This fosters competition for ideas and solutions to efficiently and effectively provide requirement capabilities and guaranteed best value for the government. Our assessment was that consolidation of the industrial base, caused by unstable defense demand, has reduced the benefits of competition, introduced industrial organization conflict of interest issues and made every defense contract a "must win" situation for the prime contractors.

Cost estimates for budgeting tend to be used differently than cost estimates for source selection purposes. Budgeting and programming estimates tend to ensure adequate resources are available while source selection estimates tend to be on the cost control side. In both cases bad behavior could result from the external environment and pressures in the system. One solution to this problem is to use the government estimate for both situations and base the source selection on risk and technical approach rather than cost estimated through a competitive source selection.

13. Senator SESSIONS. Secretary Krieg and General Kadish, have you studied what could realistically be done to address this cause?

Mr. KRIEG. We believe our current policies provide us with reasonable assurance of the accuracy of our estimates. For Major Defense Acquisition Programs at Milestone B, Milestone C, or the full-rate production decision review, we also require an independent cost estimate to be performed by the Department's Cost Analysis Improvement Group.

General KADISH. Yes, see #12 above.

14. Senator SESSIONS. Secretary Krieg and General Kadish, what progress has DOD made in setting priorities for its desired space capabilities in the event that programs are funded at a higher level of confidence or estimates are more realistic (higher)?

Mr. KRIEG. The Department has complimentary processes for determining priorities of our weapon systems, including the Joint Capabilities Integration and Development System; the Planning, Programming, Budgeting, and Execution (PPBE) system; and this year, the Quadrennial Defense Review. As we develop the program for the upcoming year, we make conscious decisions on all of our major programs, including space programs, to ensure we provide the joint force with the best mix of capabilities we can afford. I am committed to work with both the resources and requirements communities to ensure that programs at major milestones achieve an acceptable balance among cost, schedule, and performance; that risks are identified and management plans are established; and that adequate funds are available.

General KADISH. In addition to the specific recommendations mentioned above, the Panel proposed that the Department and Congress evaluate the impact of industrial consolidation and its unintended effects especially in its effects on the use of competition. Such a review should be conducted with an acute awareness of the current security environment and the nature of fundamental assumptions about industry upon which our policy, laws, and regulations are based.

15. Senator SESSIONS. Secretary Krieg and General Kadish, does DOD possess the analytic tools to make trades across space systems?

Mr. KRIEG. The Department does have a process, including the appropriate tools, to conduct trades between systems. Both the Secretary of the Air Force, as the Executive Agent for Space, and the Department staff scrutinize the space portfolio during the annual program review. Space programs are evaluated, phased, and funded with respect to warfighter needs, appropriate time lines, and available funding. The analytical tools are improving but much of managing the trades between and among systems will come down to informed judgment.

General KADISH. As stated previously we did not address space specific acquisition processes. However, we noted that over the past 20 years acquisition reform recommendations have focused on making incremental improvements to a narrowly defined acquisition process. Complex processes do not promote program success—they increase costs, add to schedule, and obfuscate accountability. We must consider every aspect of acquisition, change the culture, and create a clear alignment of responsibility, authority, and accountability.

SPACE SYSTEMS

16. Senator SESSIONS. Secretary Krieg and General Kadish, unlike the DOD 5000 acquisition policy, National Security Space (NSS) 03–01 policy does not direct space acquisition programs to have all critical technologies demonstrated in a relevant environment before program start and before an acquisition program baseline is established. Because the space policy assumes more risk by allowing unproven technologies, GAO has been critical of it. Given the difficulties that space systems have experienced because technologies have not matured as promised, would you be in favor of changing NSS–03–01 to conform with DOD 5000?

Mr. KRIEG. NSS 03–01 is the space acquisition community's implementing guidance for DOD Directive 5000.1 and from that standpoint, I recognize its value. Space programs, unlike their DOD 5000.2 based counterparts, expend approximately two-thirds of their life cycle dollars in the development phase of the program and NSS 03–01 was designed to phase Key Decision Point reviews more frequently and earlier in the acquisition cycle. The Department shares GAO's desire to reduce program risk; however, a healthy balance must be found within a program that both reduces risk, and at the same time, allows us to pursue much-needed capabilities. Space vehicles are now living longer and staying on operational orbit longer. To maintain our lead, we must incorporate current technology prior to launch.

Unlike other programs, space programs cannot effectively segregate all technology development and test in an operational environment prior to product development so, unlike its DODI 5000.2 counterpart, the NSS 03–01 does not mandate specific Technology Readiness Levels (TRL) for each decision. Instead, it requires detailed technology readiness assessments at each Key Decision Point, assessing maturity via Independent Program Assessments (IPA) and the Key Decision Point reviews. It also synchronizes the Key Decision Points with crucial system engineering reviews to ensure the Milestone Decision Authority has the most current and complete picture of the program before a decision is rendered on its maturity to enter the next acquisition phase.

I do not favor changing NSS 03–01 to specifically conform to the DOD 5000 process but remain committed, together with the DOD Executive Agent for Space, to continually assess NSS 03–01 with the goal of incorporating more mature tech-

nologies, incorporating lessons-learned, and improving the overall viability of the space acquisition process.

General KADISH. No. Incorporating high risk technology in systems under stringent requirement demands generally leads to significant cost and schedule slippage under any process or regulatory regime. Contingency plans, technology assessment, and exit opportunities must be developed in cases where technologies do not mature as anticipated. If technologies do not mature as expected, then flexible strategies with multiple paths for capability development would provide program managers with opportunities to take alternative action or stop efforts altogether, if appropriate. Endorsing Time Certain Development as the preferred acquisition strategy for major weapons systems development programs would be one way of controlling technology risk and balancing requirements demanded by the operational user.

DEFENSE AGAINST LONG-RANGE BALLISTIC MISSILES

17. Senator SESSIONS. General Kadish, as Director of the MDA, you pursued an evolutionary approach to the development and fielding of a missile defense capability for the protection of the United States against long-range ballistic missiles. What lessons can we derive from this approach to weapon systems acquisition—especially for providing capabilities where none previously existed?

General KADISH. Complex technology and its application to difficult problems like missile defense requires a different management and programmatic approach than advancing the state-of-the-art in mature technology. Because of the technology risks involved, leadership must be patient and time must be a controlling in the trading performance. Everyone in the system from engineer to brigade commander must learn to deal with the new technology and apply it as we learn more about the system.

QUESTIONS SUBMITTED BY SENATOR SUSAN COLLINS

DD(X) SHIPBUILDERS AND CG(X) CRUISER PROGRAM

18. Senator COLLINS. Secretary Krieg, in July—with your concurrence—the Navy announced plans to release initial DD(X) “transition design” funding to General Dynamics’ Bath Iron Works and Northrop Grumman Ship Systems’ Ingalls. This was done, according to Navy and OSD statements at that time, in order to maintain DD(X) program momentum and minimize impact on the major surface combatant ship design industrial base. I am pleased that the Navy—again with your concurrence—followed the initial announcement with the recent release of \$53 million of long-delayed fiscal year 2005 appropriated design funds, that I secured. The DD(X) program recently achieved a major milestone with a successful flag-level Critical Design Review. I understand that you plan to conduct a DD(X) Milestone B review and render a decision on any changes to the acquisition strategy later this year. I have also been pleased to hear that you intend to fully consult with and understand the concerns of Members of Congress before you decide on any revision to the current dual-shipyard acquisition strategy for the DD(X) program. I strongly encourage you to do so. During this past year, Congress ultimately felt it had no recourse but to statutorily prohibit the Navy’s proposed “winner-take-all” one shipyard DD(X) acquisition strategy. The fiscal year 2006 Defense Authorization bill—reported from this committee and pending further floor action—contains a continued statutory prohibition on the ill-advised one shipyard approach. Recent tragic events along the Gulf Coast have reminded us how reliance on a single major surface combatant shipbuilder could create a serious strategic vulnerability for our country. The same would be equally true should a catastrophe befall our Nation’s experienced major surface combatant shipbuilder in the northeast. The bottom line is that the country needs both shipbuilders to meet the Nation’s long-term security needs. I urge you not to send forward a revised plan that ultimately represents a delayed path to a “winner-take-all” one shipyard outcome. Will you not only work with us in Congress but also actively engage the DD(X) shipbuilders in discussions toward developing and implementing an effective acquisition strategy for the DD(X) program going forward, not only for the design and production of the DD(X) ship class but for the follow-on CG(X) cruiser program, as well?

Mr. KRIEG. I will continue to work with Congress, the Navy, and the shipbuilding industry on all of our major shipbuilding programs to ultimately provide our warfighters with ships that are operationally superior, and have a price the taxpayers can afford.

19. Senator COLLINS. Secretary Krieg, after Congress blocked the Navy's revised "winner-take-all" acquisition strategy earlier this year, the Navy is now proposing another acquisition strategy for the DD(X) destroyer. The newest proposal under consideration calls for equal detailed design work and dual-lead ship construction at Ingalls and Bath Iron Works. While there are acceptable elements to the new strategy, such as collaborative detailed design processes, shared design work for each shipbuilder based upon the engineering strengths of each shipyard, and a sense of urgency to maintain the program schedule and avoid industrial base resources losses, there are also flaws in the latest strategy. Building two simultaneous lead ships carries risk and may be the highest cost approach. If there are design errors on one ship, the problem will have to be fixed on both ships. There is also concern over the ability of major suppliers to provide two lead ships the needed sets of equipment. An alternative exists to move forward with the program of record. The current strategy requires the first DD(X) be built at Ingalls, the second at Bath Iron Works, and contracts for building the first six DD(X)s would be equally divided between the two shipbuilders. Continuing with the current program would allow ship detailed design to begin now, with both shipbuilders equally involved in the design supporting the first and second ship. What is the Department doing to put the DD(X) program and acquisition strategy back on solid footing, taking into account the advice from the shipbuilders?

Mr. KRIEG. The Department is considering alternative acquisition strategies that would balance the competing demands in the acquisition of the DD(X) ships.

20. Senator COLLINS. Secretary Krieg, do you agree that the constant shifting in proposed acquisition strategies for the DD(X) destroyer has led to program instability and the inability for shipbuilders to plan, budget, or rightsize their workforces?

Mr. KRIEG. The Department, Congress, and the shipbuilding industry have worked to resolve the sometimes conflicting needs of both shipbuilder stability and program suitability. The Department has taken many actions to maintain schedule and key technology developments while we finalized the strategy. In addition, the DDG-LPD swap signed in 2002, and the ships Congress authorized and appropriated in support of that agreement, provide stable surface combatant workload for the companies until at least the middle of 2007, when the last DDG 51s start construction at each shipyard. It is important for the Department to provide a clear intent to industry as we move ahead.

21. Senator COLLINS. Secretary Krieg, what can be done to craft and implement a more viable shipbuilder acquisition plan for DD(X) that leverages the capabilities of both major surface combatant shipbuilders in design and construction?

Mr. KRIEG. The Department is considering alternative acquisition strategies that would balance the competing demands in the acquisition of the DD(X) ships.

22. Senator COLLINS. Secretary Krieg, just last week, I met with the President's nominee to be the next Secretary of the Navy, Dr. Donald Winter. We agreed that there are many challenges facing the Navy right now, to include the troubling increase in the cost of shipbuilding. One reason for this, however, is the uneconomical buy rate for ships and the corresponding peaks and valleys this creates in planning and shipbuilder workforce sizing. Unfortunately, instability and dramatic changes have held back some progress of the DD(X) program. Initially, the Pentagon planned to build 12 DD(X)s over 7 years. To meet budget constraints, the Department slashed funding and now proposes to build only five DD(X)s over 7 years, even though the former Chief of Naval Operations has stated on the record before this committee that the warfighting requirements remain unchanged and dictate the need for 12 DD(X)s. The Navy's next-generation DD(X) destroyer is a complex surface combatant that will have capabilities not available on any other Navy ship. These capabilities include:

- a. Far greater offensive and precise firepower;
- b. Advanced stealth technologies;
- c. Numerous engineering and technological innovations that will allow for a reduced crew size; and
- d. Sophisticated, advanced, weapons systems, such as the electromagnetic rail gun.

Dr. Winter and I discussed the potential for "spiral acquisition" on the DD(X). This could create the possibility of deferring some capabilities on earlier ships in the class, instead of trying to put every new technology on the first DD(X). Would

providing incremental capabilities on each DD(X) and later retrofitting them seem feasible?

Mr. KRIEG. The use of “spiral acquisition” can be a powerful tool to provide an initial capability to the warfighter, while providing improved capability when technology allows in a cost effective manner. At present, the DD(X) design baseline introduces 10 key new technologies demonstrated via Engineering Development Models, all of which have satisfactorily completed testing. In your question, you note electromagnetic rail gun as an example of DD(X) technology. This is not quite accurate. The Advanced Gun System for the DD(X) uses a propellant-powered round. The electromagnetic rail gun would be an example of a potential technology, not yet fully mature, that could be introduced into the DD(X) at a later date if the technology can be incorporated in a cost effective manner.

23. Senator COLLINS. Secretary Krieg, how does “spiral acquisition” help maintain program schedules and reduce costs, if employed effectively?

Mr. KRIEG. The intent of a spiral or “evolutionary” approach is to deliver capability in increments, recognizing, up front, the need for future capability improvements. The intent of the strategy is to balance needs and available capability with resources, and to put capability into the hands of the user quickly. The strategy relies on well understood and achievable requirements, mature technologies, and full funding to ensure that schedule and cost objectives can be achieved.

SHIPBUILDING AND CONVERSION

24. Senator COLLINS. Secretary Krieg, it is crucial that not only do we have the most capable fleet, but also that we have sufficient numbers of ships to meet our national security requirements. Today, however, our fleet is already below 300 ships and dropping. Based on testimony before the Senate Armed Services Committee, the Navy’s recently departed CNO confirmed the warfighting requirement for an increased number of ships. Former Chief of Naval Operations, Admiral Clark, has also said, “We cannot build the Navy of the future with the funding mechanisms we have today.” The CNO has also said he needs about \$12 billion a year for level shipbuilding funding. Ship procurement presents very unique challenges: ships take years to produce and they can cost into the billions of dollars. Current budget rules, however, do not reflect the realities of ship construction. Currently, the entire procurement cost of a ship must be fully funded in the year in which the item is procured. This severely distorts the shipbuilding accounts, and does not allow the Navy to budget in the most efficient way possible. The key to controlling the price of ships is to minimize fluctuations in the shipbuilding account. Earlier this year, I cosponsored a provision by our esteemed Chairman, Senator Warner, to the budget resolution that was passed by the full Senate providing authority for advanced appropriations for shipbuilding. This will help us to ensure that ships are procured in the most sensible and efficient way possible. The provision provides the authorizing and appropriations committees the flexibility to consider revisiting last year’s shipbuilding plan through providing additional budget authority of \$14 billion in advanced appropriations in fiscal year 2007 and fiscal year 2008. Do you agree that the traditional method of funding the Shipbuilding and Conversion account must be revisited to better meet national security requirements?

Mr. KRIEG. Procuring Navy ships is very different from other Department of Defense acquisition programs in terms of the scope of the design and construction effort, the time frame required to design and build ships, and the low production rate at which ships generally are procured. The fundamental problem is a 4 to 8 year design and build cycle for Navy ships which is subject to significant fluctuations in the annual budget process. This creates many opportunities to effect change and cause instability across the Navy shipbuilding accounts. There are financing alternatives available that can be considered on a program by program basis.

25. Senator COLLINS. Secretary Krieg, do you agree that the use of advance appropriations will help the Navy and our Nation’s shipbuilders to better plan, and thus minimize the unnecessary costs that come from the erratic fluctuations in our ship procurement rate, as well as let us maximize the number of ships that we can procure?

Mr. KRIEG. It is critical to realize that none of the alternative funding mechanisms known to date will result in the Navy being able to acquire more ships for any given funding allocation. They can, however, provide the Navy with opportunities to stabilize the ship procurement accounts.

SHIPBUILDING/ACQUISITION

26. Senator COLLINS. Secretary Krieg, it is a mistake from a national security perspective and from an industrial base standpoint for the Navy, or the Department, to pursue policies that will jeopardize the future of one of our Nation's two surface combatant shipyards. The taxpayers also are not well-served by acquisition policies that would lessen or eliminate competition in the shipbuilding sector. Several years ago during this administration's first term in office, Deputy Under Secretary of Defense for Industrial Policy, Suzanne Patrick, explained that the Department of Defense and the Department of Justice had a unified view in opposition to General Dynamics Corporation's then-proposed acquisition of Newport News Shipbuilding on the grounds that the government's and taxpayers' interests would not be served by eliminating competition going forward for nuclear powered attack submarines. When asked about the considerations that went into the decision that ensured two separately owned shipyards would produce Virginia class submarines in a hearing before the Military Procurement Subcommittee of the House Armed Services Committee in March 2003, Deputy Under Secretary of Defense Suzanne Patrick responded saying:

. . . We explicitly look at the impact on competition. We look at the impact on the warfighter. . . . With regard to the Newport News deal . . . our view there was that we really had to maintain competition. We could not afford to let the yard go to what would end up being a sole source for us of submarines in the future, especially in the fact that we have a Trident submarine replacement moving in 2020. We had to maintain the capability to compete future submarine purchases in order to do them affordably as we went forward."

Yet, within the last year the Navy has proposed two revised acquisition strategies for the DD(X) destroyer program, including one that would single-up construction of complex surface combatant ships to one shipyard . . . and, not just for DD(X) destroyers but CG(X) cruisers and all subsequent such ships. In your view, was the DOD's reasoning on the General Dynamics/Newport News shipbuilding acquisition issue in 2001 correct?

Mr. KRIEG. The case of the proposed General Dynamics acquisition of Newport News was based, in part, on projected shipbuilding needs at that time and was correct.

27. Senator COLLINS. Secretary Krieg, given how much in conflict the reasoning behind that major decision seems to be with the supposed reasoning behind the Navy's DD(X) "one shipyard" acquisition strategy, please explain to me how the DOD's position in these two critical decisions could be seen as being in any way consistent?

Mr. KRIEG. In the case of nuclear submarine procurement, the potential remains that both nuclear attack submarines and nuclear ballistic missile submarines will be built in concurrent years in the future. The Navy's current projection is that the large surface combatant construction profile will remain at no more than one ship per year, DD(X) then CG(X), for the foreseeable future.

28. Senator COLLINS. Secretary Krieg, in your opinion, what message does this send to our industrial base?

Mr. KRIEG. The message to our shipbuilding industrial base is that the Department believes that competition is the most effective vehicle to encourage innovation and best value. We think that competition or the potential for competition will encourage shipbuilders to better control and improve cost and schedule performance so that we can provide world class, capable, and affordable ships to our warfighters. Additionally, fixed price contracts provide the financial motivation for shipbuilders to control their costs.

The U.S. shipbuilding industry produces the finest warships in the world, but cost growth continues to erode the purchasing power of the Navy's Shipbuilding and Conversion budget. A recent benchmarking study commissioned by my office concluded that the use of best practices in the U.S. shipbuilding industry has improved significantly over the last 5 years as a result of Navy and industry initiatives and investments. The technology gap between the U.S. industry and leading international shipbuilders is closing. However, there are still large gaps that present opportunities for U.S. shipyards to make further substantial improvements, particularly in the pre-production functions that include design, production engineering, and planning.

QUESTIONS SUBMITTED BY SENATOR LINDSEY O. GRAHAM

COMMERCIAL OFF-THE-SHELF PRODUCTS

29. Senator GRAHAM. Secretary England, Secretary Krieg, Admiral Giambastiani, and General Kadish, I am concerned that the DOD often creates products that are only fractionally different from existing and available commercial products, and this is often done at many times the cost. In your opinion, what is the best way to ensure greater use of commercial off-the-shelf (COTS) products so the Department does not recreate products which are only marginally different?

Mr. ENGLAND and Mr. KRIEG. The best way to ensure greater use of products is to conduct a thorough market analysis early in the process and to consider the results of that analysis in the development of requirements. In fact, that is our policy. Where feasible, our intent is to modify our requirements, consistent with the user's needs, to facilitate the employment of available and cost-effective commercial products.

Admiral GIAMBASTIANI. I encourage the use of COTS products wherever possible to provide an affordable, militarily-useful capability to the warfighter. The best way to ensure greater use of COTS products is to conduct a thorough market analysis early in the process and to consider the results of that analysis when developing requirements. When the JROC evaluates the solution space for capabilities, COTS solutions are considered as part of that analysis. Where feasible, the JROC will consider adjusting the requirement when there is a COTS solution that will substantially meet the warfighter's needs. The Light Utility Helicopter is one example where the Army is seeking an entirely COTS-based solution to a warfighter need.

General KADISH. I have not studied this issue. However, based on my experience DOD has made significant progress in using COTS products in our weapon and information systems development.

30. Senator GRAHAM. Secretary England, Secretary Krieg, Admiral Giambastiani, and General Kadish, what process is in place to allow vendors who feel their products are being duplicated to challenge DOD decisions?

Mr. ENGLAND and Mr. KRIEG. The Federal Acquisition Regulation (FAR) and its Defense Supplement provide policy and procedures for vendors to protest contract actions to either the agency or the GAO, or to use alternative dispute resolution (ADR) procedures to resolve their concerns. In addition, the acquisition regulations provide policy and procedures relating to copyright, patent, and technical data rights and allegations of infringement of those rights. The specific process varies depending on the facts for particular cases.

Admiral GIAMBASTIANI. The JROC encourages full and open competition to ensure that all vendors have the same opportunity to provide warfighting capabilities. The JROC, however, is not involved in the source selection or protest processes of the Department. The Federal Acquisition Regulation and its Defense Supplement provide policy and procedures for vendors to protest contract actions and for allegations of infringement of copyright, patent, and technical data rights.

General KADISH. I have not studied this issue.

QUESTIONS SUBMITTED BY SENATOR DANIEL K. AKAKA

CONTRACTORS

31. Senator AKAKA. Secretary England, Secretary Krieg, Admiral Giambastiani, and General Kadish, I am concerned that as we have cut the acquisition workforce, we have become more and more reliant on contractors to assist us in conducting acquisition functions. As a result, we often depend on contractors to assist us in selecting other contractors, managing the work of other contractors, and even making major acquisition decisions regarding programs of other contractors. I am told that in many cases, the DOD simply does not have the expertise any more to conduct these functions on its own. Do you agree that we have become too reliant on contractors to help us manage acquisition functions, and if so, what do you think we should do about the problem?

Mr. ENGLAND and Mr. KRIEG. As you are aware, the acquisition workforce has been substantially reduced by directed reductions and retirements. In major DOD acquisition organizations, the number of civilian and military personnel (exempting the civilians assigned in maintenance depots) shrank from roughly 460,000 in fiscal year 1990 to about 206,000 in fiscal year 2004, a 55-percent decrease. Using 2004 constant year dollars, the contract dollars have increased from \$117.7 billion in fiscal year 1998 to \$241 billion in fiscal year 2004, a 105-percent increase just since

1998. These changes, in combination with other factors, pose major acquisition workforce and mission capability challenges for the Department. One means of mitigating risk is selectively hiring contractor support with necessary skills. While those contractors have substantive duties, it is our policy that they not be assigned to inherently governmental functions such as participating in source selection boards, determining policy, or assessing performance. Having said that, we believe it is important to strategically grow the capabilities of our government acquisition workforce so we have the skills necessary to satisfy current and future acquisition challenges and to avoid the kind of issues raised by your question. Consequently, we appreciate your continued support for both the National Security Personnel System and for the Department having the right workforce size and capability.

Admiral GIAMBASTIANI. Although the Joint Staff is not directly involved in acquisition workforce decisions, I support the efforts of Secretary England and Secretary Krieg to improve our government acquisition workforce.

General KADISH. The Federal acquisition workforce has been downsized too much. The Department should immediately increase the number of Federal employees focused on critical skill areas, such as program management, system engineering and contracting. This is a long-term problem and it will require a long-term fix.

32. Senator AKAKA. Secretary England, Secretary Krieg, Admiral Giambastiani, and General Kadish, will this issue be addressed in the acquisition reviews?

Mr. ENGLAND and Mr. KRIEG. The Department will continue to review the operations of acquisition programs to ensure effective, efficient, and appropriate use of government resources.

Admiral GIAMBASTIANI. I understand that Secretary England and Secretary Krieg are committed to ensuring that the Department will continue to review the operations of acquisition programs to ensure effective, efficient, and appropriate use of government resources. I support their efforts.

General KADISH. As stated above, the Panel was extremely concerned about the impact of lack of acquisition expertise in the Department and the dependence upon contractor support for significant roles in the acquisition process. This has contributed to the multiple layers of Integrated Product Teams and the Panel recommends that these teams need to be eliminated since they add cost and time to critical decision.

33. Senator AKAKA. Secretary England, Secretary Krieg, Admiral Giambastiani, and General Kadish, one new issue that has been raised by the Department's extensive reliance on contractors to assist in acquisition functions is the potential for conflict of interest on the part of contractor employees. On February 8, 2005, the acting Director of the Office of Government Ethics (OGE) wrote a letter explaining the problem as follows:

"In recent years, executive branch ethics officials—particularly those from Department of Defense agencies and certain civilian agencies—have identified various issues and concerns that are a result of the growing presence of contractors in the Federal workplace. The issues predominantly relate to the fact that, unlike Government employees, contractor personnel are not subject to a comprehensive set of ethics rules, yet they are often performing some of the Government's most sensitive and critical work. This disparity is true even when contractor personnel are working side-by-side with Government employees in the Federal workplace or on the battlefield, and, for all practical purposes, may appear to the public to be [Federal] employees. The problem is most likely to occur when contractors perform work that historically was considered a Federal function, as well as when contractors perform functions closely associated with inherently governmental functions."

Do you agree with OGE's assessment of this issue, and if so, what do you think we should do to address the problem?

Mr. ENGLAND. The increasing use of contractors to perform commercial activities that historically have been treated as a function of the Federal Government, particularly when contractor personnel are working along side Federal personnel in the Federal workplace, poses several challenges. One is how to protect the integrity of the procurement and decisionmaking processes by contractor personnel in a manner that is at least commensurate with that of Federal personnel. As you know, Federal personnel are subject to conflict of interest laws, limitations on employment after they leave Federal service, procurement integrity restrictions, laws protecting certain trade secret data, laws limiting political activities, and standards of conduct regulations that seek to isolate official decisions from personal interests. Although

some of these measures may not be appropriate for contractor personnel, it is necessary that some measures be implemented. The Department of Defense, as well as other Federal agencies including the Office of Government Ethics, is examining this issue. In fact, the Services Acquisition Reform Act Advisory Committee (SARA), authorized by the National Defense Authorization Act for Fiscal Year 2004, is including this issue in its study, which we expect will be completed in early 2006.

Mr. KRIEG. I think this is an area that deserves more attention. We must never contract for inherently governmental functions. We also must be extremely careful when we contract for work that historically has been performed by Federal employees, even if that work is not inherently governmental, to ensure that we have the appropriate checks and balances in place that prevent any conflicts of interest. This responsibility rests with those who decide to contract out these services and those who write, negotiate, and review contracts in DOD. But there is also a responsibility on the part of the industry to ensure that their employees understand their roles and the span of their responsibilities, as well as all of the ethical issues relating to those responsibilities.

Admiral GIAMBASTIANI. I recognize that contractors make an important contribution to our national defense and that it is incumbent upon us to ensure they are not performing inherently governmental functions in accordance with Department of Defense Directive (DODD) 1100.4, dated 12 February 2005, which restricts the Department from contracting for inherently governmental functions as defined in 31 U.S. Code, Section 501. Adherence to this directive ensures the Department retains decisional authority and maintains appropriate checks and balances that prevent potential conflicts of interest.

General KADISH. This is a direct consequence of a deliberate effort to outsource traditionally government tasks over many years. Unless this policy is modified or changed in a significant way leadership in government will have little choice but to rely on contractors to fill these roles. We must either accept this as a way of doing business and impose the appropriate rules and regulations on the contractors or define in detail what is inherently a government role and hire back government employees to perform them.

34. Senator AKAKA. Secretary England, Secretary Krieg, Admiral Giambastiani, and General Kadish, will this issue be addressed in the acquisition reviews?

Mr. ENGLAND. The substantial acquisition workforce reductions of the last decade have presented the Department with significant manpower challenges. One means of mitigating these challenges is selectively hiring contractor support with necessary skills. While those contractors have substantive duties, they must not be assigned to inherently governmental functions, either in the Federal workplace or on the battlefield. We believe it is important to grow the capabilities of our government acquisition workforce strategically so we have the skills necessary to satisfy current and future acquisition challenges. Reducing the risks that you have highlighted will be addressed as the Department develops that strategy.

Mr. KRIEG. As Deputy Secretary England responded, the substantial acquisition workforce reductions of the last decade have presented the Department with significant manpower challenges. One means of mitigating these challenges is selectively hiring contractor support with necessary skills. While those contractors have substantive duties, they must not be assigned to inherently governmental functions, either in the Federal workplace or on the battlefield. We believe it is important to grow the capabilities of our government acquisition workforce strategically so we have the skills necessary to satisfy current and future acquisition challenges. Reducing the risks that you have highlighted will be addressed as we develop that strategy.

Admiral GIAMBASTIANI. The Department recognizes the importance of developing the capabilities of our government acquisition personnel following the substantial reductions in the defense acquisition workforce over the last decade. Secretary England and Secretary Krieg are developing a strategy to grow and nurture the skills necessary in our acquisition workforce. I support their efforts.

General KADISH. Yes.

ACQUISITION OF MAJOR WEAPONS SYSTEMS

35. Senator AKAKA. Secretary England, Secretary Krieg, Admiral Giambastiani, and General Kadish, the Comptroller General attributes the problems we are having with the acquisition of major weapon systems to unstable funding, fluctuating requirements, and immature technologies. Here is how the Comptroller General ex-

plained the problem at a hearing of the Readiness and Management Support Subcommittee earlier this year:

“Problems occur because the Department of Defense’s weapon programs do not capture early on the requisite knowledge that is needed to efficiently and effectively manage program risks. For example, programs move forward with unrealistic program cost and schedule estimates, lack clearly defined and stable requirements, use immature technologies in launching product development, and fail to solidify design and manufacturing processes at appropriate junctures in development.”

Do you agree with GAO’s assessment of this issue, and if so, what do you think we should do to address the problem?

Mr. ENGLAND and Mr. KRIEG. The Comptroller General identified issues that certainly contribute to program instability, and, consequently, increased costs and extended cycle times. We are familiar with these issues and have implemented policies that require mature technology, full funding, and approved requirements before a program can be initiated. More specifically, technology maturity must be formally and independently assessed and reported; program funding must be supported by an independent estimate; and, requirements must be formally endorsed by the Joint Staff. These policies are designed to resolve these issues and I plan to ensure they are enforced.

Admiral GIAMBASTIANI. The Comptroller General’s assessment is, by and large, fair and accurate in describing acquisition programs which have failed to meet cost, schedule, or performance. The Department has implemented policies that mitigate program risks and I work closely with Secretary Krieg to execute these policies. Specifically, the JROC evaluates capability needs and validates requirements to ensure that programs have clearly defined and stable requirements and, as the co-chair of the Defense Acquisition Board with Secretary Krieg, I have the opportunity to review technology maturity and assess program funding and schedules prior to program initiation and to revisit requirements and acquisition strategy where acquisition programs face unexpected or insurmountable challenges which require senior leadership engagement to resolve.

General KADISH. We consulted with the GAO during the course of our deliberations and shared perspectives on the data used by Congress, the Department, and the Government Accountability Office to determine the success or failure of major weapons systems. We determined that there are great discrepancies in how each of us determines the status of these programs and we agreed that a consistent method is necessary to determine the status of these programs. The Department does not have a single consistent, sufficient set of metrics applicable across programs to manage acquisition or measure success. Conflicting criteria in performance evaluations contributes to confusion about program performance in the community. We should develop a predictable, transparent set of metrics to measure performance by the entire community.

36. Senator AKAKA. Secretary England, Secretary Krieg, Admiral Giambastiani, and General Kadish, will this issue be addressed in the acquisition reviews?

Mr. ENGLAND and Mr. KRIEG. This issue is being addressed in the context of the ongoing acquisition reviews.

Admiral GIAMBASTIANI. Yes.

General KADISH. The Panel determined that consistent metrics will provide greater transparency and accountability.

[Whereupon, at 11:54 a.m., the committee adjourned.]

