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ADMINISTRATION PERSPECTIVES ON MANAGING THE DEFENSE ACQUISITION SYSTEM AND THE DEFENSE ACQUISITION WORKFORCE

HEARING

BEFORE THE

PANEL ON DEFENSE ACQUISITION REFORM

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

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PANEL ON DEFENSE ACQUISITION REFORM

ROBERT ANDREWS, New Jersey, *Chairman*

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K. MICHAEL CONAWAY, Texas
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ADMINISTRATION PERSPECTIVES ON MANAGING THE DEFENSE ACQUISITION SYSTEM AND THE DEFENSE ACQUISITION WORKFORCE

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
DEFENSE ACQUISITION REFORM PANEL,
Washington, DC, Thursday, March 11, 2010.

The panel met, pursuant to call, at 3:02 p.m., in room 2261, Rayburn House Office Building, Hon. Robert Andrews (chairman of the panel) presiding.

OPENING STATEMENT OF HON. JIM COOPER, A REPRESENTATIVE FROM TENNESSEE, PANEL ON DEFENSE ACQUISITION REFORM

Mr. COOPER. [Presiding.] The hearing will come to order.

Welcome to the 13th meeting of the Defense Acquisition Reform Panel.

No, I am not Rob Andrews, nor do I pretend to be. I am certainly not from New Jersey. But Rob is unavoidably detained for a few moments, so we will kick off the hearing. And I would like to read his opening statement on his behalf.

Today the panel approaches the end of its work. Last week we issued the panel's interim findings and recommendations, and today we hear from the Administration on their acquisition reform priorities and their thoughts about the panel's work.

Having received this feedback, as well as feedback from our previous witnesses and other experts, we intend to deliver a final report to Chairman Skelton and Ranking Member McKeon at the end of next week. At that point, the panel's official mandate will expire. However, the panel's recommendations will serve as the basis of legislation that will be considered in the House this year, and we expect, enacted into law.

Today's hearing marks the panel's 13th hearing since we were appointed by Chairman Skelton and then-Ranking Member John McHugh in March of last year. In these hearings, the panel has found that, while the nature of defense acquisition has substantially changed since the end of the Cold War, the defense acquisition system has not kept pace.

The system remains structured primarily for the acquisition of weapon systems at a time when services represent a much larger share of the Department's acquisitions. And the system is particularly poorly designed for the acquisition of information technology, even though we are now in the Information Age.

Even in the acquisition of weapon systems, the Department's historical strength, the system continues to generate development

timeframes for the major systems measured in decades—an approach which has resulted in unacceptable cost growth, negative effects on industry and, in too many cases, a failure to meet warfighter needs.

The panel has found that there is little commonality across defense acquisition systems. The acquisition of weapon systems, the acquisition of commercial goods and commodities, the acquisition of services, and the acquisition of information technology have very diverse features and challenges.

In a few areas, however, the panel has found common issues. Across all categories of acquisition, significant improvements can be made in the following: managing the acquisition system; improving the requirements process; developing and incentivizing the highest quality acquisition workforce; reforming financial management; and getting the best from the industrial base.

The panel began with the question of how well the defense acquisition system is doing in delivering value to the warfighter and the taxpayer. For most categories of acquisition, only anecdotal information exists about instances where the system either performed well, or poorly. Even where real performance metrics currently exist, they do not fully address the question.

The panel continues to believe that real metrics are needed. The panel has also heard that challenges with the requirements process are a major factor in poor acquisition outcomes. The requirements process for the acquisition of services is almost entirely ad hoc. The process for developing requirements for the acquisition of weapon systems is overly cumbersome, lacking in expertise and capacity, and subject to requirements creep.

There is no doubt that the Department needs an acquisition workforce that is as capable as its advanced weapon systems. To achieve this, the Department requires flexibility to efficiently hire qualified new employees, and to manage its workforce in a manner that promotes superior performance.

The Department must develop new regulations for the civilian workforce which include fair, credible, and transparent methods for hiring and assigning personnel, and for appraising and rewarding employee performance.

Also underlying the success of the defense acquisition system is the Department's financial management system. The panel is concerned that the inability to provide accurate and timely financial information prevents the Department of Defense (DOD) from adequately managing its acquisition programs and from implementing true acquisition reform.

Finally, the panel has heard that the Department can enhance competition and gain access to more innovative technology by taking measures to utilize more of the industrial base, especially small and mid-tier businesses. And in managing that industrial base, that the Department is best served when it deals with responsible contractors with strong business systems.

We look forward to hearing from today's witnesses about these topics, to get their expert views on how these problems can be solved.

[The prepared statement of Mr. Andrews can be found in the Appendix on page 39.]

Mr. COOPER. And I will now turn to my friend, Congressman Mike Conaway of Texas, for his opening remarks.

STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE FROM TEXAS, RANKING MEMBER, PANEL ON DEFENSE ACQUISITION REFORM

Mr. CONAWAY. Thank you, Mr. Chairman.

Ladies and gentlemen, thank you for all of you being here today. I have a short statement, so we can spend most of our time listening to what you have got to say about it.

First I want to thank, in absentia, Chairman Andrews for his leadership, and the other members of this panel for their commitment to dealing with these important issues. We have had many early morning meetings and hearings on the subjects ranging from services and Information Technology (IT) contracting to auditing, and we have learned a lot.

To our witnesses, thank you for being here. Our panel has been very fortunate to have some great witnesses in the past. Some of you are repeat offenders, and we appreciate having you with us today. We understand and appreciate how busy you are. The fact that you have made time to be with us today is our privilege, and we appreciate that.

I would also like to thank Mr. Fisher from the Business Transformation Agency (BTA) for being here. The BTA has a critical role, in my view, in what we are discussing today.

And having said that, we realize that there is an awful lot of hard work to be done across the system. And I reiterate what the chairman has said, that we want to work with the Department to get this right. We are not adversaries. We are all in it for the exact same reason, and that is to get the best value for the taxpayer and get the warfighters what they need at the time and when they need it.

So, we appreciate your feedback, and we look forward to modifying the report as we understand the things that you have got to say to us about that.

So, with that, Mr. Chairman, I yield back.

[The prepared statement of Mr. Conaway can be found in the Appendix on page 42.]

Mr. COOPER. Thank you, Mike.

Our witnesses today are unusually distinguished—so distinguished, they need no introduction, so they will not receive one. [Laughter.]

We have with us the Honorable Ashton B. Carter, the Under Secretary of Defense for Acquisition, Technology and Logistics; the Honorable Robert F. Hale, the Under Secretary of Defense, the Comptroller; Ms. Elizabeth A. McGrath—I assume you are honorable, too—acting Deputy Chief Management Officer; Mr. Shay Assad, acting Deputy Under Secretary of Defense for Acquisition and Technology; and Mr. Fisher, as Mr. Conaway mentioned already, from the Office of——

Mr. CONAWAY. Business Transformation Agency.

Mr. COOPER [continuing]. Business Transformation. Thank you.

Mr. Carter, you are on.

STATEMENT OF HON. ASHTON B. CARTER, UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY AND LOGISTICS, U.S. DEPARTMENT OF DEFENSE

Secretary CARTER. Thank you. I am grateful for the opportunity to be in front of you. And I am especially grateful to all of you who take an interest in the performance of the acquisition system. It is not what it ought to be, and the taxpayer and the warfighter deserve better. It is something we are trying to work on in the Department of Defense.

Secretary Gates has been very involved and is outspoken about it—President Obama, also. It is not always that a President of the United States takes an interest in the accomplishment of the job that I am in, and President Obama does.

And then, of course, both houses of Congress last year unanimously—both parties—in the Weapon Systems Acquisition Reform Act, which this body had a lot to do with.

I am reminded of your introduction. I have heard the opposite version of that, Congressman Cooper, which is, I once heard Brent Scowcroft introducing Henry Kissinger. And he said, "Now, everyone would say that Henry Kissinger requires no introduction. But Henry Kissinger requires an introduction." [Laughter.]

So, we are the opposite.

I am glad to be here with my colleagues. I think that you have had the opportunity to introduce them all. I just wanted to say that Shay Assad works in my office and is really a superb contributor to the performance of the acquisition system. I am glad to be here with my colleague, Bob Hale, the Comptroller. They say the Comptroller's credo is, "We are not happy till you are not happy." [Laughter.]

And that is the way it feels. That is the way it feels.

I am not going to try to read—I prepared a lengthy statement containing our thinking about the many topics on which the panel is focusing. And I do not intend to read that. I thought I would just touch on a few wave tops, and then we can have a discussion.

The first thing I wanted to say—and Congressman Hunter and I have talked about this previously—is, even though a lot of our focus tends to be on the big ticket items and the multi-decade programs, in this particular era, an important part of the acquisition, technology and logistics job has to do with being responsive to the wars we are in. And that is new.

That is something predecessors of mine back in the Cold War when we were preparing to fight, but actually not—but not fighting. So, it was a different kind of job, and I try to be attentive to that.

There is, first of all, the need to be rapid and responsive in acquisition to support the warfighter in Iraq, Afghanistan, or in the war on terror around the world. We now go to war on at least a one-to-one basis with a contractor for every soldier. And the management of those contractors is a responsibility that we have. And that is both a lot of money and a lot of responsibility and accountability, and that is important also.

And a third is logistics, which sounds boring to many people. It is the heart of what has to happen now in Afghanistan, because we cannot have success until we are in there. And we cannot get in

there until we get set. And it is about the most austere logistics environment you can possibly imagine, and so everything is a struggle to get in. And so, that is a big responsibility.

And then last—and I will be speaking with some of you separately next week about this—the Secretary asked me and General Paxton, the Director of Operations for the Joint Staff, to make a special effort over these critical months at the counter-improvised explosive device (IED) problem in Afghanistan, because the IEDs not only are a threat to life and limb, but if we cannot go outside the fence, then we cannot do counterinsurgency. So, it frustrates the mission if you cannot leave your base.

And IEDs dispirit our people and the Afghan people and our coalition partners, as well. So, for all those reasons—I know Congressman Hunter has been concerned about this—IEDs are a big deal.

And I just wanted to open on that note. I know that is not the focus of the hearing, but it has got to be something that is always on my mind.

I wanted to say something about the performance of the acquisition system and acquisition reform in general, and then touch on the three key insights in the draft report that you have, which I have read, which are, hey, it is not just about weapon systems. It is services, too, which is a big idea, and a very important one, and one that we are listening to and have under-attended to. So, that is very big.

A second one is IT and the management of IT systems as against the management of weapons systems. And the last is the workforce. Those are, it seems to me, three things that I think you have hit on that are critical, and perhaps have not received the amount of attention they should have in the past.

Backing up to the acquisition system in general, Secretary Gates always says about acquisition reform—and I think this is absolutely right—there is no silver bullet. We do not make one mistake over and over again. We make lots of different kinds of mistakes, and there is no one single fix to it.

I have been associated with acquisition reform in one wave after another throughout my career. And we have changed the system from time to time. We still are, including some ideas that you had last year.

But at the end of the day, none of that is going to make any difference, if we do not have discipline and good people. And discipline I will say more about. Good people is something you focused on as a panel.

A good way to divide acquisition reform in your mind is into the acquisition reform at the beginning of programs, in the middle of programs and at the end of programs.

The beginning of programs, you know what the principles are, and you wrote some of them into the Weapon Systems Acquisition Reform Act last year. Do not kid yourself at the beginning of a program. Do not buy in cheap. Do an independent cost estimate. Be sure you know what you are getting into.

Understand what you are doing in the requirements process. Set them intelligently. Do not change them willy-nilly, and so forth.

All—and particularly the independent cost estimate aspect—are things that we have implemented, and are implementing, in the Department.

As you go into the middle of a program, this is a matter of excellence in execution. And we are taking your Performance Assessment and Root Cause Analysis (PARCA) idea, which was in your previous report, and implementing that as well. That was essentially not an administrative thing or a bureaucratic thing. It was the suggestion that we have the capacity to monitor our programs, so that we detect early enough that something is off the rails, that we have the opportunity managerially to address it.

And the Nunn-McCurdy Act—which is in existence, has been in existence for a long time—is a very healthy thing. It terrifies everybody, and deterrence is a good thing. But the reality is that the Nunn-McCurdy bell rings too late, and it frequently is a false alarm. And so, it is not an ideal mechanism.

And PARCA gives us—was an opportunity to give us—a tool and a method which we used to have, and had fallen into destitution, and we are reviving, to monitor the progress of programs in their mid-life, and recognize when things did not look right. And I think that was a great insight on your part, and one that we are implementing.

Another thing we need to do in the mid-life of programs is get a better business deal. You were referring to this early, Congressman. And I am not satisfied that we have gotten good business deals.

I review contracts, and so forth, that we have. We need to get a better business deal.

The end of the program—not many people write about acquisition reform at the end of the program, at the end of program lives. But that is something that Secretary Gates has paid a lot of attention to, namely, having the discipline to stop doing things when we no longer need them, or have enough of them. That is always a difficult thing to do.

He took a number of steps last year to cancel programs that either were not performing, or that we had enough of, or for which the need had passed in history, and he is doing more of that this year. And that is painful, but that is a necessary kind of acquisition reform, as well.

With respect to services, I would just say that I look forward to your insights in that area. That is more than half the dough. And so, it is important that we pay attention to how we spend that half of the money, and not just the half of the money that is in the traditional programs of record.

So, I am grateful that you are focusing on that. And I would like to focus on that with you.

Ditto, information technology. We are a little further along in that in the sense that we became aware of the need to manage IT systems and acquisitions in a different way from ordinary weapon systems acquisitions a few years ago. But we are still crawling, not walking or running in that field. And we are trying to get better.

Workforce—I cannot say enough about that. And Mr. Assad, among many other things he does, is managing our workforce improvement effort. But it is not a quantity thing, it is a quality

thing. We are, in our civilian acquisition corps, going to increase the numbers by 20,000—half by insourcing, half by hiring. Obviously, the numbers do not matter nearly as much as the quality of the people.

We are assisted by the state of the economy in our recruiting in terms of quality. But we have tried to look carefully at the skill sets we need: there is pricing, there are contract officers, there are systems engineers, and so forth, and make sure that we improve the quality of our people, and not just the quantity.

And that is true in the uniformed services, as well. The uniformed services also, I think—and they would say this themselves—have under-attended to the acquisition cadre in all of the services. They are trying to change that, as well.

What is important is that, if you are a major or a colonel who has acquisition acumen, and that is your calling, that you be able to look up your personnel cone and see general officers who have your area of expertise. And that is a very important thing to do.

So, I applaud your focus on the workforce. And I look forward to discussing all of these matters with you, and I appreciate the opportunity to be with you.

[The prepared statement of Secretary Carter can be found in the Appendix on page 44.]

Mr. ANDREWS. [Presiding.] Secretary Carter, thank you.

I want to extend my apologies for being late for the hearing. Some other pressing business here in the Capitol. I want to thank my friend, Mr. Cooper, for filling in, and for agreeing to vacate the chair once I got here. I was a little worried. [Laughter.]

And I want to add my note of appreciation to the witnesses for your excellent preparation for today. We look forward to the dialogue, and I represent—or I acknowledge—Secretary Hale.

STATEMENT OF HON. ROBERT F. HALE, UNDER SECRETARY OF DEFENSE (COMPTROLLER), U.S. DEPARTMENT OF DEFENSE

Secretary HALE. Well, thank you. Mr. Chairman, members of the panel, thank you for the chance to be here, and thank you for the support you give to the men and women in the military. We could not succeed without you.

I am going to summarize my prepared statement briefly. I will focus on the issues you raised about improving financial information and audit readiness. There are some others I would be glad to discuss.

First I would like to point out what I believe are the strengths of defense financial management. Not too many people mention them, including my colleague here.

Drawing on 30 years of experience and numerous conversations with commanders, I think I can tell you that, generally, we are able to provide the resources and the financial support to meet our national security objectives. And that is our main mission. And while we need to make some improvements—and I will talk about one of them today in terms of audit readiness—we have got to take care not to achieve those improvements at the cost of meeting that fundamental mission.

DOD also has effective financial processes in some key areas—payment processes, our summary reconciliation with Treasury. And importantly, in my view, we have a sound process for funds control and distribution, one that has been reviewed and validated by external auditors. And this process, I think, provides reassurance to the Congress that we are spending the money as directed by law.

We have also made some progress toward achieving financial information improvement and audit readiness. Several DOD organizations have and are maintaining clean audit opinions, and several of them have. But frankly, major problems remain.

When I took over as the Chief Financial Officer a little more than a year ago, I quickly became convinced that we did not have a common goal or common priorities in the area of improving financial information and audit readiness. The services were doing kind of their own thing, and with widely varying degrees of commitment.

And worse yet, we were investing time and money improving financial information and seeking audit readiness for data we simply do not use to manage the Department of Defense.

The best example, in my view, is the valuation of military weapons. Over the past decade, the Department has devoted a lot of resources in an unsuccessful effort to identify auditable, historical costs of all our weapons and modifications. That information under current rules is required to achieve clean audit opinions.

Yet, in more than 30 years of working in defense policy and budget issues, I have never used the historical costs of defense weapons in analysis—replacement costs, yes, that frequently, but never historical costs. And I really do not know anyone else who has, either.

And to a lesser extent, that same indictment I think applies to much of the valuation information that we are required to audit on the balance sheet.

So, in my view, DOD needed a new approach. It needed a coordinated approach. It needed to improve financial information and audit readiness, and it needed an approach that focused on the information we actually use to manage.

Shortly after I was sworn in, I began consultations regarding a new approach. I outlined that in a memo issued in August of last year. And that new approach focuses on improving the quality, accuracy, and reliability of the information we actually use to manage.

Budgetary information is key there—we manage the Department based on budgets—and existence and completeness, which is audit term for verifying that we know how many assets we have and where they are. That is of great concern to the warfighter.

Now that we have a new approach, the next and by far most difficult step is implementation. We will offer a detailed implementation plan to Congress in a May report that was required in last year's law, the 2010 National Defense Authorization Act (NDAA). I am not prepared to provide details yet; we are still coordinating with the services, although getting close. But I can tell you what the plan covers.

It provides long-term milestones, and also interim milestones, so we can demonstrate progress. And it focuses, again, on the information that we actually use to manage the department.

It specifies a governance structure, with a panel that I chair, but also, regular interaction with our senior leaders. And it identifies specific resources, by service, by year—something we have not done in the past—to focus on financial improvement and audit readiness (FIAR).

The plan's concept has been approved by the Department's Chief Management Officer, Deputy Secretary Lynn. I briefed him a couple of times. And he will get a briefing—he is scheduled to get a briefing—on the details of the plan in about two weeks.

To keep the Congress up to date, we will provide a semiannual report on FIAR, as we call it—financial improvement and audit readiness—as required by the National Defense Authorization Act.

Now, while we have a plan, I am not naive enough to think formidable challenges do not remain. Our business environment does not always meet auditor standards. We tend to exchange information among a lot of services in ways that makes it, if not impossible, at least very difficult, to audit. Our systems are old, and they handle or exchange information in ways that do not pass audit standards.

And I might add, we are in the process of replacing almost all of those systems right now with enterprise resource planning systems. And while they offer substantial potential for improvement in financial management, they offer potential for disruption during the implementation period. And so, I think we need to watch those carefully, both in terms of managing the IT aspects and what they do to financial information while we are putting them into place.

And finally, DOD's enormous size and geographical distribution greatly complicates this task. We just cannot afford to hire an army of accountants, and too many people were spread around too much. Think of trying to do audits in Afghanistan or Iraq. It just would not work.

Despite these obstacles, the Department is committed to improving the information we used to manage and achieving audit readiness. I am personally committed to this effort as part of my overall commitment to providing financial services and budgetary information that we need to meet our national security objectives. And with your help and support, I intend to make progress.

That concludes my statement. And when Ms. McGrath has finished, I would be glad to entertain any questions.

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

Mr. ANDREWS. Thank you, Mr. Secretary.

Ms. McGrath, welcome. Congratulations. I understand that you have been nominated to be made permanent in your position. Is that correct?

STATEMENT OF ELIZABETH A. MCGRATH, ACTING DEPUTY CHIEF MANAGEMENT OFFICER, U.S. DEPARTMENT OF DEFENSE

Ms. MCGRATH. Yes, that is correct. Thank you.

Mr. ANDREWS. Does that require a Senate confirmation?

Ms. MCGRATH. Yes, it does.

Mr. ANDREWS. Well, if you figure out how the Senate works, will you let us know? [Laughter.]

Because we have some questions about that.

Welcome. We are glad to have you with us today.

Secretary HALE. On advice of counsel, Ms. McGrath, don't answer that.

Ms. MCGRATH. Don't answer it. [Laughter.]

I will take it for the record. I think that was a—thank you very much.

Mr. Chairman, members of the panel, thank you for the opportunity to testify before you today and discuss the Department's commitment to and progress in the use of performance management to help achieve our strategic goals.

Strategic performance management is about identifying what matters, measuring it, and then managing it to improve effectiveness, efficiency, and overall performance. A lot of your recommendations and what has been discussed already has touched upon the importance of those areas. So, certainly, performance management within the overall business space is something that we are both paying attention to and committed to.

The Department has always worked to improve the efficiency and effectiveness of all of its business operations, especially today. Our business directly supports our combat operations in Afghanistan and Iraq in increasingly intricate ways. We provide critical services to the men and women in uniform and their families at home to help ensure that our Nation is ready to respond to new threats in an increasingly complex operational environment.

Additionally, with increasing demands on the federal budget, and a greater demand for government transparency, and the overall pace of change in the business environment, execution of our business must become more agile and responsive, and provide enhanced financial stewardship for the American people.

A key component in achieving results is the execution of a meaningful and robust strategic performance management system. Having read your panel's interim findings and recommendations, the Department shares the panel's important view that performance measures will help us achieve the goals, not only in acquisition, but throughout the Department's business mission area.

We are committed to driving the use of the performance measures throughout the Department and, supported by the efforts of the Office of Management and Budget, to extend performance management improvements throughout the federal government.

In July 2009, the Department released a strategic management plan, created by the 2008 National Defense Authorization Act. It was the first step in the Department's—it was a first step for the Department to integrate goals and measures throughout the business mission area.

This strategy, which is aligned to the Quadrennial Defense Review (QDR), set the strategic direction across the Department's business lines, and outlined five cross-functional, enterprise-wide priorities: the first thing, supporting the overall volunteer force; the second, supporting contingency business operations; the third, reform DOD acquisition and support processes; the fourth, enhance

civilian workforce; and finally, but certainly not last, strengthen DOD financial management.

These priorities are cascaded into the performance budget of the Department, so they are not just stand-alone. They are tied to both the QDR and the overall DOD budget.

These priorities encompass the most pressing business challenges currently facing the Department, and they include specific outcomes, goals, measures, and key initiatives that are critical for success. They also served as the basis for the development of the Department's high priority performance goals, which were included in the 2011 Federal budget.

Acquisition, Technology, and Logistics (AT&L) goals and measures span the breadth of DOD acquisition, ranging from insourcing acquisition functions and the growth of the acquisition workforce, to both lowering cycle times and breaches for major defense acquisition programs. It also includes increasing the Department's use of renewable energy.

Your panel's goals for faster and more effective acquisition of information technology systems will also serve to help us achieve those performance goals as more modern, agile systems can certainly enable greater efficiency, transparency, and effectiveness.

In closing, I want to emphasize that the Department is committed to the continued use of active performance management to help achieve our strategic goals. I appreciate the work of this panel, and I look forward to your questions.

[The prepared statement of Ms. McGrath can be found in the Appendix on page 64.]

Mr. ANDREWS. Well, Ms. McGrath, thank you very much.

I also want to thank Mr. Assad and Mr. Fisher for being with us today.

Mr. Assad, welcome back to the panel. I think this is your third interaction with us, and you keep coming back. We are surprised. We are happy that you do.

Neither of these gentlemen is going to offer a statement today, but each is available as a resource for our questions. That is my understanding.

Thank you for the testimony.

I wanted to begin, Secretary Carter, with you. In your statement you agree, happily, with our conclusion that good metrics are needed to measure performance. And we have attempted to provide some guidance as to how we would generate those metrics, and who would generate them and how to use them.

Are there any suggestions you have for us as to where you think we could add to our work? Or are there metric identification ideas we have that you think are inappropriate?

In other words, how can we reach this common goal of generating fair, precise, and relevant metrics to measure performance?

Secretary CARTER. I think that, chairman, the ideas that you have, some of which are reflected in my statement, for monitoring the performance on services contracts is probably the area where we have given it the least thought and have the least in the way of tradecraft.

I gave some indications in the statement of where we are trying to improve our management of services. Basically, this is an over-

simplification, but the problems are different on two sides of the services fence. One side is the contracted logistics support, which tends to be fairly—in terms of the personnel involved—fairly straightforward. The other is the contracting for specialized services, engineering services.

In the former category, it is easier to measure contribution per dollar than it is in the latter category. We are trying to get better at measuring performance in the former category, and develop metrics in the latter category, which, however, recognize the inherently intangible nature of engineering talent, and so forth, that we depend on, that we have to contract for, because—this gets back to our acquisition workforce—we are not able to retain intramurally all of the skill sets that we need. We depend upon the external contractors for a lot of that.

There are in my statement a number of steps that we are taking to shape our acquisition of services programs, including severely curtailing the use of new time-and-materials contracts, limiting service contract periods of performance to three to five years, ensuring and requiring organizations dedicate sufficient resources to performance oversight, and demanding competition for task orders in definite delivery and in definite quantity contracts. So, these are a number of the steps that we are taking.

One other thing I will mention, Mr. Chairman, if I may, on the services side which is very important for contingency contracting, is the provision not just of contracting officers, but contracting officer representatives (COR). These are the people who do not write the contracts, but who ensure the contractor's delivery of the services promised on the contract. And that has been a big issue for us in contingency contracting.

And one of the innovations that has been made that will be very constructive in the last couple of years in the Department is the training of deploying units, so that they have embedded in them people who have the training to be CORs. That is not necessarily a full-time job, but it is needed unit by unit.

Mr. ANDREWS. I certainly think that our recent experience—some negative, some positive—would certainly fortify the wisdom of that idea.

Secretary Hale, the senior Republican on the panel, my friend, Mr. Conaway, has championed for a long time the need for comprehensive financial audits of the Department. And I completely subscribe to his idea. I think it is a credible argument that we could save in the neighborhood of $130 billion over the next five years, if we made some pretty modest improvements.

Do you think—and honestly, there is not pride of authorship here. That is why our report is called an interim report.

Do you have any suggestions as to how we could improve our approach to the financial audits that we require?

Secretary HALE. Yes. As I indicated in my testimony and my oral statement, I think we need to focus on improving information. That is the key. The audit is a verification tool. The benefits come from improving the information.

We ought to do it in the areas where we actually use the information to manage. And again, the parts that we have picked that fit that criteria are budgetary information, because that is what we

use to manage the Department of Defense, and also this existence and completeness, knowing where our assets are and how many we have of them.

If we focus there, I think we have got a business case for going forward in terms of spending money to improve the information.

Mr. ANDREWS. Isn't the way that you gain information through doing the audits? Isn't that one of the purposes of having the audits?

Secretary HALE. Well, they tell you where you have problems. That is true. But, I mean, the information comes in through the systems in the field.

I mean, we certainly learn more about them by doing it. And indeed, we have a process that, gradually, you move toward a surging of audit readiness. And there is a series of reviews that go on, as actually required by the National Defense Authorization Act of some years ago, which stopped us from just going to audits right away, because they felt we were wasting money, but rather, required a series of reviews. And those are very helpful in telling us where the problems are.

But we need to focus them on the information we use to manage. And unfortunately, some of what we have to audit is information we simply do not use to manage.

Mr. ANDREWS. Understood.

Ms. McGrath, on page three of your statement, you say it is the Department's view that, "when measures are appropriate and well defined, progress is made, and people can be held accountable for performance."

You go on to say, the Department shares our panel's "important view that performance measures will help DOD achieve its goals in not only the acquisition arena, but throughout the Department's Business Mission Area. We are committed to driving the use of performance measures throughout the Department" and support the efforts by the Office of Management and Budget (OMB) to extend performance management and improvement throughout the federal government.

We have placed PARCA in an important role in that evaluation in our report.

Do you think that is the right decision? Do you think it belongs somewhere else? What would you recommend to us?

Ms. MCGRATH. With regard to the—I think the important piece is the collection of the information. Are we collecting the right measures for the right things? And each of these acquisition opportunities, be it services, information technology, or major defense acquisition programs, have different performance measures that have meaning for each of the different acquisition types.

To me, getting those right is the most important thing, and the transparency and visibility of the information to those who make the decisions. I think that we have a structure within the Department right now, where in the Office of the Deputy Chief Management Officer, we collect the information from across the business lines to enable the transparency.

So, be it in PARCA, or be it in another organization——

Mr. ANDREWS. So, is it correct—I think I hear you saying that the quality of what is collected is more important than the collector, than who collects it.

Ms. MCGRATH. Yes.

Mr. ANDREWS. Okay. Thank you.

I want to yield to my friend, Mr. Conaway.

Mr. CONAWAY. Mr. Chairman, with the indulgence of the chairman, I would like to yield to my colleague from California.

Mr. ANDREWS. Of course.

Mr. Hunter is recognized.

Mr. HUNTER. Thank the ranking member from Texas.

And Mr. Chairman, thank you for your indulgence.

Dr. Carter, good to see you again. I look forward to next week's talk about IEDs and intelligence, surveillance, and reconnaissance (ISR), and all of that fun stuff.

On page 10 of your testimony, you were talking about the industrial base, and how you want to help the industrial base. So, my question more specifically is about the M–16 and the M–4, and the ability of the Secretary of Defense to expand the small arms industrial base to more than the three names that are on it.

There are 3 names right now that are included in the small arms industrial base that, if it turns out that we need a new M–4, M–16, or a new carbine for the military, right now, if as is, it would be bid out to these three players, one of which makes the .50-cal machine gun, the "Ma Deuce." They are not going to be competing in it.

One is a foreign-owned company. Hopefully, they will not get to compete in it. And one is an American company.

The Nation's largest small arms manufacturer is not even on this list. Secretary Gates, though, has the ability to expand the list.

And I find it strange. I was talking to General Phillips yesterday. This is the only place that we can find where you actually list companies that are allowed to compete for something, where you say we are going to choose one of these companies out of four or five, and we are going to let that one company compete—I guess with itself is what it is going to look like now, if it is not expanded upon—if we do have to have a new carbine.

So, that is my question. If you are going to encourage Secretary Gates, or if the Army has encouraged you, to allow more American industry into this competition, if we do have to have a bid-off from multiple American small arms companies. That is my question.

Secretary CARTER. Very good.

I do not have a complete answer for you. That is one of the areas of the industrial base that we are studying, and where I have the same concern you do. And I guess you have discussed it with General Bill Phillips. Also, that we have a set of procedures that goes back some decades, if not centuries.

So, that is one of the sectors, along with some others. Our stealth aircraft sector, space, solid rocket motors, protected communications, where we have in their various ways an industrial base concern.

And I will promise you, Congressman, when we are done reviewing that, I will discuss it with you. I have the same concerns you

do, I just do not have the answer for you right now on that aspect of the industrial base.

One of the problems that we have—if I could just raise a general question, or a general issue occasioned by your question is—I have found that we do not have very good information on the industrial base that supports us. And that is another kind of—you are talking about information about the financial system, PARCA, which is basically, what is the health of our programs on an ongoing basis. Another one is, we do not have, believe it or not, very good information about our industrial base. And that is another thing that we are looking to improve.

So, I will get back to you on this. I know exactly the issue you are talking about. I just do not have an answer to it right now.

[The information referred to can be found in the Appendix on page 81.]

Mr. HUNTER. Thank you, Dr. Carter, the gentleman from Texas and Mr. Chairman for your indulgence. Appreciate it.

Mr. ANDREWS. Thank you very much, Mr. Hunter.

The chair recognizes the gentleman from Tennessee, the former chairman of the panel, Mr. Cooper. [Laughter.]

Mr. COOPER. There was no coup attempt. There is a Cooper attempt going on right now.

Any of the panelists are welcome to answer the following questions.

Was there anything in the interim report that we left out that we should have included? Errors of omission are harder to find sometimes than errors of commission. But I am about to ask you, what should we have left out that we, in fact, included?

Secretary HALE. Well, I will start with two thoughts for you. I do not know if it is commission or omission, but it is a theme I have struck before, that I would like to see you, or just to focus on, audit efforts on the information we actually use. I think I have probably hit that point to death, so I do not need to go over it again.

You brought up a point that I think we need to think about, that I would urge you to understand how we use, and that is financial thresholds, at which point we review the financial situation in an acquisition project. We do set thresholds for both procurement and research, development, test, and evaluation (RDT&E).

They are not slavish thresholds. If you do not meet them, in terms of a certain percentage of your money obligated, it does not mean you lose that money. You probably will get a phone call and asked what is going on in your program. And you may be asked to provide a briefing or other information.

We do find some programs go more slowly than others. Some need additional funds, and we do try to move them around to get the most out of the national security dollars that you make available to us.

But I would urge you to acknowledge, these are not automatic at all. They are triggers for reviews. And those are two points I would keep in mind.

Mr. COOPER. Any other takers? Ash?

Secretary CARTER. I have a concern about the PARCA passages in the draft report, which is just this, and only this, but it is impor-

tant. I share the objective entirely—and you called it to our attention last year, and we are. I could not agree more, and it is a good opportunity for us to improve our ability to track programs on a program-by-program basis.

That said, I would hope we can avoid a situation where that develops into not a management tool, but another hurdle for the system. I know that is not your intent, or anybody's intent. But I am always amazed at how many hurdles we already have in the system, and how little good they seem to do. And it can create a system where just getting through the hurdles seems like victory all by itself for all too many program managers.

And so, it is supposed to be a system that has content and purpose, and not just a system of milestones. So, if you can help us to avoid that in connection with PARCA, I would be grateful.

Mr. COOPER. Are there any acquisition regulations you would like to see repealed outright? It goes larding on, report after report, recommendation, statute, rule?

Secretary CARTER. May I ask Mr. Assad if he has an answer to that? Shay, do you?

Mr. ASSAD. No, I do not believe we are looking for repeal. We do share your view with regard to the tax withholding. We share your view on that. We believe that that would be an effective piece of legislation, to repeal that. That is more of a hindrance than it is anything else.

But beyond that, I would not recommend the repeal of any existing legislation.

Secretary HALE. Can I add one more thought? And that is—and I will ask Shay Assad's help here—I believe there is a passage toward the end indicating that the Defense Contract Audit Agency (DCAA) certifies business systems. I think the fact is, they recommend to our contracting officers that certification. I think that is right.

Mr. ASSAD. Yes, sir.

Secretary HALE. And I want to fix that.

Mr. ASSAD. And it is important, because the distinction is that the auditor is providing us an audit opinion. And the contracting officer is ultimately held responsible for deeming whether that system is adequate or not adequate. So, we do want to keep that separation.

And we absolutely want independent audit opinions. But we do not want it to go the point where it is deeming a system is deficient or not. We want their findings. And we want the contracting officer, in concert with the auditor, to make a determination of do they believe it is deficient or not.

Mr. COOPER. I have a feeling my time is expiring.

Mr. ANDREWS. If I may before—I am sorry.

Ms. McGrath, did you want to comment?

Ms. MCGRATH. Since we have the opportunity to add.

Mr. ANDREWS. Please do.

Ms. MCGRATH. Specifically on the business systems, IT business systems, there is not a specific recommendation focused on business process reengineering of those areas in the National Defense Authorization Act. Section 1072 specifically does require a look at

the business process reengineering, I think, from a holistic acquisition approach.

I mean, there are many lessons learned out in industry, that if you do not perform the adequate business process reengineering up front, very much akin to the requirements development and tied to, have you locked the requirements, do you have the right ones. If you do not understand the process by which you are going to execute, and then the system it will serve, then you have missed the opportunity.

So, if there is a way to address that within the recommendations, I think that would be beneficial, specifically from a business system perspective.

Thank you.

Mr. ANDREWS. Jim, I certainly do not want to rush you. If you have other questions, you are welcome to ask them.

I did want to ask Secretary Carter, I agree completely with your point about not creating another hurdle for PARCA, but creating a good management tool. We would welcome your specific suggestions as to how we accomplish that as the report moves forward,

Because, clearly, we do not want this to be another box people have to check off that is another annoyance. We want it to actually be a productivity tool. So, we would welcome your point.

The chair recognizes Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman.

Again, thanks, everybody, for being here.

Secretary Hale, when you say something three or four times, obviously, you get my attention. The information you use to manage your business—I hope that is not code for, we are going to continue to use that as our mantra to not get to a point where we can audit the financial statements, because there is not a Chief Executive Officer (CEO) in America who would not love to have that standard versus the standard of a qualified opinion.

So, I know it is hard. Probably the hardest effort anywhere in financial kingdoms is yours, because of the breadth of what DOD does and spends. And you and I will have some conversations, as you mentioned earlier today, and I look forward to that.

I do not know if you had a comment on that. But I hope that is not something that we will use to say, you know, it doesn't matter what a historical cost of an M–1 tank is—and I agree. But nevertheless, without an unqualified opinion, there will be that lingering doubt in the taxpayer's mind that you do not have it right yet.

And so, it is important to get ultimately to the unqualified opinion.

Secretary HALE. Well, I think what we need to do is look at whether or not it makes sense to spend what could be hundreds of millions—maybe billions—to get that kind of information we do not use. Perhaps we need to revise the audit standards. And the Chief Financial Officer (CFO) Council is looking at that issue. I don't know that they have concluded that yet, but I believe it is something we need to look at.

I do not think you would want me to spend enormous sums to obtain information that is useful in the private sector, but, frankly, is not used in the public sector and the Department of Defense.

Mr. CONAWAY. Well, again, not to be argumentative, the CEOs of most of those companies who fought their way through section 404 of the Sarbanes-Oxley Act and spent a lot of money in relation to what they do to get their internal controls audited, and all the other kind of your systems done to support ongoing information, and the ongoing efforts.

But again, I think we both want to get to the same point. But again, without that final unqualified opinion at some point, I think the code, the law says now 2017, which I think is too far down the road, but nevertheless.

Mr. Fisher is here from the Business Transformation Agency. As I understand that agency, they have responsibility for business transformation across the Department of Defense, but precious little authority to do anything, other than just the persuasion, I guess.

Mr. Fisher, we continue to spend a lot of money on IT acquisition for new business systems. Maybe Ms. McGrath, you want to weigh on this one, as well.

Can you give us a sense of how the Department is doing as they move these business system investments? Are they moving—does it move the ball toward an unqualified audit, in your view?

Mr. FISHER. It can. It should. It is questionable right now whether it is.

Our track record is that we have been on the Government Accountability Office (GAO) high-risk list now for business system modernization for quite some time. On the enterprise resource planning systems that we have been implementing throughout the decade, we have spent almost $9 billion on those systems over the last 10 years.

Some of them are in production. Some of them are still in development. So, our acquisition and delivery of those systems has been a real problem.

If we can overcome those inherent challenges—and I can articulate some of them that we have observed over time, and that my agency is certainly trying to work with the components on, with military departments. We will, clearly, never achieve a clean audit opinion unless we can get these systems implemented.

Just implementing the systems will not get us a clean audit opinion. But our current systems environment is prohibitive, in my opinion, to ever getting there, because it is so fragmented, so disaggregated. And we have so much data exchange in a non-standard way today, that I do not believe we would ever get there.

If we can overcome those challenges with these new system implementations, then that is certainly a path to getting to an audit readiness standpoint.

Our problems are largely—we look at these as technology projects. As somebody once told me, these are not technology projects, they are sociology projects. They are about people. This is change to people, and people are highly resistant to change.

We are organized today through our many, many stovepipe functional organizations, who have spent decades figuring out how to make their piece of the pie work really well. Well, the systems that we are implementing, and the kinds of end-to-end processes that we need to execute to ultimately achieve an audit opinion, or good

information, or however you want to describe the positive effect, rely on us breaking down those silos. We need to operate in this end-to-end fashion.

And we have a clash between the way we have always done things and the way these systems have always been designed to be used. And that clash hits in these implementation programs. When we talk about acquisition with our acquisition program managers (PMs), are faced with that clash.

My optimism turns on, frankly, some legislation that has come in the last couple of years. The Chief Management Officer (CMO) legislation I think is critical to this whole thing. We finally now have an organizational construct within the military departments, and with Ms. McGrath's office at the Office of the Secretary of Defense (OSD), that spans the individual functions.

We need to do that, if we are going to be able to implement these systems and execute business in an efficient and effective way. We cannot continue to optimize locally, if we expect to optimize the end-to-end, which is really the capability that we are delivering.

So, our ability to effectively use those CMO, Chief Management Officer positions, again, is one of the things that I am counting on to be able to drive some of this change, where we have the end-to-end cooperation.

The other is what Ms. McGrath also mentioned, the re-engineering element that came in the NDAA last year. Change, again, comes hard. People are used to doing things the way they do them, and we spend a lot of time with programs arguing about, no, we are not going to do it that way anymore; here is a better way. And those tend to be lengthy arguments.

Well, now it is the law that we not only need to have those arguments, we need to bias ourselves in the direction of change. And we in the Department now need to use that legislation as an ongoing lever when we engage with functional communities that are highly resistant, to say, I understand that is how you have always done it. You need to trust. You need to look at these opportunities to do things better holistically, and then move forward.

So, I think those are a couple of levers that we need to continue to push, if we are going to be able to achieve the outcomes you described.

Mr. CONAWAY. Okay. Thank you.

Ms. McGrath, you have some comments on that?

Ms. MCGRATH. I would just echo the importance of digging across functional enterprise look as we implement the enterprise resource planning (ERP). As you know, they are designed to be cross-functional. And as David pointed out, we are historically stovepipe-focused.

And so, this does, say, provide an opportunity for us to actually look longitudinally across the department. But it does also—it is a significant change management challenge.

And as we are pursuing the implementation for the ERPs, it is not just the program manager's responsibility, but it is the responsibility of the functional requirements, those who run and operate the business, to enable that cross-functional implementation.

So, I would echo, the ERPs are more difficult, because we are asking them to do not only more, but different things across an en-

tire enterprise, be it the military departments or the Defense Department.

Mr. CONAWAY. Well, thank you.

One of our panelists last time made an analogy to bull riding in a rodeo. That seems odd. But nevertheless, the scoring system there is the bull gets scored, and the rider gets scored. Can you—we have got an acquisition system, and then we have got folks who ride that system.

Should we have evaluations of both? Is there a reason to have in place an evaluation system that grades both the system itself, as well as how well we implement it, from an acquisitions standpoint?

Secretary CARTER. I think we grade the system more than we grade the programs. And one of the nice—the idea of PARCA is to grade the programs, rather than grade—in other words, you are grading them on their performance, their performance for real, like, are they delivering capability on budget, not their performance in the system.

Because, as I said, you can get through all the hoops, except you start over here with a tiger, and then it is a mouse that goes through the last hoop. And that is getting through the hoops, but it is not delivering the goods.

So, I think that the innovation represented by PARCA, and the essence of it is to operate at the program level, to give us the visibility into the health of programs, whether they are performing—not just in meeting milestones, and so forth, but performing in their essence.

And that, if I may say so, is the perspective I take on the information systems problem, as well. At the level below the discussion we just had, which is excellent, one has to look at the quality of our program management and who is actually running this thing.

It frequently happens, as Ms. McGrath said, that the components who are running it, they are subject matter experts. They are rarely experts in information technology management. And this is a kind of dog-bites-man story that repeats itself on and on and on in IT systems, where the people who are trying to—who are acquiring the IT system are essentially trying to automate the system they have, and are not adequately open to changing their patterns of behavior and response. And you just see it repeated over and over again.

That is why it is so important to have an ability to not just oversee, but to give best practices to people who will be doing it for the first time, because they do it kind of once a decade. And most of the time, they are worried about—their focus is on providing health care, let us say, not on health care IT.

Mr. CONAWAY. I am sure we will have another round, but thank you.

Mr. ANDREWS. Thank you.

The chair recognizes Mr. Ellsworth for five minutes.

Mr. ELLSWORTH. Thank you, Mr. Chairman.

Dr. Carter, I think it was in your opening statement, when you talked about something that I have a big interest in. It was talking about the proper ordering of equipment and storage, about ordering the right amounts. I know we have to be fair to our contractors,

but in my district alone, we just went through a long process of destroying VX gas that we stored for many years at Newport, Indiana. Just got rid of that.

I know that I am trying to help seek funding for the destruction of armament at Crane Naval Warfare Center in the millions of dollars.

And so, that was in your comments, right, in your opening statement?

Secretary CARTER. It was——

Mr. ELLSWORTH. And I was just——

Secretary CARTER [continuing]. In a different direction.

Mr. ELLSWORTH [continuing]. Just curious. And I have often heard stories, you know, talking to some warfighters who said they were either—this goes back to Vietnam, actually—but talking about dumping ammunition over the side of the boat, or just going out in the ocean and shooting it up, because, if we do not use it, we are going to lose it, or we are going to the supply line.

And can you explore a little bit how we are going to do that, or what your thoughts are on how we could get the right amount, so we are not seeking millions down the road? Or billions?

Secretary CARTER. Yes. I would just make clear, I was certainly not suggesting that we buy things that we do not need, or would not need, or would not need more of later.

I was specifically addressing—I think the passage you are referring to is in the contingency contracting world. It frequently happens that in the course of the war, that we can see an evolving requirement developing for a piece of equipment. We do not know exactly how many we will need.

Yet the acquisition system wants to not start until it knows exactly what the objective is—in our terms, the requirement.

In a war, since you cannot know exactly how many you are going to need, if you delay, you are depriving the warfighter of something they need. It is an unnatural act for the acquisition system to begin acquisition before the requirement is fully defined.

In normal times, that is a perfectly reasonable expectation to have. In wartime, it is not always. So, I am frustrated from time to time by our ability not to anticipate needs.

I will give you a great example, which is the mine resistant ambush protected all-terrain vehicle (MRAP ATV), which we began buying last summer. And we have now changed the requirement several times, because the troops get them, they like them. The threat changes, we need them. We are going to Afghanistan, not Iraq, which is mountainous, not flat, so you need the independent suspension of the MRAP ATV.

And lo and behold, the requirement goes up.

Well, if we had waited till last summer, till we were sure, finally, for once and for all how many, we still would not be producing them, which means they would not be falling into the hands of the troops.

So, sometimes when you are in war, you need to take a little leap, at least quantitatively. And it just turns out that we are not set up to do that. And I have to personally intervene in force. Secretary Hale helps out in that regard, because the funding system is not prepared to do that either.

And it just goes back to the acquisition system was designed to prepare for the war. When it comes to conducting war, we are cumbersome and have to work overtime to get the result that the taxpayer and the warfighter ought to want in Afghanistan.

Mr. ELLSWORTH. I would rather have too much than too little. But how much too much? I think if we can get better at estimating, obviously, that would be a great thing.

Secretary CARTER. Well, if I can say so, if we start ramping up and start producing, and then we get the requirement, then we will cut off the buy at the appropriate date. It is those critical months when you could have been producing something, and you were not, because you are thinking how many you are actually going to need. It is just those critical months.

And, you know, in Afghanistan, it is all a matter of months.

Mr. ELLSWORTH. Sure.

Mr. Hale, I talked to a gentleman last week back in Indiana. He was talking about his wife was in purchasing, and said she came home to the dinner table and said, "I had to spend up $150,000 today."

Does the report—kind of the spend it or lose it syndrome, which happens a lot, probably happens in these halls and in our offices, too—but does the report, in your opinion, address that? I know we have talked about some stuff, and the chairman and I have talked about that, you know, we can solve some of this with an incentive to actually save that money and not spend it up.

Secretary HALE. Well, you do bring it up. I mentioned the financial thresholds that we used to suggest when we should look at an acquisition project. I agree, it could create incentives. It could create the wrong incentives.

And incidentally, there are also a number of limits. I am not sure whether they apply to acquisition. They certainly do in the operation and maintenance area. We are not allowed to spend more than a certain amount in the last quarter. So, there are some limits.

But, you know, I think we have to depend on the good will and good intentions of our program managers to be careful in how they use this. And I think the great majority of them do that.

I mean, you could say that giving grades causes kids to cheat. And it probably does sometimes. But for the great majority, I do not think you want to stop giving grades because of that. What you want to do is find the occasional ones who cheat, and take the right steps.

I think our program managers are aware that they are going to have their financial programs looked at, and I think they should. But they will get a chance to say why. There may be good reasons why they are not able to obligate the money. And in that case, we will move ahead.

Mr. ELLSWORTH. That is all I have, Mr. Chairman. I yield back.

Mr. ANDREWS. Thank you very much.

The chair recognizes Mr. Coffman. We appreciate your contributions throughout this, but most recently on the foreign sales industrial base issue, which we try to take into account.

Mr. COFFMAN. Thank you, Mr. Chairman.

In the export restrictions, I am concerned about the industrial base. We have a declining industrial base that is becoming less and less competitive in terms of trying to maintain it for defense acquisition.

And so, one question I have is—and one issue that has been raised in the report—is taking a look at those export restrictions, and reviewing them and seeing if they are realistic, you know, in today's environment. Because if they can, in fact, be effectively relaxed, and that our industrial base then has more of a foreign market, then it will strengthen the industrial base and make it more competitive for our own acquisition.

And would any of you like to respond to that?

Secretary CARTER. I would, if I may.

That is an area that the Secretary of Defense feels very strongly about. He has expressed himself publicly in his view that our export control system is outdated. And he has asked for—with the Department of State and the Department of Commerce which also have responsibilities in this—a unified, what he calls "clean sheet of paper" approach.

That review is being done. It is being led by Secretary Flournoy, the Under Secretary for Policy. And I really think it is a clean sheet of paper. And I think they are going to be reporting out in a short while.

So, the Secretary absolutely shares your concern.

Mr. COFFMAN. Anybody else?

Let me raise another thing concerning our industrial base and the difficulty in maintaining a competitive environment. If we take—there are some areas that it seems that the Department of Defense has to consciously look out after in order to maintain the industrial base at all.

Shipbuilding is an example. We maintain six shipyards at this time, and their only customer is the Department of Defense.

And I think the question is, given the acquisition requirements of the United States Navy at this time, is it cost effective to maintain six shipyards? Or should we look at some sort of Base Realignment and Closure (BRAC)-like process to bring them down to a more reasonable level that would make it more cost effective—again, given our acquisition requirements?

Would anybody like to address that? And you can take the Fifth Amendment. It is a politically sensitive question.

Secretary CARTER. I will just say that I know that the Navy is constantly assessing the shipbuilding industrial base. I know it has been an interest of Secretary Mabus, naturally enough, trying to get more efficiency out of the base we have, and figuring out who is good at what.

It is not a free and open and competitive situation, so there is a requirement for more government intervention and management than there is in other aspects of the defense industrial base. So you are absolutely right.

Mr. COFFMAN. Anyone else?

Dr. Carter, I think you mentioned that we are now at a one-to-one ratio, I think, in Afghanistan. And I am not sure if we are at a one-to-one ratio in Iraq, as well, between U.S. military personnel and contract personnel.

Secretary CARTER. Slightly higher in Iraq.

Mr. COFFMAN. It is slightly higher in Iraq.

Are you taking into account personnel that are not necessarily involved in logistical support, but involved in maybe some kind of advisory support? Or contract security personnel, are you taking into account those?

Secretary CARTER. All sorts of functions.

Mr. COFFMAN. All those?

Secretary CARTER. All contract personnel.

Mr. COFFMAN. In your estimation, is that the right number? Or is that number too high in terms of contract support?

Secretary CARTER. The alternative to contractors would be to have the functions now performed by contractors, performed by uniformed personnel.

There are obviously some advantages to doing that in the sense that you have all government personnel. You have all personnel that you vet, you order, you discipline. The disadvantage is that all studies show that that is more expensive, and is a distraction from military functions for military people.

So, we are a long way from World War II, where all of the kitchen, and all of the laundry, and all that stuff was done by people in uniform. So, if we were going to reverse that course, we would need to deal with both the economic and the organizational consequences of that.

Mr. COFFMAN. Are there issues that we might reexamine in that context? I believe in Kuwait there was a situation with a higher-echelon vehicle maintenance that was done by private contract, if I recall, that had extraordinary problems. And that is something that has historically been done by U.S. military personnel.

Can you comment on that issue?

Secretary CARTER. Yes. I think the principal thing that we learned in Iraq, and are trying to learn the lessons of Iraq for Afghanistan, with respect to management of contractors, is having the expertise there to write the contracts so that they are fair to the taxpayer, and then monitor the contracts to make sure that they are implemented the way they are supposed to be.

It is different when you are back here at home, and you have all the contracting officers and all the contracting officer representatives you want. Over there, we cannot send people who are not uniformed people over there. So, we are chronically short of contracting officers and contracting officer representatives in theater, just the people who make the contracting system work, because they are needed there.

We are trying to do a lot more of it back here, do some of the contract officer work, particularly, back here for contracts there. But monitoring of contracts can only be done on the spot. If you are building a building, you are building a road, there needs to be somebody who goes out to the building of the road and makes sure it is done the way it should be.

So, we are chronically short of people. And I think that is the area where we have been most deficient, first in Iraq, now in Afghanistan.

Mr. COFFMAN. Thank you, Mr. Chairman. I yield back. I have an additional question, but I will wait for the second round.

Mr. ANDREWS. Okay, thank you.

I have two brief questions to kick off the second round.

Secretary Carter, my understanding is, in December the Secretary of Defense directed you and your colleagues to do a consolidation of array of information systems study for the major weapon systems. And I just want to know if you could bring us up to date on the implementation of that as part of the Resource Management Decision 700 series.

How are we? What are we up to? When can we expect to see some yield from that effort?

Secretary CARTER. If I can, I would like to get you a comprehensive answer. If I may, if I can take that one for the record and get back to you.

[The information referred to can be found in the Appendix on page 81.]

Mr. ANDREWS. Sure. No, we would be happy to do that.

Secretary CARTER. And Mr. Assad, if I might prevail upon you. We have made some recommendations in our report—our interim report—with respect to personnel, the human capital of the procurement organizations. We have made suggestions about quantity and training and incentives, and various other issues.

I will ask Mr. Cooper's question. Is there anything in there you would like to see us add, or delete, that you think would improve the quality of our recommendations?

Mr. ASSAD. First of all, Mr. Chairman, I would like to thank this committee for their unwavering support in improving the capability of the acquisition workforce. We really appreciate your support.

Mr. ANDREWS. We appreciate your service and your good wisdom. Thank you.

Mr. ASSAD. There is probably one area, and it goes to how we move folks around who may be able to take on a position, a new acquisition position. In other words, that person might be, in the old vernacular, GS–13. And there is a GS–14 opportunity.

Well, the way the language is written, you might not be able to use the Acquisition Workforce Development Funds to actually hire or provide that opportunity to a person who is already in service, and then replace that person at that lower level with the funds that normally support him.

So, one of the things that we are asking the committees to look at is to have that flexibility. The idea was, of course—and I know why the committee put the language in, or the Congress put the language in—was because they wanted to prevent just a shifting of people and, you know, kind of swapping of the deck chairs.

But there are instances where we need to make sure that folks who are deserving of opportunities that might be funded with an acquisition development workforce fund could, in fact, be used with that. So, that is one area that we would like to make sure that we have got clarity to do that.

Mr. ANDREWS. Very well. And I think it is a recurring theme in our report that prior reports, I think, have been ineffective or irrelevant, because they have been proscriptive—prescriptive, rather—where we try to anticipate future situations and write rules about them.

Our intention is rather different. We want to recruit and retain the very best people we can—and we believe we have many of them already—give those men and women the tools to do the job, give them standards, and then get out of the way.

So, I think that your recommendation is very much in the spirit of that. And I would issue a blanket invitation to our witnesses today. If you see provisions that you think are overly prescriptive and interfere with that spirit, we would like to hear them. We will not necessarily agree with all of them, obviously, but we would like to hear them.

I am going to yield to Mr. Conaway for a second round.

Mr. CONAWAY. Thank you, Mr. Chairman.

Focusing on this issue on IT and services and commodity purchasing, we talk about setting up standards and metrics to measure all of that work and to make sure the taxpayer is getting the best value. And that resides in the PARCA. A, is that the right place for that function to reside?

B, where should all of that myriad of metrics get decided at the front end?

You will have to have somebody monitor them after you have decided what you are going to measure and how you are going to hold people to things. But that work to be done on the front end, where in the system does it make the most sense to do that?

Does the BTA have a role in helping set those standards up? And is PARCA, in fact, the right agency to then shepherd those through on an ongoing basis as it works to evaluate the purchasing of IT services, commodities, the non-weapon system money that gets set?

Thoughts across the panel on that?

Ms. MCGRATH. I can start.

Mr. CONAWAY. Okay.

Ms. MCGRATH. It sounds like you have a few questions in there in terms of what should those standard measures be for those different types of acquisitions? And I think that we are better at defining some of those today than others.

I think for IT, I would distinguish business from non-business, because they are very different. Command and control is very different than an ERP. And so, the types of things we are looking to measure, I think the definition of those, the different organizations would play a role in defining those.

For example, BTA, Business Transformation Agency, and the highly qualified experts they have within their organization who have ERP experience and industry experience, I would say would be well positioned to define what those are. I would not, however, ask them to define command and control measures, because I do not think we would get that right.

So, I think the identification of the need is well articulated. We would certainly have different organizations actually define those measures, be it within PARCA or another organization, the transparency of all of them and the standard implementation, so that we understand across the Defense Department, how are we doing in business systems irrespective of organizational home, if you will.

So I think the definition, and then the proliferation of those standards, and then the reporting into a central place, and then the transparency of those, is important.

Mr. CONAWAY. So what you are saying is, rather than have one agency like PARCA be responsible for monitoring the performance against those standards, you would rest that role with each of the individual agencies? Or in other words, decentralize that? Is that what your idea is right now?

Ms. MCGRATH. Sir, there is an aspect of it that would be decentralized. I think the centralized part is the definitional piece. So establish what the standards are, ensure that those who have acquisition oversight, because there are multiple organizations that have that. I have acquisition oversight responsibility for some of the business systems, some of these ERPs that we are talking about.

And so, I would want, as an acquisition authority, to look at how well are we performing against those standards. And then, yes, I would feed to sort of a central place within the Department, so that, again, we understand holistically how we are performing.

Mr. CONAWAY. Anybody else have any comments?

Mr. ASSAD. Sir, I would just like to say that I would like to kind of jump on the bandwagon with Beth. It is important for PARCA, I think, to participate as far as program performance is concerned in establishing standards.

My concern—PARCA happens to be under the acquisition envelope—is overwhelming PARCA with—you know, they need to be focused on program performance. And they certainly can establish, and participate in establishing, the standards by which program offices set their goals. But if they actually participate in setting the goals, then they cannot be an independent and honest broker of evaluating whether or not those goals were met.

And there will always be a question as to whether or not the goals that were established—you know, we get the checker checking himself.

And I do think that PARCA needs to be that independent, honest broker that provides information to the Under Secretary, and not necessarily overburden it, especially in the near end here as we begin to establish it, with other responsibilities.

Secretary HALE. I would just add one thought. You are talking to the policy arm of the Department of Defense, especially in the services area. And most of the execution is by the military departments and the agencies.

We can set the standards, but they are the ones that are going to have to execute these programs. We do not have, and should not have the staff or the capability to do that—with the exception for some of the major defense acquisition programs where Ash Carter really has a kind of operational role—but even for most of the weapons programs they are executed at service level.

Mr. CONAWAY. Okay. So, I guess what I would ask the panel is to look at how we have approached that issue within our report, so that we do not get ourselves in a position where it looks like we are recommending something that, collectively, you do not believe operationally works, because that is not what we are—that is not the intent.

The intent is to put in place measurement systems that work, and then have that accountability occur within wherever it needs to occur that makes the most sense. Because I agree, Mr. Hale, that we do not want to set up a giant, new bureaucracy within any-

thing, because the idea was to, you know, not do that. That is done easily and too often, and it really does not accomplish what we want to.

So, as you look at the recommendations for this and the role PARCA plays, we would appreciate any thoughts you had on how we might need to fine-tune our recommendations, so that it does not mislead the system to go a direction that does not make sense, because I do not think that does any of us very well.

So, thank you, Mr. Chairman.

Mr. ANDREWS. I would associate myself with Mr. Conaway's remarks. We want to provide a tool, not an impediment. And so, your practical observations about what will work are very much welcome.

Mr. Cooper is recognized.

Mr. COOPER. In case anyone is getting sleepy, let us stir things up a little bit.

So far we have heard a lot of abstract concepts, a lot of jargon, a lot of acronyms. Probably, the average citizen would have great difficulty even following the discussion.

Yesterday, the Air and Land Forces Subcommittee heard from the Army, that even though the FCS—Future Combat Systems—spin-out failed operational tests last August, they are still planning on buying two brigades' worth at $285 million a set. This apparently includes unmanned aerial vehicles (UAVs) that are designed to operate for 24 hours, but so far can go barely an hour-and-a-half without breaking down.

It costs $360,000 a unit. Meanwhile, the Raven costs $17,000 a unit. So you could buy 21 Ravens for every one of these that they are thinking about buying.

So, I think folks back home worry about things like that, as well as refrigerators that the Air Force used to be able to buy for $17,000, when just a year or 2 later—it is a miracle—they are $32,000.

Should we be upset about these things? Are they budget dust? Do you all care? You know, should taxpayers care?

Secretary CARTER. Absolutely, they should. It is the taxpayers' money, and it is equipment for the warfighter. So, the example you gave is one that I am looking at very carefully, the Army's Early Infantry Brigade Combat Teams (EIBCTs) and the legacy of the Future Combat Systems program, and getting what we can get out of that program that is useful.

But I just testified this morning on another program, the F–35, the Joint Strike Fighter program. And the burden of the testimony was that that is not where you would want it to be. And our responsibility collectively is to make it better.

So, I do not know. There is no reason why the citizens should be able to follow this discussion. They are counting on us to do right by them. And you give some examples of cases where we do not do right by them, and there are such examples.

Mr. COOPER. Another question. One of the most disturbing things this committee found was the fact that the Defense Contract Audit Agency, at least in a sample of their work, had almost completely abandoned the principles of accounting.

And I am not an accountant. I defer very much to my colleague Mr. Conaway's expertise in these matters. But that was deeply disturbing, and the lady subsequently resigned from her job. And she led an army of 4,000 or 5,000 of these folks.

You worry about incompetence. You worry about corruption.

And Mr. Hale, when I hear from you that, you know—and every audit has its limits, and historical information is not as valuable as future information. And the distinction was made earlier, well, these are public sector standards, and we just do not worry about that. And the private sector has different standards, and it is irrelevant.

You are aware, of course, how critical the GAO is of the Pentagon's complete failure to be audited. It is by far the worst of all federal agencies in terms of non-compliance with management practices that have been in place for a long, long time.

And I am sure you are a fine man, but I just do not get from your testimony or from your statements any sense of urgency or concern. I get a lot of self-satisfaction and a little bit of arrogance. And I think—maybe I just do not understand accounting well enough, but my colleague Mr. Conaway certainly does. And I think we need to get to the bottom of this.

And just, we are doing fine right now, go away, is not a good answer.

Secretary HALE. Well, I do not think that is what I said. But let me first address the Defense Contract Audit Agency, because you are right, we have got serious problems there. I am afraid we had a maxim in acquisition—faster, cheaper, better. We got two out of three with DCAA, but it definitely was not better.

We have appointed a new director, making a number of changes, going to move to a more risk-based approach to auditing. They do about 30,000 audits a year. Nobody can do that and apply government audit standards. So, we need to make a number of changes, and are committed to making some significant ones within the year.

We probably got into this problem with DCAA in a decade. We will not get out of it in a year, but we need to make progress.

To your broader point, I am sorry if it came across that way if it did. I do feel a sense of urgency to fix the information that we use to manage. But I feel a sense of commitment to the taxpayer not to spend money on things we do not use to manage. If that came across wrong, I am sorry.

The statements about what financial management does well are to put in context. I do not want to lose that. I do not want to have people stop meeting the needs of the warfighter because they are so concerned that they may do something that leads to a statement that is not auditable.

We have got to find a balance. And that was the point that I was trying to make. In terms of the things that we do right, I want to keep those, and build on the things we do not.

I do feel a sense of urgency. But at this 20th anniversary of the CFO Act, about the 15th anniversary, I think, of the Government Management Reform Act, which is the one that actually required auditable statements—and we are not real close. And we have had a lot of false starts.

We have had some successes. The Army Corps of Engineers has fully auditable statements. The United States Marine Corps has asserted audit readiness for its statement of budgetary resources. But we have still got a long way to go. We do not have a coherent approach, as I said in my statement, and we do not have resources. I think we will, or we do now, but we have not in the past.

So, if it came across as arrogant, I am sorry. It was not meant as that. It was meant to say, I want to keep what is good and build on it.

Secretary CARTER. May I comment on that also, on Secretary Hale's sense of balance there? Because I encounter that also in the contingency contracting area, where we are trying to be exigent, and we are operating in unusual places like Afghanistan, and unusual circumstances—and we are trying to be good stewards of the taxpayer's dollar, as well. And there has to be a balance there.

And Secretary Hale has been of huge assistance to me in all the contingency things we have done, which does have an enormous sense of urgency. And so, that is an important balance for us to strike. And he has been an important part of making sure that we achieve that balance at the same time we do all the things that we need to do so urgently for the fight in Afghanistan and Iraq.

Mr. ASSAD. If I might say something about the men and women at DCAA, because I am their customer. I represent the 26,000 contracting officers who are out there buying goods and services.

And we cannot get a good deal for the taxpayers unless we have an effective and able Defense Contract Audit Agency.

Like the acquisition workforce, the Defense Contract Audit Agency's workforce, over a number of years, deteriorated in terms of just the number of folks that they have to do proper auditing.

That has been recognized in our Acquisition Workforce Development Fund. We, in fact, have approximately funds for 800 auditors. We have already hired—Mr. Hale has already hired 300 auditors. In addition to that, Mr. Hale has set up an executive committee to oversee DCAA. I am a member of that committee as their ultimate customer.

And we are very well aware—you are right, Mr. Cooper—there were issues at DCAA. But the new director, Pat Fitzgerald, is focused. We, as an executive committee reporting to Mr. Hale, are focused on getting those things corrected.

We have got to get a better deal for the taxpayers. And we will not be able to achieve what Secretary Carter talked about unless we have an effective and efficient DCAA.

But I want you to know that the vast majority of inputs that we get from DCAA are quality products. They are documents and analysis that we can use at the table.

Do they need to be improved? Absolutely. Just as we need to improve in negotiating deals for the taxpayer.

But your comments are recognized. But I want you to know that there are a large number of those auditors out there who are doing a very good job.

Mr. COOPER. Thank you, Mr. Chairman.

Mr. ANDREWS. Mr. Coffman.

Mr. COFFMAN. Thank you, Mr. Chairman.

Both parties are raising the issue of reforming the appropriations process, specifically earmarks. And in terms of the defense acquisition process, do you have any recommendations in terms of which earmarks are adverse to the process in terms of the efficient acquisition of the needs of our warfighters?

Secretary CARTER. I will hazard one comment, which is in our science and technology base programs. Just because, even as free and open competition is the principle that guarantees value and excellence in acquisition, in our science and technology base it is peer review. And scientific and technological excellence is the—ought to be—the basis for selecting projects. And that is an area where it would be particularly disturbing to see principles other than technological excellence at work in the selection of projects.

Mr. COFFMAN. Anybody else?

Secretary HALE. I mean, I think in general, we oppose earmarks in the Administration. We also understand that, in the end, if you enact a law, we are going to follow it. And that is how our system works. So, if you put it in the bill and tell us to do it, we will execute it.

Mr. COFFMAN. Okay.

I raised, in the previous round, International Traffic in Arms Regulations (ITAR) reform. And I want to take a different tack now on acquisition, and that is that, are there areas that we contract out now with foreign providers, non-U.S. providers, that made us over-reliant, that during time of war create a problem in our supply chain?

And let us take the area of ammunition, of munitions, that there is a reliance on foreign providers when it comes to munitions. And is that problematic to the United States to be so reliant upon foreign providers?

Would anybody like to answer that?

Secretary CARTER. I will take a shot at it, but I think, Shay, if I may ask you also.

It is a requirement that we assess our dependence on foreign suppliers, and make sure that we are not overly dependent upon foreign suppliers, and that we do not put at risk our supply chain. At the same time, there are different gradations of foreigners.

And another aspiration we have, just for the balancing sense, is to be able to dip into the global technology base, because 50 years ago, most technology—advanced technology was ours. That is no longer the case.

And the most advanced technology was defense technology. That is no longer always the case, either. So, if we cannot reach out into the commercial base, which is inherently global, we will not have the best.

So, we need to make sure we are not overly dependent, but also that we are availing ourselves of what is out there. Otherwise, we will become an enclave, which will not be good for the taxpayer and the warfighter.

And, Shay, on the regulator side, or any other side, anything to add?

Mr. ASSAD. Well, I just think the comment that you made earlier, Mr. Secretary, in terms of what the Director of Industrial Policy is doing to kind of really expand. We have not had the kind of insight

and capability, Mr. Congressman, that you are talking about in terms of, did we really understand our industrial base—not just our domestic industrial base, the international industrial base—that we rely upon? And is it appropriate for us to be placing so much reliance on a particular international partner?

One thing that you can be assured of, that when we—we obviously make every attempt to, when we issue our procurements, to live by the standards and the requirements of only dealing with qualifying countries as it relates to the Buy America Act.

But there is more work to be done in this area of assessing the industrial base, and in particular the international industrial base, because it is a global marketplace that we are in.

Mr. COFFMAN. Okay. Let me close with just a comment, a concern, that the Department of Defense is not looking forward enough in terms of supply chain issues on the industrial base.

And I think the rare earth metals is a great example of that, where we seem to be wholly reliant—not wholly reliant—but I think China has about 95 percent of the market right now. We are reliant upon them for imports. I think that their demand will soon catch up with their supply.

We have no mining of rare earth metals in the United States to use in advanced weapons systems. And I think that we need to be more cognizant of that—not simply from a mining issue, but from a refining and other aspects of the supply chain.

Thank you, Mr. Chairman. I yield back.

Mr. ANDREWS. Thank you very much.

I want to thank our panelists for their excellent presentations today and their preparation. I want to thank my colleagues and describe our process from here on out.

Yes, Mr. Conaway?

Mr. CONAWAY. I just wanted to comment.

Mr. ANDREWS. Sure.

Our interim report was put on the internet last Friday, and it is open for public comment from all interested parties, both inside and outside the government, certainly.

The members of the panel are going to have a business meeting next week, where we will discuss our views about modifications to the interim report. I would especially invite our panelists here today to make any suggestions they have prior to that time. Early to mid next week would be helpful.

It is our intention, then, to try to proceed the week after next with a public meeting where the panel will consider adoption of the report to forward on to the full committee.

So, I would again invite members of the public, as well as, obviously, the Department, speaking more officially, to give us recommendations and suggestions, so that the members can take those recommendations into account when the members meet next week.

I would be happy to yield to Mr. Conaway.

Mr. CONAWAY. Well, thank you, Mr. Chairman.

I also want to thank folks for coming today.

I have got a question for the record I would like to submit. It has to do with a KC–135 contract that recently was bid between a small company and Boeing. And the small company lost out, be-

cause of the impact of a fee they had to pay to Boeing. So, I do not expect you to have an answer for it, but we will submit that for the record, because it has to do with this idea of an open, fair competition thing that we are talking about.

And I just want to thank everybody for participating. This is not the end of the deal. As I said earlier, I think we are all in this together—ought to act as if we are all in this together—for the best interest of the warfighter and the taxpayer. And I look forward to continuing dialogue among all of you as to how we can get this whole process better than it is currently being done.

Thank you, Mr. Chairman.

Mr. ANDREWS. We thank you for your participation.

The hearing is adjourned.

[Whereupon, at 4:42 p.m., the panel was adjourned.]

A P P E N D I X

March 11, 2010

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

MARCH 11, 2010

Defense Acquisition Reform Panel Chairman Rob Andrews

Administration Perspectives on Managing the Defense

Acquisition System and the Defense Acquisition Workforce

March 11, 2010

Today the Panel approaches the end of its work. Last week, we issued the Panel's interim findings and recommendations and today we hear from the Administration on their acquisition reform priorities and on their thoughts about the Panel's work.

Having received this feedback, as well as feedback from our previous witness and other experts, we intend to deliver a final report to Chairman Skelton and Ranking Member McKeon at the end of the next week. At that point, the Panel's official mandate will expire. However, the Panel's recommendations will serve as the basis of legislation that will be considered in the House this year, and we expect, enacted into law.

Today's hearing marks the Panel's 13th hearing since we were appointed by Chairman Skelton and then Ranking Member John McHugh in March of last year. In these hearings, the Panel has found that while the nature of defense acquisition has substantially changed since the end of the Cold War, the defense acquisition system has not kept pace.

The system remains structured primarily for the acquisition of weapon systems at a time when services represent a much larger share of the Department's acquisitions, and the system is particularly poorly

designed for the acquisition of information technology even though we are now in the Information Age.

Even in the acquisition of weapon systems, the Department's historical strength, the system continues to generate development timeframes for major systems measured in decades, an approach which has resulted in unacceptable cost growth, negative effects on industry, and in too many cases, a failure to meet warfighter needs.

The Panel has found that there is little commonality across the defense acquisition system. The acquisition of weapon systems, the acquisition of commercial goods and commodities, the acquisition of services and the acquisition of information technology have very diverse features and challenges. In a few areas, however, the Panel has found common issues. Across all categories of acquisition significant improvements can be made in: managing the acquisition system; improving the requirements process; developing and incentivizing the highest quality acquisition workforce; reforming financial management; and getting the best from the industrial base.

The Panel began with the question of how well the defense acquisition system is doing in delivering value to the warfighter and the taxpayer. For most categories of acquisition, only anecdotal information exists about instances where the system either performed well, or poorly. Even where real performance metrics currently exist, they do not fully address the question.

The Panel continues to believe that real metrics are needed. The Panel has also heard that challenges with the requirements process are a major factor in poor acquisition outcomes. The requirements process for the acquisition of services is almost entirely ad hoc. The process for developing requirements for the acquisition of weapon systems is overly

cumbersome, lacking in expertise and capacity, and subject to requirements creep.

There is no doubt that the Department needs an acquisition workforce that is as capable as its advanced weapon systems. To achieve this, the Department requires flexibility to efficiently hire qualified new employees, and to manage its workforce in a manner that promotes superior performance.

The Department must develop new regulations for the civilian workforce which include fair, credible, and transparent methods for hiring and assigning personnel, and for appraising and rewarding employee performance. Also underlying the success of the defense acquisition system is the Department's financial management system.

The Panel is concerned that the inability to provide accurate and timely financial information prevents DOD from adequately managing its acquisition programs and from implementing true acquisition reform.

Finally, the Panel has heard that the Department can enhance competition and gain access to more innovative technology by taking measures to utilize more of the industrial base, especially small and mid-tier businesses. And in managing that industrial base, that the Department is best served when it deals with responsible contractors with strong business systems.

We look forward to hearing from today's witnesses about these topics to get their expert views on how these problems can be solved. I now turn to my friend, Congressman Mike Conaway of Texas, for his opening remarks.

Statement of Rep. Conaway

Hearing of the

Defense Acquisition Reform Panel
on

"Administration Perspectives on Managing the Defense Acquisition System and the Defense Acquisition Workforce"

March 11, 2010

Good morning, Mr. Chairman, ladies and gentlemen. I have a very short statement so that we can hear from our distinguished witnesses. First, I would just like to thank Chairman Andrews for his leadership and the other members of this panel for their commitment to dealing with these important issues. We have had many early morning hearings on subjects ranging from Service and IT contracting to Auditing; and we have learned so much.

To our witnesses thank you so much for being here. Our panel has been very fortunate to get some great witnesses in the past and today is no exception. We all understand and appreciate how busy you are and the fact that all of you made the time to be here today is an

indication of how committed you are to dealing with these important issues, as well. I'd also note that Mr. Fisher from the Business Transformation Agency is here. The Business Transformation agency has a critical role in what we will be discussing today. Having said that, we realize that we still have much work to do, and I would just reiterate what the Chairman has said, and that is that we want to work with the Department to get this right. So we value your feedback.

With that I look forward to hearing from our witnesses.

Thank you Mr. Chairman.

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

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

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

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

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

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

Rapid Acquisition

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

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

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

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

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

Logistics

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

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

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

Contingency Contracting

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

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

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

Counter-IED

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

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

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

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

Acquisition Reform—Major Defense Acquisition Programs (MDAPs)

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

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

Acquisition Reform in the Beginning Phase of Programs

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

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

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

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

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

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

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

Acquisition Reform in the Middle Phase of Programs

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

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

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

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

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

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

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

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

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

Acquisition Reform at Back End

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

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

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

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

Acquisition of Services

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

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

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

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

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

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

Strengthening the Acquisition Workforce

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

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

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

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

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

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

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

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

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

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

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

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

FFRDCs and the Industrial Base

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

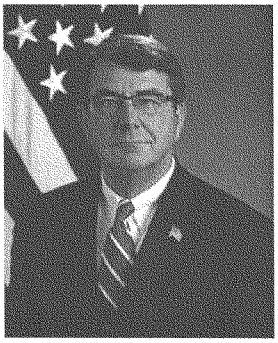
At the same time, our relationship with industry is essential. As I have said many times, we do not have an arsenal system; instead, we depend on private industry to arm our troops and provide us with services such as systems engineering, technical, and acquisition support. To be sure, our industry partners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

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

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

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

THE HONORABLE ASHTON B. CARTER



Dr. Ashton B. Carter was sworn in as Under Secretary of Defense for Acquisition, Technology & Logistics on April 27, 2009.

Before assuming this position, Dr. Carter was chair of the International and Global Affairs faculty at Harvard's Kennedy School of Government and Co-Director (with former Secretary of Defense William J. Perry) of the Preventive Defense Project, a research collaboration of Harvard and Stanford Universities. Dr. Carter was also Senior Partner at Global Technology Partners and a member of the Board of Trustees of the MITRE Corporation and the Advisory Boards of MIT's Lincoln Laboratories and the Draper Laboratory. He was a consultant to Goldman, Sachs on international affairs and technology matters. He was a member of the Aspen Strategy Group, the Council on Foreign Relations, the American Physical Society, the International Institute of Strategic Studies, the Advisory Board of the Yale Journal of International Law, and the National Committee on U.S.-China Relations. Dr. Carter was also Co-Chair of the Review Panel on Future Directions for DTRA (Defense Threat Reduction Agency) Missions and Capabilities to Combat Weapons of Mass Destruction, Chair of the National Security Strategy and Policies Expert Working Group of the Congressional Commission on the Strategic Posture of the United States, a member of the National Missile Defense White Team, and a member of the National Academy of Sciences Committee on International Security and Arms Control.

Dr. Carter served as a member of the Defense Science Board from 1991-1993 and 1997-2001, the Defense Policy Board from 1997-2001, and Secretary of State Condoleezza Rice's International Security Advisory Board from 2006-2008. In 1997, Dr. Carter co-chaired the Catastrophic Terrorism Study Group with former CIA Director John M. Deutch, which urged greater attention to terrorism. From 1998 to 2000, he was deputy to William J. Perry in the North Korea Policy Review and traveled with him to Pyongyang. In 2001-2002, he served on the National Academy of Sciences Committee on Science and Technology for Countering Terrorism and advised on the creation of the Department of Homeland Security.

Dr. Carter was Assistant Secretary of Defense for International Security Policy during President Clinton's first term. His Pentagon responsibilities encompassed: countering weapons of mass destruction worldwide, oversight

of the U.S. nuclear arsenal and missile defense programs, the 1994 Nuclear Posture Review, the Counter proliferation Initiative, control over sensitive U.S. exports, chairmanship of NATO's High Level Group, the Nunn-Lugar program resulting in the removal of all nuclear weapons from the territories of Ukraine, Kazakhstan, and Belarus, establishment of defense and intelligence relationships with the countries of the former Soviet Union when the Cold War ended, and participation in the negotiations that led to the deployment of Russian troops as part of the Bosnia Peace Plan Implementation Force.

Dr. Carter was twice awarded the Department of Defense Distinguished Service Medal. For his contributions to intelligence, he was awarded the Defense Intelligence Medal. In 1987, Dr. Carter was named one of Ten Outstanding Young Americans by the United States Jaycees. He received the American Physical Society's Forum Award for his contributions to physics and public policy. Dr. Carter was elected a Fellow of the American Academy of Arts and Sciences and the American Academy of Diplomacy.

From 1990-1993, Dr. Carter was Director of the Center for Science and International Affairs at Harvard University's John F. Kennedy School of Government, and Chairman of the Editorial Board of International Security. Previously, he held positions at the Massachusetts Institute of Technology, the Congressional Office of Technology Assessment, and Rockefeller University.

Dr. Carter received bachelor's degrees in physics and in medieval history from Yale University, summa cum laude, Phi Beta Kappa. He received his doctorate in theoretical physics from Oxford University, where he was a Rhodes Scholar.

In addition to authoring numerous articles, scientific publications, government studies, and Congressional testimonies, Dr. Carter co-edited and co-authored eleven books, including Keeping the Edge: Managing Defense for the Future (2001), Preventive Defense: A New Security Strategy for America (1997), Cooperative Denuclearization: From Pledges to Deeds (1993), A New Concept of Cooperative Security (1992), Beyond Spinoff: Military and Commercial Technologies in a Changing World (1992), Soviet Nuclear Fission: Control of the Nuclear Arsenal in a Disintegrating Soviet Union (1991), Managing Nuclear Operations (1987), Ballistic Missile Defense (1984), and Directed Energy Missile Defense in Space (1984).

Statement

of

The Honorable Robert F. Hale
Under Secretary of Defense (Comptroller)

before the

U.S. House of Representatives

Armed Services Committee

Panel on Defense Acquisition Reform

March 11, 2010

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Mr. Chairman, Members of the panel, thank you for the opportunity to appear before this Defense Acquisition Reform Panel. I want to start by thanking the Members of the Congress for their support of our men and women in the military. We cannot meet the nation's national security needs without your assistance.

While the panel is focusing on acquisition reform, it has also addressed various financial issues, including efforts in the Department of Defense (DoD) to improve financial information and achieve audit readiness. I will confine my prepared remarks to the financial improvement and audit readiness issues. I would be glad to discuss other issues during the hearing.

Strengths of Defense Financial Management

I want to start by indicating what I believe are the strengths of defense financial management. Most importantly, defense financial managers are successfully providing DoD's warfighters with the resources and financial services necessary to meet our national security objectives. We are doing this around the world, including in Afghanistan and Iraq. I base this important conclusion on my own 30 years of experience in defense financial management and on numerous conversations with defense commanders. We do need to improve certain aspects of DoD financial management, but we must be careful not to achieve those improvements at the expense of meeting our fundamental mission.

DoD also has effective financial processes in key areas. Our payment processes produce timely and accurate payments in a very high percentage of cases. Interest payments have been dramatically reduced in recent years, and our summary reconciliation rates with Treasury are very high.

Importantly, DoD has a sound process for funds distribution and associated controls. This process has been periodically validated by external auditors. It ensures that funds are distributed in accordance with laws and regulations. After distribution, laws that are regularly enforced require that funds be obligated exactly as distributed. I believe this should reassure the Congress that DoD is obligating its appropriations in accordance with the laws you enact.

In addition, the approximately 50,000 men and women in DoD financial management are, I believe, some of the best-trained in government. DoD has an extensive and effective training program for its financial managers. This training program, along with a significant measure of dedication, permits these men and women to help meet our national security objectives even though they are dealing with one of the largest and most complex budgets in the world. I might add that over the past decade this dedicated group has found ways to accomplish much more work with the same number of people. Since FY 2000, defense budgets have risen about 70 percent after adjustment for inflation, and we are contending with the many financial complications associated with two wars. Yet during this period there has been no significant increase in the number of DoD financial managers. Rather, DoD has reduced back-room accounting and finance functions in order to meet increased needs for operational financial managers.

Why Audit Problems Persist

So if we can successfully support the Department's mission, why have we failed to achieve auditable financial statements?

To pass an audit, auditors require that an organization have a business environment – including systems and processes – that leads to recording the financial results of business events (such as contract signing) in a consistent and reliable manner. Our business environment does not always meet that

standard. Our systems are old and handle or exchange information in ways that do not pass current audit standards. Our legacy systems tend to be non-standard and sometimes do not have good financial controls. In these cases, the consistent application of required internal controls becomes critical. Those DoD organizations that have achieved financial auditabiliy have been small enough to be able to overcome these deficiencies.

DoD's enormous size and geographical dispersion greatly complicates the challenges associated with meeting audit standards. We obligate an average of $2 to $3 billion dollars every business day and handle hundreds of thousands of payment transactions. Some of these financial transactions take place in war zones. Because of our size and mission requirements, it would be exorbitantly costly to deploy an army of accountants to solve our problems manually.

Some Progress Has Been Made But Major Problems Remain

We have made some progress toward improving financial information and audit readiness. The Army Corps of Engineers has fully auditable financial statements and is maintaining them. Several defense agencies maintain auditable statements including the Defense Finance and Accounting Service and the Defense Contract Audit Agency. Several large trust funds managed by DoD are auditable. The United States Marine Corps has asserted audit readiness for its Statement of Budgetary Resources and an audit of the Fiscal Year (FY) 2010 statement has begun.

But major problems remain. When I took over the Chief Financial Officer (CFO) job about a year ago, I quickly became convinced that the Department did not have a common goal or priorities in the audit readiness area. Instead, the military departments were pursuing their own initiatives and doing so with widely varying degrees of commitment and resources. With this approach, I concluded that the Department as a whole would never achieve success. Also, the Department's dates for achieving audit readiness were not credible. My own staff did not believe them.

Worse yet, DoD was investing significant time and money improving information that is not used by defense managers. The best example is the valuation of military weapons. Over the past decade the Department invested substantial resources in an unsuccessful effort to identify the historical costs of many of its weapons, including modifications. Under current rules, we must produce auditable information about historical costs of weapons in order to achieve a clean audit opinion. Yet in more than 30 years of experience working on defense policy and budget issues, I have never used the historical costs of weapons to make decisions. Nor have I known anyone else who used this information. To varying degrees, this same indictment applies to much of the valuation information on the balance sheet. In DoD, we just do not use most of this information to manage.

In my view, DoD needed a new and coordinated approach to financial improvement and audit readiness backed by realistic milestones and reasonable levels of resources.

Our New Approach—Improve the Quality of the Information We Use Every Day

Shortly after I was sworn in as DoD's CFO, I began consultations regarding a new approach with senior leaders in my office and in the military departments and defense agencies. We also discussed a new approach with the Office of Management and Budget (OMB), the Government Accountability Office, and some staff members in the Congress. In August of last year I issued a memorandum outlining the new approach.

This approach focuses on improving the quality, accuracy and reliability of the financial and asset information that we use every day to manage the Department. Specifically, we plan to focus on two types of information – budgetary information and existence and completeness of assets.

Budgetary information is critical to leadership at all levels—program managers, program executive officers, base commanders, Service Chiefs, Service Secretaries, and the Secretary of Defense —as they make operational and resource allocation decisions. So our new approach focuses on improving budgetary information, which should lead to audit readiness for our Statements of Budgetary Resources.

While we rarely need to know the historical costs of weapons and equipment, we do need to know their numbers and their location. The financial audit elements of "existence and completeness" translate directly into knowing what we have and where it is so we can use the equipment in combat and ensure that our acquisition community is buying only what DoD needs. Existence and completeness, one of the key elements on the balance sheet, is the second of the two priority areas under our new approach.

The FY 2010 National Defense Authorization Act accommodates this new approach in the audit readiness legislation. We appreciate the support of the Congress for our new approach.

I know from long experience in government that implementing any new approach is much more than half the problem. So immediately after establishing this approach, I began taking steps to implement it:

- First, we placed a reasonable priority on the effort. Financial improvement and audit readiness must be an agency-wide priority that has the support of senior leaders. This initiative is now one of DoD's top-ten business priorities.
- Second, we created a governance structure. We have a governance board chaired by the CFO that meets quarterly and includes the Deputy Chief Management Officers (CMOs) throughout the Department. I have personally briefed the Chief Management Officer of the DoD on this topic and each of the Service CMOs. My Deputy Chief Financial Officer conducts weekly meetings with the heads of financial operations in the military departments, and these meetings regularly discuss issues related to financial improvement and audit readiness.
- Third, we obtained resources. Nothing is harder in DoD than acquiring resources for business process improvements, because these dollars compete, as they should, with direct warfighter needs. But I have ensured that increased resources are devoted to high-priority financial improvement efforts, including operations in Afghanistan.
- Fourth, we made the improvement of audit readiness among individual DoD components a DoD High Priority Performance Goal, with progress measurements described in the President's FY 2011 Budget's Analytic Perspectives volume.

In order to demonstrate progress, our plan includes interim goals that can be achieved by FY 2012. We plan a DoD-wide examination and validation of our funds control and distribution process (known in audit terms as "appropriations received"). Periodic validation of appropriations received will reassure the Congress that we are controlling our funds carefully and in ways that ensure we comply with the laws you enact. A clean opinion on the Marine Corps Statement of Budgetary Resources is a key interim goal. We will learn much from this effort. I have also asked the military departments to

identify areas that can be validated by FY 2012, including audit readiness for funds balance with Treasury.

We owe the Congress more detail on our plan. The FY 2010 National Defense Authorization Act requires that the CFO provide a semi-annual report on financial improvement and audit readiness in May and November. We are still finalizing the May 2010 report, which will provide considerably more detail. While I am not prepared to discuss those details today, I expect that we will meet the required deadline for this report and its associated detail.

The FY 2010 National Defense Authorization Act not only requires reports; it requires that DoD have fully auditable financial statements by 2017. Under current audit rules, meeting that date would require the expenditure of large sums of DoD dollars to acquire and improve information – especially valuation information – that is rarely useful to DoD managers. My understanding is that non-defense financial managers are expressing similar concern about the costs of maintaining these types of information in audit-ready status even though the information is rarely used to manage. The CFO Council is reviewing alternative federal reporting models that can increase transparency while maintaining sound internal controls. After that review is complete, and after consulting with the appropriate stakeholders, I expect to identify and report to the Congress on a feasible approach to achieving fully auditable statements. For now, we are focusing on improving the financial information that we use to manage.

Major Challenges Remain

I am under no illusions that it will be easy to achieve auditability even for the budgetary and existence and completeness information that we use to manage. Formidable challenges remain.

Achieving these goals requires that we apply a consistent level of process controls that cross organizations and functional areas. Financial information that is passed from system to system must also be subject to a control environment to ensure that only authorized personnel are using the system and that these systems protect the data quality and maintain a compliant audit trail within the end-to-end business process. This process must be controlled from the transaction level, through general ledger postings, accurate trial balances, and reliable period closeouts. Only by completing these steps we can prepare financial statements that an auditor can review and verify. Many elements of our current business environment must be changed to allow us to meet financial audit standards. In the midst of two wars and numerous military operations, it will be a major challenge to find the time and resources to accomplish these goals.

Specifically, we need new systems that make it easier to achieve and sustain consistent business processes and controls. It will be either impossible or too costly to meet these key goals with existing systems. Each of the military departments is in the process of installing a new enterprise resource planning (ERP) system that would greatly facilitate audit readiness. ERP implementation is under the overall control of the Chief Management Officers, and this is a principal area where financial improvement depends on the successful efforts of the CMOs. DoD has multiple large programs, and each of them must be scrutinized to ensure that the implementation approach balances cost and risk appropriately. While progress is being made, we must not underestimate the difficulty of installing new ERP systems successfully.

My Commitment

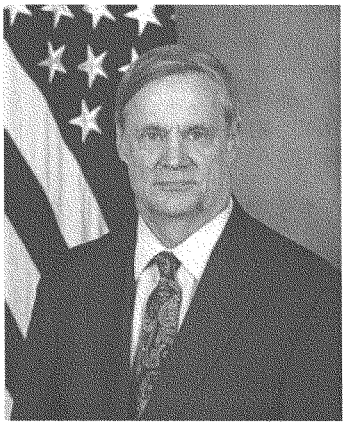
Based on long experience, I recognize the challenges associated with improving financial information and achieving audit readiness in the Department of Defense. But I believe we have taken the necessary steps to succeed for the information we use to manage. Most importantly, we have focused financial improvement and audit readiness efforts on information we use to manage. Now we have a business case for devoting time and resources.

Next we have accorded the initiative a reasonable priority within the Department – making it one of our top ten business priorities (referred to by the Administration as High Priority Performance Goals). We have identified longer term goals as well as interim goals that permit us to demonstrate progress. We have a governance structure in place that includes the CMOs and have increased the resources we are devoting to the effort. We are required to provide regular reports to Congress, and we live up to that requirement, beginning with our May 2010 report that will provide more details on the new plan.

I want the Panel to know that I am personally committed to this effort as part of my overall commitment to providing the financial resources and services necessary to meet our national security objectives.

Robert F. Hale

Under Secretary of Defense (Comptroller) and Chief Financial Officer



As Under Secretary of Defense (Comptroller), Robert F. Hale is the principal advisor to Secretary of Defense Robert M. Gates on all budgetary and fiscal matters, including the development and execution of the Defense Department's annual budget of more than $600 billion. As Chief Financial Officer, Mr. Hale also oversees the Department's financial policy, financial management systems, and business modernization efforts.

At the time of his nomination by President Barack Obama in January 2009, Robert Hale was Executive Director of the American Society of Military Comptrollers (ASMC), the professional association of Defense financial managers. For three-and-a-half years, he led the society's certification program (the Certified Defense Financial Manager program), as well as training programs, a professional journal, and other activities, including ASMC's National Professional Development Institute, an annual conference which attracts more than 3,500 participants.

From 1994 to 2001, Mr. Hale served in the Pentagon as the Assistant Secretary of the Air Force (Financial Management and Comptroller), where he was responsible for annual budgets of more than $70 billion, efforts to streamline Air Force financial management, and compliance with the Chief Financial Officers Act.

For the 12 years prior to his Air Force service, Mr. Hale headed the National Security Division at the Congressional Budget Office (CBO), developing quantitative analyses of major defense budget issues and testifying frequently before Congressional committees.

Earlier in his career, Mr. Hale was a senior fellow and head of the acquisition and grants management group at LMI, a consulting firm specializing in service to the Federal government. He also spent three years as an active duty officer in the U.S. Navy and served as a staff analyst and study director at the Center for Naval Analyses.

Mr. Hale graduated with honors from Stanford University with a B.S. in mathematics and statistics. He also holds a Master's degree in operations research from Stanford and an MBA from the George Washington University. He is a Certified Defense Financial Manager (CDFM), a fellow of the National Academy of Public Administration, and a past member of the Defense Business Board.

**HOLD UNTIL RELEASED BY THE
HOUSE COMMITTEE ON ARMED SERVICES**

STATEMENT BY

MS. ELIZABETH A. MCGRATH

ASSISTANT DEPUTY CHIEF MANAGEMENT OFFICER

DEPARTMENT OF DEFENSE

BEFORE THE

PANEL ON DEFENSE ACQUISTION REFORM
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRSENTATIVES

MARCH 11, 2010

**HOLD UNTIL RELEASED BY THE
HOUSE COMMITTEE ON ARMED SERVICES**

Chairman Andrews, Representative Conaway, Members of the Panel, thank you for the opportunity to testify before you today to discuss the Department's commitment to and progress in the use of performance management to help achieve our strategic goals. An important element of my responsibilities as the Assistant Deputy Chief Management Officer (DCMO) for the Department of Defense (DoD) is serving as the DoD's Performance Improvement Officer. Performance Management is often used simply to describe the act of performance measurement and reporting, or simply people management. Strategic Performance Management is about identifying what matters, measuring it and then managing it to improve the effectiveness, efficiency and overall performance of an organization. It does not measure performance for measurement's sake, but in a way that's relevant to what the organization is trying to achieve on a broader scale, and in a way that can then be fed back into every employee's daily working life.

The Department of Defense has always endeavored to improve the efficiency and effectiveness of its business operations. Today, the need to achieve this transformation has never been greater because the role that the Department's business operations play has never been more profound. Our business operations directly support our combat operations in Afghanistan and Iraq in increasingly intricate ways, provide critical services to the men and women in uniform and their families at home, and help to ensure that our nation is ready to respond to new threats in an increasingly complex operational environment. With increasing

demands on the Federal Budget, a demand for greater government transparency, and the overall pace of change in the business environment, execution of our business must become more agile and responsive and provide enhanced financial stewardship for the American people. However, with the size and complexity of the DoD this transformation is not easy and will take time. A key component in achieving results is the execution of a meaningful and robust strategic performance management system.

At one of your most recent panel hearings, Congressman Andrews made the following observation. He said, "The Panel began with the question of how well the defense acquisition system is doing in delivering value to the warfighter and the taxpayer. For most categories of acquisition, only anecdotal information exists about instances where the system either performed well, or poorly. Even where real performance metrics currently exist, they do not fully address the question. The Panel continues to believe that real metrics are needed." It is our view that, when measures are appropriate and well defined, progress is made, and people can be held accountable for performance. Generally, the more frequently we collect and capture performance data, the better able we are to provide DoD leadership with transparency into operations and thereby enable decisions to be made with accurate, authoritative information. The Department shares this panel's important view that performance measures will help DoD achieve its goals in not only the acquisition arena, but throughout the Department's Business Mission Area. We

are committed to driving the use of performance measures throughout the Department and supporting the efforts by the Office of Management and Budget to extend performance management and improvement throughout the Federal Government.

The performance management framework employed by the Department must align matrixed business-enterprise goals to overarching strategic-defense goals and cascade those business-enterprise goals, into specific measures and annual performance targets throughout all levels of the organization. In turn, progress against these goals, measures and targets must be monitored regularly throughout the year and improved upon using proven process improvement methodologies.

Given the importance my office and the rest of the Department place on performance management, I was very pleased to see the emphasis on the use of this tool in your acquisition reform recommendations. The Office of the Under Secretary of Defense for Acquisition, Technology and Logistics (USD(AT&L)) has instituted performance measures and has stood up the Office of Performance Assessment and Root Cause Analysis (PARCA), with its scope of operations being the Major Defense Acquisition Programs (MDAPs). Establishing the PARCA office is a tremendous step in the right direction for DoD acquisition and we believe that careful performance assessment of MDAPs and other programs of

record in the Department will lead to a more efficient and effective use of resources.

The DoD Strategic Management Plan (SMP), released in July 2009 and created by the 2008 National Defense Authorization Act, is the Department's first step in the establishment of integrated goals and measures throughout the DoD. The SMP, which is aligned with the Quadrennial Defense Review, set the strategic direction for the Department's business operations and was developed collaboratively between the Deputy Secretary of Defense/Chief Management Officer, the Office of the Deputy Chief Management Officer, the Under Secretaries of Defense, and the Military Departments. The SMP outlines five cross-functional, enterprise-wide business priorities: (1) support the all-volunteer force; (2) support contingency business operations; (3) reform the DoD acquisition and support processes; (4) enhance the civilian workforce; and (5) strengthen DoD financial management. The responsibility for aligning business operations to these priorities is shared among the Under Secretaries of Defense and the Chief Management Officers of the Military Departments, with the assistance and cross-functional integration of the Office of the Deputy Chief Management Officer. These priorities are also cascaded into the Department's Performance Budget, which is part of the DoD budget submission, and Organizational Assessment, which holds our Senior Executive Service members accountable at the individual level for the success of the overall enterprise.

The five priorities encompass the most pressing business management challenges currently facing the Department and are supported in the SMP by specific outcomes, goals, measures and key initiatives critical for success. These outcomes, goals, measures, and key initiatives also served as the basis for the development of the Department's High Priority Performance Goals (HPPGs), which were included in the FY11 President's Budget and are a key part of this Administration's management agenda. USD(AT&L) goals and measures span the breadth of DoD acquisition ranging from insourcing acquisition functions and growth of the acquisition workforce, to lowering cycle times and Nunn-McCurdy breaches for MDAPs to increasing the Department's use of renewable energy.

To accomplish the second part of the framework – the improvement of our business through the use of proven process improvement methodologies - the Department makes great use of the Continuous Process Improvement (CPI)/Lean Six Sigma (LSS) Program to help DoD leaders demystify and streamline complex processes, and create appropriate metrics to ensure that these new processes are yielding the right results.

LSS is a proven set of tools and a methodology that can, when applied properly, provide flexibility and an effective improvement or solution to a problem. LSS is not a "cure-all" - but it does provide a structured framework for organizations to

follow as they seek to improve their processes. The Department adopted LSS as its preferred management tool in 2007 because it differed from other quality improvement concepts in that it focuses on mapping processes that produce measurable results. For DoD, LSS offers a rigor that leads implementing teams to data-driven conclusions and provides concrete proof of process improvement. Although only three years young as a DoD-wide way of improving performance, LSS has a growing number of DoD practitioners. As of February 2010, there are over 26,000 trained practitioners in our Department; more than 21,700 are trained Green Belts and more than 4,400 are trained Black Belts. Nearly 22,000 projects have been completed. To better enable strategic alignment to Enterprise goals, the Department established a LSS program office, staffed with accomplished Master Black Belts with targeted military and industry experience in specific DoD business disciplines. A Master Black Belt is an individual highly trained in LSS methodologies, who leads complex problem-solving projects and coaches other members of an organization on performance improvement practices. Each Master Black Belt is assigned a portfolio of projects aligned to a specific OSD component or military department that are reviewed and briefed regularly to senior DoD leadership and the results are beginning to stack up.

One specific project that has both DoD-enterprise and broad Federal Government impact is an effort to reform the Personnel Security Clearance Process. The Federal Government needs a qualified, trusted workforce available to execute its

missions successfully. The processes used to determine eligibility for access to classified information and/or suitability for Federal employment present timeliness and efficiency challenges. Hiring and clearing processes that involve the acquisition of background information on an individual often are not sufficiently standardized or coordinated to allow for individuals to efficiently move between agencies and/or positions requiring access to sensitive information.

In June 2007 the Joint Security and Suitability Reform Team was established to create and realize a transformed, modernized, fair, and reciprocal security clearance process for the Executive Branch. The Reform Team is a collaborative, multi-stakeholder endeavor leveraging and enhancing the capabilities of the DoD, the Office of Management and Budget, the Office of the Director of National Intelligence and the Office of Personnel Management. The Reform Team used LSS methodology to design a reformed security clearance process and is now assisting federal agencies to implement these changes.

Leadership focus and accountability have resulted in significant and measurable process improvements. The Department and its partners have shortened cycle times for security clearances (military, civilian, and contractors) and eliminated longstanding backlogs of clearance cases. The Intelligence Reform and Terrorism Prevention Act (IRTPA) of 2004 established the goal for completion of 90 percent of all clearances within 60 days by the end of 2009, where practicable.

Performance data for FY 2006 indicated that clearances were taking 165 days, on average, across the Federal Government. The DoD cycle time was reduced to 82 days by December 2008 and just 62 days as of September 2009, thereby helping the Executive Branch meet IRTPA goals. DoD's application of specialized automation has enabled tens of thousands of cases to be adjudicated more efficiently, saving man-years of effort. Greater use of automation also enables vastly improved performance measurement, such as the number of days to complete an initial investigation and the number of adjudications completed electronically.

The dramatic reduction in security clearance processing time is a noteworthy and long-sought achievement. These improvements enable greater responsiveness in hiring and reassigning the workforce and result in stronger alignment of human capital to the Department mission.

CPI/LSS is also being widely embraced in the Military Departments and Components:

- Army depots are winning Shingo[1] prizes for improved processes, and installations around the world are using LSS to leverage efficiencies of scale, improve safety reporting, and racking up cost avoidance dollars, all while improving combat capability and providing benefit to the warfighter.

[1] The Shingo Prize is recognized as the premier award for operational excellence. It is the only award program in the world focused on lean manufacturing and the elimination of waste. The prize is awarded annually by the Jon M. Huntsman School of Business at Utah State University.

- Air Force leadership has issued clear direction to implement LSS through the Air Force Smart Operations for the 21st Century (AFSO21) CONOPS and Implementation Plan. The Air Force is extending its focus on LSS into the Air National Guard and the time savings being realized through improved processes are allowing additional training and certification of Airmen. The Air Force also won a prestigious award for streamlining the maintenance and repair process of the C-5.

- Aircraft Repair & Overhaul: US Naval Aviation Depot, Cherry Point had a 310 day turnaround for H-53 aircrafts and a throughput of 23 aircrafts per year. Upon completion of the improvement project the turnaround time dropped to 180 days and the depot delivered 23 aircrafts in six months for an increase to 46 per year.

In closing, I want to emphasize that performance management at DoD - initiating change and measuring results to ensure that change leads toward the right outcomes - works well. However, it is an ongoing process, and the holistic approach we are taking is new to the Department. We are committed to managing the right things in the right way, not only for the taxpayer, but for our brave men and women in uniform. I appreciate the work of this panel in looking for potential solutions to some of the most difficult challenges facing our Department and look forward to your questions.

Elizabeth A. McGrath

Assistant Deputy Chief Management Officer for Department of Defense

Ms. Elizabeth (Beth) McGrath is the Department of Defense Assistant Deputy Chief Management Officer and the Department's Performance Improvement Officer. In these roles, Ms. McGrath leads the Department's effort to better synchronize, integrate, and coordinate DoD business operations and serves as the Principal Staff Assistant (PSA) and advisor to the Secretary and Deputy Secretary of Defense for matters relating to management and the improvement of business operations. Ms. McGrath is focused on achieving increased efficiency, greater effectiveness, and improved performance in the Department's enterprise policies, processes, and systems. She is also responsible for the generation of the DoD Strategic Management Plan.

As part of her duties, Ms. McGrath executes the Department's primary governance body for business transformation, the Defense Business Systems Management Committee (DBSMC), serves as the Capability Portfolio Co-Manager for the Corporate Management and Support Portfolio, establishes performance goals and measurements for the Department's business operations, is responsible for implementing DoD's Continuous Process Improvement/Lean Six Sigma efforts, and is co-leading, with the Director of National Intelligence, an initiative to reform the government-wide security clearance process. Additionally, Ms. McGrath was instrumental in the establishment of the Business Transformation Agency (BTA) in 2005. Her responsibilities require integration and coordination with the other PSA organizations as well as other inter-governmental agencies, such as the Office of Management and Budget and the Government Accountability Office. Preceding her current position, Ms. McGrath served as the Principal Deputy Under Secretary of Defense for Business Transformation.

Previously, Ms. McGrath served as the Deputy Director for Systems Integration, Defense Finance and Accounting Service (DFAS). At DFAS, she created financial migration strategy that was executed with a collective budget of approximately $1B over the lifecycle. She managed the entire financial architecture supporting DOD-wide standard financial systems, integrating it with the DoD's evolving target, enterprise architecture. The project scope included logistics, personnel, medical, acquisition and financial missions including many information technology solutions.

Prior to joining DFAS, Ms. McGrath served in a variety of Program Management roles culminating in Program Executive Office (PEO) level oversight responsibility. She possesses extensive knowledge of acquisition-related statutes, regulations and policies with over 18 years applied acquisition experience with Major Defense Acquisition Programs (MDAP) and Major Automated Information Systems (MAIS). She served as the Business and Acquisition Manager on an international program with the United Kingdom and held numerous other financial, acquisition and program management positions within the US Department of the Navy.

Ms. McGrath holds a bachelor's degree in Economics from George Mason University and is a graduate of the Federal Executive Institute (FEI). She is certified Acquisition Level III in Program Management, Financial Management and Logistics, is a member of the DoD Acquisition Professional Community.

Panel on Defense Acquisition Reform
Administration Perspectives on Managing the Defense Acquisition System and the Defense Acquisition Workforce
Thursday, March 11, 2010
Questions and Information for the Record

Submitted by Mr. Conaway for Secretary Carter: Since your confirmation last year you have repeatedly emphasized your desire to maintain a healthy and competitive defense industrial base, sentiments that are also emphasized in the 2010 QDR.

I am aware of a contract recently awarded by the Air Force for KC-135 tanker maintenance in which Boeing Co. was chosen over a small contractor in Alabama that directly contradicts both your statements and the policy positions laid out in the 2010 QDR.

Alabama Aircraft Industries Inc. (AAII) has for generations provided services to the US military through its maintenance of C-130s, P-3s, and KC-135s. There has been an ongoing dispute between Boeing and AAII regarding the aforementioned contract to provide KC-135 maintenance. As a small business of about 800 employees, down from its peak of 1500, AAII is the only company other than Boeing that can perform this maintenance, and it has been doing so for over 5 decades with an excellent record of delivering defect-free aircraft.

The KC-135 work is the vital core of AAII's business, without which the company will be forced to shut its doors, leaving the USAF with only one source of repair for a vital airplane. Not only would maintaining multiple maintenance sources reduce costs through the utilization of existing resources, but it also provides for continued needed capacity to cover unforeseen changes in demand. Given the continued KC-X delays, multiple sources are critical to the KC-135 maintenance program and this aircraft's continued service to the war fighter.

How does USAF decision to eliminate a competitive, small business square with your position, comments and the 2010 QDR?

Secretary Carter: I appreciate your concern for the health of our industrial base, and I remain committed to robust participation by qualified small businesses. Still, sufficient competition and capacity exists to assure the future of KC-135 operations. Further, the process of procuring services in a competitive marketplace is governed by federal laws and regulations, and the KC-135 Programmed Depot Maintenance competition has been thoroughly reviewed by both the Government Accountability Office and two Federal Courts. We take great care to ensure fairness throughout all such competitions, and we will continue to do so as required by law.

Mr. Andrews Information for the Record: Page 60, Line 1397 (now pages 65-66, lines 1425-1435)

Secretary Carter:

(The information follows):

The Department directed, via RMD 700, a study to improve the transparency of budgeting and programming of resources for Major Defense Acquisition Programs (MDAPs). The initial study effort is investigating the options to ensure transparency of the data reported in our Selected Acquisition Reports (SARs) and consistency with information provided in the President's Budget Request, Future Years Defense Program, and Budget Justification documentation. Under this first effort, we are reviewing the merits of and risks associated with reporting SAR financial data through one authoritative source, such as the USD (Comptroller) system, along with improvements in data structures. Decisions made to use either a common, single data source, or multiple data sources, and the aforementioned structure changes will be implemented in time for submission of the December 2010 SARs in early April 2011.

Successes from the SAR transparency study above will serve as the baseline to further improve the transparency of budgeting and programming of resources – Research, Development, Test and Evaluation, Procurement, Military Construction, and Operations and Maintenance – for MDAPs, including details at the Subprogram level as reported in SARs. This second study effort, intended to incorporate statutory changes emanating from the 2009 Weapon System Acquisition Reform Act, certification of new MDAPs under Sections 2366a and 2366b, and all current MDAPs that are Section 2366 certified, will include recommendations for changes to all affected DoD Information Technology Systems in time to support the FY 2012 PBR.

Mr. Hunter Information for the Record: Page 37, Line 817 (now page 40, lines 823-826)

Secretary Carter:

(The information follows):

The Department encourages competition for most of our acquisitions including small arms weapons. The latest competition for the M16 rifle was full and open. Two companies entered that competition – Colt's Manufacturing Company in West Hartford, Connecticut, and FN Manufacturing in Columbia, South Carolina. The Army is developing an acquisition strategy for the development of a new carbine to support our Warfighters. The Army will use full and open competition of American-based companies for this acquisition. The Army held an industry day where 10-11 companies participated. The Army plans to release a draft Request for Proposal (RFP) as soon as the Joint Staff approves the weapon system's requirements document. The Army does limit the acquisition of specified small arms spare parts as required by title 10 USC 2473. This title is a unique statute requiring procurement of barrels, bolts, and receivers for a select set of small caliber weapons be restricted to three domestic firms (General Dynamics

Armaments and Technical Products, Colt Manufacturing Company, and FN Manufacturing), unless an exception is approved by the Secretary of Defense. The Army is evaluating the need for this statute. Initial Army findings indicate that this statute is not necessary because the authority to restrict acquisitions to support the industrial base reside in the Competition in Contracting Act.

WITNESS RESPONSES TO QUESTIONS ASKED DURING THE HEARING

MARCH 11, 2010

RESPONSE TO QUESTION SUBMITTED BY MR. ANDREWS

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RESPONSE TO QUESTION SUBMITTED BY MR. HUNTER

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QUESTIONS SUBMITTED BY MEMBERS POST HEARING

MARCH 11, 2010

QUESTION SUBMITTED BY MR. CONAWAY

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