

TWENTY-FIVE YEARS OF ACQUISITION REFORM:
WHERE DO WE GO FROM HERE?

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Testimony Before the House Committee on Armed Services

October 29, 2013

Chairman McKeon, Ranking Member Smith, distinguished members of the Committee, I appreciate the opportunity to appear again before this Committee. The title of your hearing outlines the nature of the challenge that the Department of Defense faces: Twenty Five Years of Acquisition Reform, and we still must ask, "where do we go from here?" For a quarter-century, indeed, for far longer than that, talented officials, many of them with illustrious records in industry, have grappled with the reality that our defense acquisition system is fundamentally and structurally broken.

Yet despite the best efforts and good intentions of so many well-intentioned, indeed devoted, public servants, and some small-scale successes that they might have achieved, the acquisition system remains severely challenged. Cost overruns, schedule delays, programs that were summarily cancelled, all too often have characterized the Department's procurement of weapons and systems. Currently programs face delays that last, on average, more than two years. Roughly a third of all major system acquisition programs have breached Nunn-McCurdy ceilings, which means that at a minimum, they have increased by 30 per cent over their original baseline estimates or at least 15 per cent over current baseline estimates.

Finally, more money is buying increasingly less product. Cost growth, as opposed to inflation, has resulted in severe cutbacks in weapons system programs, of which the F-35 is the latest in long list of sorry examples. Despite constant so-called improvements in manufacturing processes, many of which have proved themselves in the commercial sector--Lean Six Sigma being but one example--costs continue to grow and quantities continue to shrink. It is decades since Norm Augustine lamented

that at the rate costs were rising and quantities declining, DOD ultimately would be able to afford no more than a single plane, a single ship and a single tank. Nothing that has happened in the intervening years has thus far disproved his trend analysis.

No less troubling is the management of DOD's acquisition of services. Traditionally subjected to far less scrutiny than the acquisition of goods, services now account for more than half of all DOD acquisition. Yet poor product, duplication, and, more generally, waste, and occasionally fraud and abuse, have plagued the Department's acquisition of services for years. Wartime contracting has been a particular cause for concern. The Commission on Wartime Contracting in Iraq and Afghanistan asserted that between \$31 and \$60 billion were lost through waste, fraud and abuse between 2001 and September 30, 2011. The higher range of the estimate was probably closer to the truth, while more of the same has been uncovered since then.

Invariably, the arrival of a new senior official on the DOD scene leads to a new effort to "fix" the acquisition system. These fixes usually consist of two thrusts: new terminology--colloquially called "buzz words" and new processes. The career acquisition bureaucracy, hardened by cynicism, will mimic the buzz words until the incumbent official departs and a new one arrives, with a lexicon of his or her own. And the processes will often involve a shuffling of the bureaucratic cards, with new teams of officials replacing former teams, but with little advancement in management efficiency, or for that matter, accountability. "Where do we go from here?" therefore is not merely a question. It is a desperate cry for help.

As long ago as 1975, a subcommittee of the Senate Government Affairs Committee, as it was then called, held a series of hearings on defense acquisition, including one on major systems acquisition reform. At the time, the Navy was reeling from the skyrocketing costs of the LHA program. There had been major program cost overruns that undermined programs even before then: the Air Force's Skybolt missile, the Army's Shillelagh missile and the Navy's version of TFX aircraft, to name but three. Numerous Defense Science Board reports, and a host of commissions and task forces, notably the 1986 Packard Commission, legislation ranging from Goldwater-Nichols of that same year, through Clinger-Cohen ten years later, through the 2009 Weapons System Acquisition Reform Act have all recommended, and in the latter three cases, mandated change. Think tanks have also weighed in with recommendations for change, notably recent efforts by the Center for Strategic and International Studies. In addition, DOD's own initiatives such as the 1999 Commonality Initiative, which incorporated lessons learned from previous attempts at common development ranging as far back as the TFX; the emphasis on "spiral development" in the early 2000s; the creation of Rapid Acquisition cells in 2009; the Better Buying Power memorandum of November 2012 and the numerous revisions to the DOD 5000 series of acquisition directives, all have sought to reform aspects of the acquisition system.

The creation of Rapid Acquisition Cells illustrates the magnitude of the problem, however. These cells and the rapid acquisition effort more generally, represent an effort to bypass DOD's own acquisition system, which has been deemed too cumbersome to meet the urgent needs of Combatant Commanders. There could be no greater indictment of the current system.

The current era of budget constraints renders the need for acquisition reform even more urgent than in the past. The Department of Defense must husband every available dollar and put it to its most efficient use. It can no longer tolerate massive cost overruns, delays, and waste, much less fraud and abuse.

There is little utility in assessing blame for the current state of affairs. Instead, both the Executive Branch and the Congress must commit to a radical restructuring of the acquisition system, in all its manifestations. And, when referring to the Executive Branch, it is not only the Defense Department that must implement change. The White House, notably the Management side of the Office of Management and Budget, must press for reform, and the Office of Personnel Management must ensure that its policies do not undermine reform, as, it could be argued, is the case today.

Creating a Corps of Educated Consumers

It is widely recognized that the Department of Defense no longer boasts the same level of technical and financial expertise that it once did. Indeed, the Department no longer is at the cutting edge of American science and technology. Silicon Valley, the North Carolina Research Triangle, Route 128 in Massachusetts, and a host of other locales have outpaced DOD in many areas of advanced technology, notably in various aspects of Information Technology well as materials technology that were once the Department's preserve.

Yet there is no Department-wide program to ensure that its civilians remain conversant with the most up-to-date technological developments. Too often they must

rely on contractors for analytical and scientific support. Similarly, despite the availability of on-line courses, as well as the curriculum of the Defense Acquisition University, too many program managers appear to be deficient when it comes to supervising the progress of programs. Once more it is contractors who must come to the rescue, providing support to program management offices and occasionally overstepping the line between non-governmental and inherently governmental activities. Finally, too many contracting officers carry out their tasks in less than optimal ways. On the one hand, when deciding competitions, many will opt for lowest bidders, overlooking the risk that invariably one gets what one pays for. On the other hand, contracting officers all too often are insufficiently rigorous when approving options on contracts, and when granting award fees--in the latter case, even when contractor performance was clearly sub-par.

What the Defense Department needs is a rigorously enforced carefully structured continuing education and re-certification policy and process for its civilians, one that mirrors the professional military education that is mandatory for promotion in the military. For example, to reach the rank of field-grade officer, one must attend Command and Staff College. To achieve flag rank, it is necessary to complete a year at one of the War Colleges or their equivalent. Yet not all senior acquisition officers must meet the same level of requirements. Courses at the Defense Acquisition University are not all year-long, many involve distance learning. Prerequisites are not terribly demanding: relatively few years of experience are required, in addition to a bachelor's degree, regardless of the applicant's class rank.

Moreover, the DAU is geared to the training of acquisition managers. It does not afford them the ability to become current with the latest technological developments. Finally, managers can fulfill requirements for certification as acquisition officers by taking on-line courses, which are simply not the same thing as face-to face instruction, even if one can interact with the instructor on-line.

It is true that Defense civilians are generally encouraged to earn higher degrees. The Department affords a small number of civilian acquisition officers to spend a semester or even a year at one of the country's major business schools. Unfortunately, acquisition managers are reluctant to lose their best personnel for six months or longer. Moreover, when these people return to their offices, they often cannot return to their previous positions, which of necessity have already been filled by someone else. Their managers are often at a loss as to where to place them, and for that reason do not always make the most of the education that these officials have just received. In effect, those who go off to university discover that they have jobs, not careers; the entire process ultimately can be counter-productive. As a result, both they, the Department of Defense, and ultimately, American taxpayers, are seriously short-changed.

This situation is in marked contrast to the military, who have detailers, in essence career planners, with whom they work throughout their careers, at least until they reach the twenty-year mark. Moreover, these careers tend to be shaped by templates that, while adjusted for each individual case, provide guidelines that ensure rigorous professional development. Incidentally, it is not only the military whom the government treats as pursuing careers, not merely holding down jobs. The Foreign

Service, the Coast Guard, the FBI and the Public Health Service likewise view their personnel as pursuing careers.

The same and even greater challenges that render it difficult for defense civilians to absent themselves from their offices while pursuing educational opportunities confront those who might otherwise be ready and willing to spend a year on an exchange program with industry. DOD does have a special program, the Secretary of Defense Fellows, which provides individuals with the opportunity to spend a year inside major businesses. This program is exceedingly valuable, because it affords the Fellows the opportunity not only to interface with senior corporate executives and understand their approach to doing business, including business with DOD, but it also affords them the chance to familiarize themselves with successful management techniques and often developmental technologies as well. Unfortunately, there are only some twenty SecDef Fellows, and virtually all are uniformed officers; civilians do not really benefit from this program.

I should add that there are also too many anecdotes of government officials who seek educational opportunities as a stepping stone to obtaining positions in industry and other fields outside government. Clearly the Department is wasting its money on these people, while depriving more dedicated officials with the opportunity to advance themselves.

Department of Defense officials face other hurdles as well. It is often difficult to require particular levels of education from prospective candidates for technical positions because doing so violates OPM policies. While some offices will indicate in

their job vacancy announcements that a given level of post-graduate education is "preferable," there is no ensuring that the most qualified candidate will get the position in question, particularly if the official making the final selection seeks to fill that position with a favored employee, who may not have the same technical skills.

I am dealing at length with personnel matters because my many years of government service, as well my even lengthier time in industry have convinced me that human resources are the key to progress in reforming acquisition as indeed, in virtually all other endeavors. The Department needs to increase its focus on the career development of its acquisition personnel, beginning with its recognition those in the acquisition corps are pursuing careers, and not merely holding down jobs. To the extent it does so, it tends to focus on personnel involved in weapons system related activities. On the other hand, those officials who deal with services contracting, which, as noted, represents more than half of all DOD acquisition, tend to have even less career support; as the Commission on Wartime Contracting pointed out,

agencies act though nuanced skills, tradecraft, and professional experience are not needed for services contracting...They have not...emphasized the importance of services contracting by providing focused training, education and on-the-job opportunities that would prepare contracting officers for the complex and large-scale services contracts they will encounter during a contingency

or, for that matter, it might be added, for peacetime contracting as well.

Doing so will involve the expenditure of precious resources, but I am convinced that every dollar spent on the training and development of civilian acquisition professionals will yield a significant return on investment. Moreover, as a former DOD Comptroller, I can assure you that the funds, which do not involve large sums,

can be found even today, even with the budget levels that are so constraining the work of the Department.

To begin with, OPM must grant DOD far more flexibility in hiring and developing top notch acquisition officials. Senior DOD managers should be permitted to authorize educational requirements for those seeking positions in the acquisition corps. If OPM is to any extent restricted by legislative authority, then that authority should be revised to lift any such restrictions.

OPM also needs to revise its definitions of career fields. Many of these definitions are vestiges of an earlier era. Career fields should include those for program managers in acquisition, a variety of financial management positions, as well as of contract management positions. Career definitions should recognize, and emphasize, that all aspects of acquisition involve careers, not jobs.

OPM should also mandate that promotions to senior acquisition positions should require levels of continuing education equivalent to those demanded of military officers: no one should be permitted to advance to a GS-14 position, the equivalent of a field grade officer, without at least six months of technical and/or managerial higher education. No one should be able to advance to the Senior Executive Service without a year at a major university or business school or in service in a major corporation that either supports, or could support, the defense industrial base. It would of course, be preferable that at some stage of an official's government career, he or she spent some time in industry prior to achieving an SES position. This would be the equivalent of the Goldwater-Nichols requirement that an officer needed Joint service

experience in order to qualify for flag rank. That requirement not only fundamentally enhanced the capability of the Joint Staff in particular, it also broadened the horizons of those in the military who pursued the joint route. That is exactly what is needed for the civilian acquisition corps as well.

In this regard, DOD should create an equivalent to the SecDef Fellows program that is fivefold larger than that program, in other words, that accommodates one hundred civilian fellows annually. And defense industry, as well as related high-tech industries, should be pressed to take in these fellows; it is as important for industry to understand the defense civilians as for civilians to understand industry.

Managers must also encourage their staffs to avail themselves of the many training opportunities that the government offers them. Some managers do so, but surely this is the responsibility of all managers. Moreover, managers should reward their staffs for capitalizing on the training opportunities offered them. The focus should be on constant self-improvement and career enhancement. Efficiency and cost savings will follow.

The Department must also expand the opportunities for young post-graduates to enter the acquisition corps, even during periods of hiring freezes, such as the one that is in force today. Funds should be made available to expand internship programs in the acquisition domain, which exist and are effective, but are far too limited. For example, though the Navy's civilian turnover rate is about 2500, only 300 of those slots are filled--by young people hired as interns. That number should at least be doubled. And the same principle applies to the other Services. Recent post-graduates

are conversant with state-of-the art technology. They replace civil servants who often have not taken a single course in engineering or physics or chemistry during the many decades of their government service. Moore's Law has overwhelmed them, and they are forced to rely far too heavily on contractors for what is termed SETA—scientific, engineering and technical assistance.

None of the foregoing should imply that the Department should not cut back on the size of its civilian work force, much less its services contractor force. As has been widely reported, the civilian workforce has grown significantly since 2001; the Defense Business Board and other organizations have recommended that the civilian work force be reduced by as much as 100,000 personnel. But that reduction should avoid targeting key acquisition personnel, including contracting personnel; doing so would be penny-wise and pound foolish, and maybe not even penny-wise.

With respect to contractor personnel, the Department faces the challenge of determining just how many services contracting individuals provide support such as SETA support. Many if not most services contracts focus on the service desired rather than on the number of personnel providing the service in question. Yet many of these personnel are former DOD military or civilians who return to their old jobs and merely exchange a DOD badge for a contractor badge. Secretary Gates launched an effort to cut back on the number of these individuals and the contracts that provide for them. He was very much on target and his efforts must be reinforced at every level of DOD operations.

Though I have focused primarily on civilians, civil servants in particular, but also contractors, it is important to note some needed enhancements to the capabilities the military component of the acquisition corps. Too often service in that corps is not sufficiently a factor in the promotion of military officers. The reverse should be the case: those officers seeking to pursue careers in any aspect of acquisition should be encouraged to do so, and rewarded for success.

In addition, as many studies have previously argued, military program managers should serve in their positions for a minimum of five years. Some already do so, and the director of the Navy's nuclear reactor program, not only serves for ten years but is a four star admiral. It should come as no surprise that the reactor program has historically been one of the best managed in DOD. Longevity and expertise do make a difference.

What to do about Process

Bureaucracies invariably focus on process, which often involves meetings rather than action, collective rather than individual decisions, and a staggering lack of accountability. As noted above, every new senior official brings with him or her "solutions" to the acquisition challenge, unusually accompanied by new terminologies and new processes, but yielding few substantive results. The Department of Defense culture is one that focuses on process rather than substance, on past practice rather than on future opportunities, on collective decision-making rather than on individual accountability.

The 1986 Packard Commission report asserted that “the truly costly problems are those of rigid organization and overcomplicated procedure.” Not very much has changed in the nearly three decades since those words were written. What often changes, in fact, are the names of committees and officials that oversee acquisition. The Defense Acquisition Board previously was named the Defense Systems Acquisition Review Committee (or DSARC). The committee has long been co-chaired by the Department’s leading acquisition official, variously called the Under Secretary for Research and Engineering, the Under Secretary for Acquisition, the Under Secretary for Acquisition, Technology and Logistics. It is only the nomenclature that is different.

In contrast to the constant tinkering with process, the substantive challenge begins with requirements definition. The Joint Staff has for some time waged a valiant effort to force clear definition of requirements. Admiral Winnefeld, the current Vice Chairman, has emphasized that requirements must not only be defined, but upheld in the course of the development and production process. He is absolutely correct, and his objective must be enforced at every level of program management. Moreover, program managers and their deputies, whether military or civilian, should be held accountable for deviations from meeting those requirements. Transfers to other positions are not enough. Offenders should be disciplined and their careers clearly jeopardized.

In the same vein, program managers should be held accountable for approving engineering change proposals or ECPs. These ECPs are probably the most significant cause of cost growth. They cause production delays. They undermine uniformity of

production runs. They should only be approved by the highest supervisory levels and then only sparingly.

The requirements process should also be open both to commercial systems as well as foreign military systems to a far greater extent than is currently the case. The notion of "not invented here" should never have been tolerated. Today, when the commercial sector leads DOD in many advanced technologies, and is as concerned about security as is the government, there should be an accelerated emphasis on off the shelf systems. The Secretary of Defense should mandate that acquisition managers justify in writing their decision not to acquire off-the-shelf systems and that these justifications be undersigned by an official in his office.

Just as DOD no longer has the monopoly on cutting-edge technology, so too does it no longer lead foreign nations in all aspects of weapons system development. From the acquisition of remotely piloted vehicles (as unmanned aerial vehicles were then called) in the 1980s, to the accelerated development of the MRAP to counter IEDs during the Iraq and Afghan wars, the Department has occasionally recognized that other states might have systems that were more effective than those developed in America. That is increasingly the case today, and should not be undermined by excessive emphasis on specialized requirements that effectively block any foreign purchases. Secretary Gates was virtually the "action officer" in ensuring the production and acquisition of MRAP. That cannot possibly be the case with respect to any weapons system, but clearly, the impetus for obviating the "not invented here" syndrome must come from the very top of the Department.

Concurrent Development

One of the major factors undermining adherence to both cost and schedule is the proclivity of the DOD for concurrent development and/or testing. There have been intermittent efforts to curb this practice—“spiral development”—was one such attempt to do so, but as the current troubles of the F-35 make clear, concurrency (in the case of the F-35, it is concurrent production and testing) continues to plague the acquisition system.

Program managers invariably turn to concurrency in order to speed up delivery of a weapons system. Equally invariably, concurrency results in major cost overruns, schedule delays, insertion of additional tests, and reductions in production runs. The DOD should simply ban concurrency, except under the most extraordinary circumstances, when it should be approved by the Deputy Secretary of Defense.

Reforming the Defense Contracts Management Agency

The Defense Contracts Management Agency is charged with administering the Department’s contracts. Yet it is widely acknowledged that defense contract management leaves much to be desired. Acquisition officers are disincentivized from saving money on programs because the Pentagon culture tends to reward those who manage to increase their budgets from year to year, and, even more important, penalizes those who do not spend the entirety of the budgets allocated to them. As a result, contract managers have developed a “use it or lose it” mentality.

This attitude can only be reversed through a complete overhaul of the measurement and reward system that governs the advancement of contract managers. Cost containment should be a major criterion for promotion. Currently, it is not a factor at all. Unauthorized ECPs are not penalized in performance evaluations; they should be. These reforms must be initiated by DCMA, mandated at the Secretary of Defense level and then implemented throughout the Department. Contract management ultimately is DCMA's responsibility; its staff should be given credit for contracts that have successfully been fulfilled, but held accountable for those that have suffered overruns, delays, or any other problems.

Acquisition Rules Must Be Simplified and the Contracting System Reformed

Bureaucracy is enamoured with rule-making, and defense acquisition is rife with rules. There are literally thousands of pages of acquisition rules: the Defense supplement to the Federal Acquisition Regulations (known as the DFAR) only adds to the complexity that the government imposes on the system. Rules are rarely simplified; they increase in number and complexity with the passage of time.

The system's complexity scares away many firms that could potentially offer DOD important products. On the other hand, companies that know how to navigate the system can win contracts even though their products might not be the most effective for carrying out the Department's mission.

Beyond the rules themselves, the contracting officers who apply them need to be better trained for their jobs. All too often, contracting officers award contracts to the lowest bidder, regardless of the quality of the product or service being offered. They do so in order to avoid the headache of bid protests: choosing a contractor on the basis of best value tends to be far more difficult to justify objectively, and, given the cottage industry that has grown up around the practice of bid protests, the attraction of going with the lowest bidder—even if the bid is “low balled” and likely to be revised, especially if ECPs are issued—is hard to resist. In order to curb the current proclivity for awarding low bids, DOD not only needs to focus on educating and training contracting officers, but also should disincentivize them from awarding contracts with little regard for best value. One way to do so would be to penalize officers who award a contract to the lowest bidder only to have the price revised upward within twelve months of contract award.

Lastly, experience demonstrates that weapons are most efficiently procured in multi-year tranches—and the Congress should be more supportive of DOD requests for funding multi-year programs. On the other hand, multi-year services contracts, or contracts with multiple option years and/or award fees, tend to result in payment for poor performance. Congress should legislate that unless certified by the Secretary of Defense, no services contract should have more than two option years; moreover, justification for award fees should be in written form, to avoid the automatic award of these fees regardless of performance.

In Conclusion

There is much that can be done to reform the acquisition system. The solutions to the problems that plague that system are not new. What is needed is consistent leadership on the part of DOD officials, and consistent support from the Congress, with legislation as required.

The acquisition morass is not a partisan issue. Democrats and Republicans have both tried to improve the system; and both Democrats and Republicans have failed to do so in any material fashion. The system can, in fact, only be reformed if the Secretary of Defense not only makes it a priority objective both personally and for the Department, but if his successors also retain that priority and make it their own. Similarly, the Congress must approach the acquisition challenge on a bipartisan basis; both within its own deliberations, and in support of the Secretary of Defense regardless of the Secretary's party affiliation. Only in that manner will reform really take place, both to the betterment of our military capability and to the Nation's security in the years to come.