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Twenty-five Years of Acquisition Reform: Where Do We Go From Here?

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Chairman McKeon, Ranking Member Smith, distinguished members of the Committee, thank you for the opportunity to appear before you today on behalf of the Congressional Research Service to discuss efforts to improve defense acquisitions.

The Department of Defense (DOD) has always relied on contractors to equip and support our military. Contractors design, develop, and build advanced weapon systems, construct military bases around the world, and provide needed services such as intelligence analysis, logistics, and base support.

Operations over the last thirty years have highlighted the critical role that contractors play in supporting U.S. troops—both in terms of the type of work being performed and number of contractors. Over the last decade in Iraq and Afghanistan, and before that, in the Balkans, contractors accounted for 50% or more of total U.S. forces in theatre.

As the debates over the Mine Resistant Ambush Protection vehicle (MRAP) and other systems have highlighted, getting the right systems into the hands of our troops in the field quickly and efficiently can save lives and impact operations. Conversely, the ineffective execution of defense acquisitions can prevent troops from getting the resources they need, when they need it, and can lead to the wasteful spending of billions of dollars—dollars that could have been used to fund other military requirements.[1]

For decades, Congress and the executive branch have expressed frustration with the level of waste, mismanagement, and corruption in defense acquisitions, and have spent significant resources seeking to reform and improve the process. Despite these efforts, many acquisition programs still experience cost overruns, schedule delays, and performance shortfalls.

As reflected by events in the Middle East, the United States must prepare for a diverse range of hard-to-predict security challenges, and do so within the context of constrained budgets. Many analysts believe that to meet these challenges, the United States can no longer afford a defense acquisition system that they see as costly, overly-complex, and slow to respond to an ever-changing world.

DOD Contract Obligations

In FY2012, the U.S. government obligated $515 billion for contracts for the acquisition of goods, services, and research and development. The $515 billion obligated on contracts was equal to approximately 14% of the entire FY2012 U.S. budget of $3.5 trillion (**Figure 1**).[2] DOD obligated $360 billion on federal contracts, which was more than all other government agencies combined.

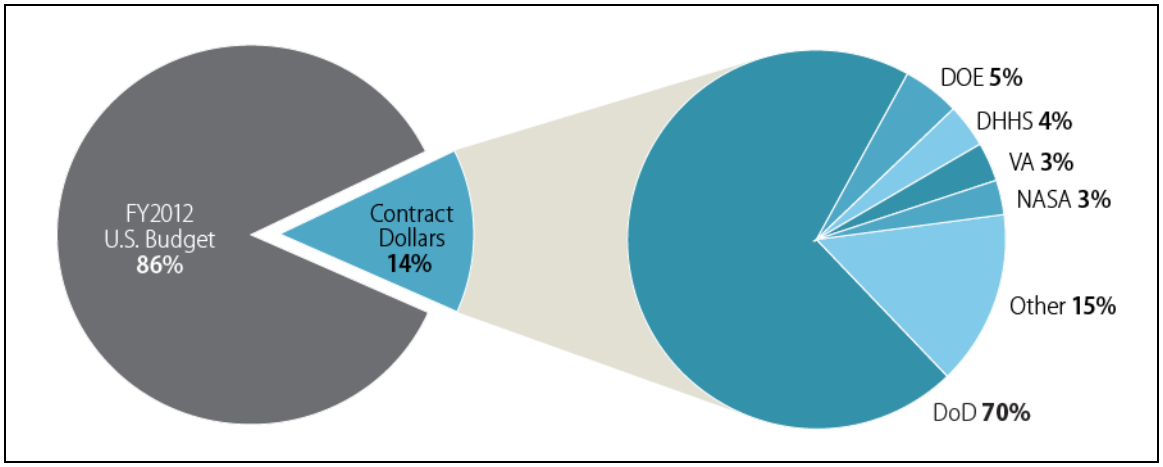
[1] Department of Defense, *Quadrennial Defense Review Report*, February 2010, p. 93. U.S. See also Government Accountability Office. *Stabilizing And Rebuilding Iraq: Actions Needed to Address Inadequate Accountability over U.S. Efforts and Investments*. GAO-08-568T. March 11, 2008. p. 4, 6; *Urgent Reform Required: Army Expeditionary Contracting, Op. Cit*., p. 2-3.

[2] Calculations are based on total contract obligations data as recorded in the Federal Procurement Data System—Next Generation, January, 2013. See also: the Budget of the United States Government for Fiscal Year 2012 (see http://www.treasury.gov/press-center/press-releases/Pages/tg1734.aspx).

DOD's contract obligations were equal to 10% of the entire U.S. budget. In FY2012, contract obligations represented 52% of total DOD obligations.[3]

Figure 1. Contract Obligations by Agency

FY2012



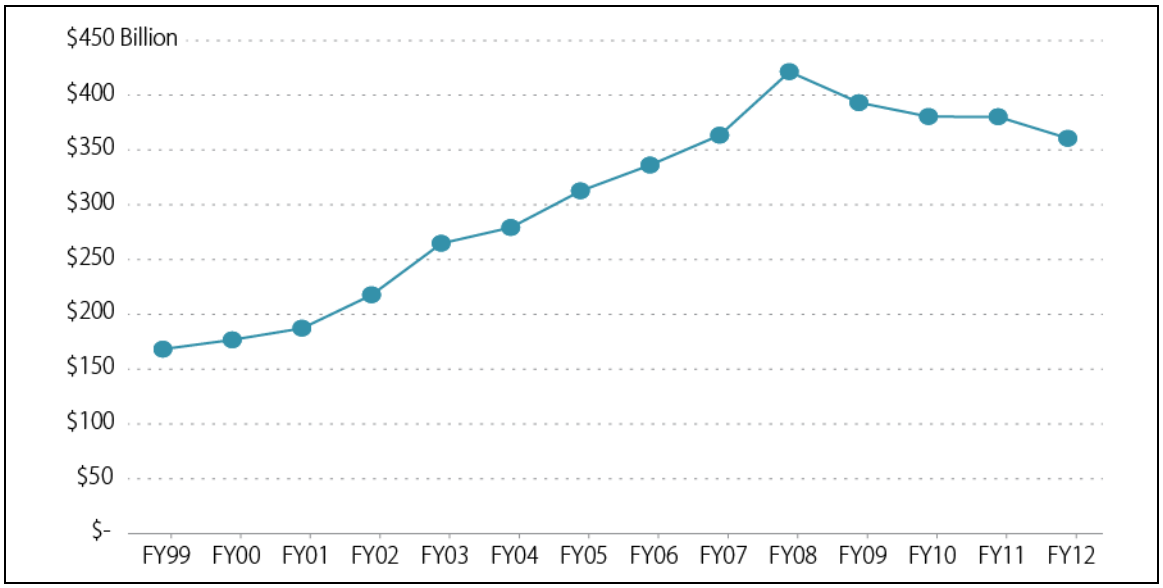
Source: Federal Procurement Data System-Next Generation, January, 2013. Figure by CRS Graphics.

From FY1999 to FY2012, adjusted for inflation (FY2012 dollars), DOD contract obligations increased from $170 billion to $360 billion (see **Figure 2**). Over the first part of this period—FY1999-FY2008—DOD contract obligations increased 150%, from $170 billion to $420 billion. This trend reversed itself in FY2008: from FY2008-FY2012, DOD contract obligations decreased by 14%, dropping from $420 billion in FY2008 to $360 billion in FY2012.

[3] For purposes of this statement, total obligations are defined as total direct obligations. See Department of Defense, *Budget for Fiscal Year 2005-FY2012*, Financial Summary Tables. Deflators for converting into constant dollars derived from Office of the Under Secretary of Defense (Comptroller), Department of Defense, *National Defense Budget Estimates for FY2012*, "Department of Defense Deflators – TOA 'Total Non-Pay,'" Table 5-5, p. 58, March 2011.

Figure 2. DOD Contract Obligations (FY2012 dollars)

FY1999-FY2012 (in billions)



Source: CRS analysis of data from the Federal Procurement Data System—Next Generation, January, 2013.

The Quest for Acquisition Reform

Congress and the executive branch have long been frustrated with waste, mismanagement, and fraud in defense acquisitions, and they have spent significant resources seeking to reform and improve the process. In the early 1980s, a number of major weapons systems programs were experiencing dramatic cost overruns, overruns that increased the defense budget by billions of dollars but resulted in the same number, or in some cases fewer, weapons. These programs included the Patriot missile system (37% cost growth over original estimates), the Hellfire missile (48% growth), the Blackhawk helicopter (24% growth), and the F-18 (21% growth). According to the December 1980 Selected Acquisition Report, there was a $47 billion cost increase for 47 major weapon systems in just the last three months of 1980.

Public and congressional concern over cost growth led to several reform efforts. In 1982, Congress passed the Nunn-McCurdy Act, which created a reporting requirement for programs experiencing cost overruns.[4] In 1985, President Reagan established the *President's Blue Ribbon Commission on Defense Management*, which issued a final report (known as the Packard Commission Report) that contained far-reaching recommendations "intended to assist the Executive and Legislative Branches as well as industry in implementing a broad range of needed reforms." Many of DOD's current initiatives to improve acquisitions can be traced back to the ideas and recommendations in the Packard Report.

Efforts to address cost overruns, schedule slips, and performance shortfalls have continued unabated, with more than 150 major studies on acquisition reform since World War II. Every administration and virtually every Secretary of Defense has embarked on an acquisition reform

[4] The Act was included in the Department of Defense Authorization Act, 1983 (P.L. 97-86)

effort.[5] Congress has also been active in pursuing reform efforts, by legislating changes through the annual National Defense Authorization Acts as well as through stand-alone legislation, such as the Federal Acquisition Streamlining Act of 1994,[6] Clinger-Cohen Act of 1996,[7] and Weapon System Acquisition Reform Act of 2009.[8]

The various studies and reform efforts have dramatically altered the process by which DOD procures goods and services. Major changes include

- creating the Federal Acquisition Regulation to develop uniform acquisition regulations across DOD and the federal government,
- establishing the Defense Acquisition University to improve the performance of the acquisition workforce,
- instituting a streamlined management chain (Program Manager-Program Executive Office-Service Acquisition Executive-Under Secretary of Defense) to foster accountability and authority,
- implementing a milestone decision process to improve oversight,
- using multi-year procurement to promote cost efficiency (with Congressional approval),
- requiring independent cost estimates to improve budgeting forecasting,[9]
- establishing a joint requirements board to improve requirements development and eliminate duplicative programs, and
- moving away from military standards and specification to promote the use of commercial technologies.

[5] Robert F. Hale, *Promoting Efficiency in the Department of Defense: Keep Trying, Be Realistic*, Center for Strategic and Budgetary Assessments, January 2002, p. 7.

[6] P.L. 103-355.

[7] P.L. 104-106.

[8] P.L. 111-23.

[9] The Cost Analysis and Improvement Group was established in 1972 to develop independent cost estimates. Today, independent cost estimates are generated by the Office of the Director of Cost Assessment and Program Evaluation.

Cost, Schedule, and Performance Problems Still Persist[10]

There is much debate over how effective the numerous acquisition reform efforts have been and it is not clear whether the reform efforts of recent decades have generally accomplished their aims. According to many analysts, since the 1970s and 1980s, acquisition programs continue to experience significant cost increases.[11] As one RAND report stated, "despite the many acquisition reforms and other DoD management initiatives over the years, the development cost growth of military systems has not been reduced."[12] Consider the following:

- Since 1993, development contracts have had a median of 32% cost growth (not adjusted for inflation).[13]
- Since 1997, 31% of all Major Defense Acquisition Programs have had cost growth of at least 15%.[14]
- During the period 1990-2010, the Army terminated 22 Major Defense Acquisition Programs; every year between 1996 and 2010, the Army spent more than $1 billion on programs that were ultimately cancelled.[15]
- Aircraft development times have increased significantly since 1980.[16]

[10] Cost, schedule, and performance are the benchmarks most commonly used to evaluate the acquisition system. It is important to note, however, that as paradoxical as it may seem, avoiding or minimizing procurement cost growth is not always synonymous with minimizing procurement cost, and that a sustained, singular focus on avoiding or minimizing procurement cost growth might sometimes lead to higher procurement costs for the government (See Statement of Ronald O'Rourke, Congressional Research Service, Before the House Armed Services Committee, Subcommittee on Seapower and Projection Forces, *On the Navy's FY2014 30-Year Shipbuilding Plan*, October 23, 2013). In addition to cost growth discussed in this report, DOD acquisition has experienced increasing total costs for weapon systems, driven in part by additions to weapon systems of technologies that provide marginal increases in capabilities relative to their cost. The process of gaining marginal operational benefit for substantial cost is often referred to as gold-plating requirements. Former Secretary of Defense Robert Gates argued that DOD needed to "shift away from the 99-percent exquisite service-centric platforms that are so costly and so complex that they take forever to build, and only then in very limited quantities. With the pace of technological and geopolitical change and the range of possible contingencies, we must look more to the 80-percent solution, the multi-service solution that can be produced on time, on budget and in significant numbers. As Stalin once said, 'Quantity has a quality all of its own.'"

[11] See David S. Christensen, Ph.D., Capt. David A. Searle, USAF, and Dr. Caisse Vickery, "The Impact of the Packard Commission's Recommendations on Reducing Cost Overruns on Defense Acquisition Contracts," *Acquisition Review Quarterly*, Summer 1999, p. 251.; Obaid Yousossi, Mark V. Arena, and Robert S. Leonard, et al., *Is Weapon System Cost Growth Increasing?*, RAND, Santa Monica, CA, 2007; Deloitte Consulting LLP, *Can We Afford Our Own Future? Why A&D Programs are Late and Over-budget — and What Can Be Done to Fix the Problem*, 2008; U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Comments of Michael J. Sullivan, Government Accountability Office, Tools to Prevent Defense Department Cost Overruns, 112th Cong., 1st sess., March 29, 2011.

[12] See Obaid Yousossi, Mark V. Arena, and Robert S. Leonard, et al., *Is Weapon System Cost Growth Increasing?*, RAND, Santa Monica, CA, 2007, p. xx.

[13] Office of the Under Secretary of Defense Acquisition, Technology and Logistics, *Performance of the Defense Acquisition System*, 2013 Annual Report, June 28, 2013, p. 28.

[14] Based on the percentage of programs experiencing a Nunn-McCurdy breach. Office of the Under Secretary of Defense Acquisition, Technology and Logistics, *Performance of the Defense Acquisition System*, 2013 Annual Report, June 28, 2013, p. 20.

[15] U.S. Army, *Army Strong: Equipped, Trained and Ready*, Final Report of the 2010 Army Acquisition Review, January 11, 2011, p. ix.

[16] Office of the Under Secretary of Defense Acquisition, Technology and Logistics, *Performance of the Defense Acquisition System*, 2013 Annual Report, June 28, 2013.

- Procurement costs for the aircraft carrier CVN-78 have grown more than 20% since the submission of the FY2008 budget, and 4% since the submission of the FY2013 budget, prompting the Navy to program more than $1.3 billion in additional procurement funding for the ship in FY2014 and FY2015.[17]
- Part of the acquisition plan for the F-35 was referred to as "acquisition malpractice" by then acting Pentagon acquisition chief Frank Kendall.[18]
- A number of analysts have argued that the successive waves of acquisition reform have yielded limited results, due in part because of poor workforce management. A recent DOD report stated, "There is little doubt that acquisition reforms produce limited, positive effects because they have not changed the basic incentives or pressures that drive the behavior of the participants in the acquisition process."[19]

Increased Complexity of the Acquisition Process

Until World War II, the regulations and rules governing government contracting in general, and defense contracting in specific, were minimal. After WWII, the growth in defense acquisition regulations was so rapid and uncoordinated that an Office of Federal Procurement Policy study conducted in the late 1970s found that DOD had 79 different offices issuing procurement regulations, and that these offices had developed a procurement process that consisted of some 30,000 pages of regulations.

Concerned that the defense acquisitions process was an overly complex and unwieldy system, Congress enacted the Federal Acquisition Streamlining Act of 1994 (P.L. 103-155) to overhaul the process. Despite this act and various other congressional and executive branch efforts, contracting with the federal government remains a highly regulated process governed by a myriad of statutes and regulations.[20] These regulations govern such issues as

- how DOD solicits, negotiates, and awards a contract;
- what costs DOD will reimburse and how contractors account for those costs;
- the information systems used by contractors;
- and how contractors must comply with rules regarding such socio-economic goals as affirmative action, combatting trafficking in persons, and maintaining a drug-free workplace.[21]

A number of analysts have argued that rather than improving the system, acquisition reform efforts have made the process less efficient and effective.[22] A recent report on Army acquisitions

[17] CRS Report RS20643, *Navy Ford (CVN-78) Class Aircraft Carrier Program: Background and Issues for Congress*, by Ronald O'Rourke, p. 9.

[18] CRS Report RL30563, *F-35 Joint Strike Fighter (JSF) Program*, by Jeremiah Gertler, p. 7.

[19] J. Ronald Fox, *Defense Acquisition Reform 1960-2009: An Elusive Goal* (Center of Military History, 2011), p. 190.

[20] http://www.cdc.gov/od/pgo/funding/contracts/contractmain.shtm

[21] Carl L. Vacketta, *Federal Government Contract Overview*, http://library.findlaw.com/1999/Jan/1/241470.html.

[22] U.S. Institute for Peace, *The QDR in Perspective: Meeting America's National Security Needs in the 21st Century*, Final Report of the Quadrennial Defense Review Independent Panel, July 28, 2010, p. 83; Department of Defense, *Defense Acquisition Performance Assessment Report*, January 2006, p. 6; Business Executives for National Security, (continued...)

argued "in an attempt to not repeat past failures, additional staff, processes, steps, and tasks have been imposed. While well intended, collectively these modifications are counterproductive."[23] One observer noted, "If someone were asked to devise a contracting system for the federal government, it is inconceivable that one reasonable person or a committee of reasonable people could come up with our current system."[24]

Acquisition reform is not the only factor leading to the complexity of the acquisition system. Other factors include the increased complexity of military systems and inclusion of public policy goals into the acquisition process. Examples of regulations that reflect public policy goals include the requirement to purchase certain goods from domestic suppliers (such as the Berry Amendment and Buy American Act),[25] preferences for buying goods and services in Afghanistan to support campaign objectives in theatre, requirements to take steps to combat trafficking in persons,[26]set asides to promote small businesses and other entities perceived as disadvantaged, and the International Traffic in Arms Regulations.

In some instances, the goals of obtaining the best value for the government and promoting public policy goals are in conflict with one another. For example, some analysts debate the value of the various regulations requiring certain defense items to be manufactured domestically. Some analysts argue that these requirements are necessary to ensure domestic sources of supply during war time. Other analysts argue that domestic sourcing regulations unnecessarily increase the cost to government, that the regulations could be implemented in a more cost-efficient manner, and that some items are on the list for protectionist reasons, not to preserve military capabilities.

From the Wright Brothers to the Modern Tanker

In December 1907, the War Department issued a two-page procurement notice for what some observers have called one of the most important government contracts in U.S. history: a contract to build a flying machine that is heavier than air. By the February 1908 deadline, the War Department received 41 proposals.

The contract, awarded to Orville and Wilbur Wright, is noteworthy for its brevity (less than 10 pages), focusing on engineering requirements and contractor compliance. In contrast, according to a Boeing official, the original signed contract for the KC-46 tanker that was awarded to Boeing on February 24, 2011 consisted of 1,233 pages when originally signed–70 pages of the basic contract, with references to 27 attachments consisting of an additional 1,163 pages.

(...continued)

Getting to Best: Reforming the Defense Acquisition Enterprise, A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight, July, 2009, p. iii.

[23] U.S. Army, *Army Strong: Equipped, Trained and Ready*, Final Report of the 2010 Army Acquisition Review, January 11, 2011, p. iv

[24] J. Ronald Fox, *Defense Acquisition Reform 1960-2009: An Elusive Goal* (Center of Military History, 2011).

[25] See DFARS, Part 225.7002; FAR Part 25. See also CRS Report RL31236, *The Berry Amendment: Requiring Defense Procurement to Come from Domestic Sources*, by Valerie Bailey Grasso.

[26] FAR Subpart 22.17, Combating Trafficking in Persons.

The complexity of the regulations can make it difficult for some companies to enter the government contracting arena.[27] Many analysts believe that the rules and regulations governing defense acquisitions need to be further streamlined and simplified in a manner that reduces the burden on private industry and controls the increase in costs while preserving sufficient oversight.

Constantly Changing Acquisition Rules

Some analysts believe that the successive reform efforts have discouraged some companies from seeking government contracts out of concern that the rules could be changed in the middle of the game. Implementing successive changes to the acquisition system can also add to the cost of doing business with DOD, and make it more difficult for DOD and Congress to determine whether individual changes are having a positive or negative effect on the acquisition process.

Changes to the rules governing defense acquisitions generally are a result of legislation or executive branch rules and regulations.

Legislative Changes

In recent years, the primary mechanism by which Congress has exercised its legislative powers to reform defense acquisitions has been the annual National Defense Authorization Act (NDAA). Sections of these acts have prescribed requirements applicable to both specific acquisition programs and the acquisition structure overall, the latter of which has typically been addressed in Title VIII, which is usually called "Acquisition Policy, Acquisition Management, and Related Matters." Over the last six years, the Title in the NDAA dealing with acquisitions included more than 275 sections.[28]

Other titles within the NDAA can also include legislation that affects companies seeking to contract with DOD.[29] At times, Congress has chosen to enact legislation affecting defense acquisitions in a stand-alone bill. For example, in May 2009, Congress passed and the President signed into law the Weapon Systems Acquisition Reform Act of 2009 (S. 454/P.L. 111-23), which contained a number of sections that impacted defense acquisitions, ranging from issues related to competition to conflicts of interest.

Regulatory Changes

DOD procurement activities are generally governed by three sets of federal government regulations:

[27] Ibid. See also Grant Thornton, 16th Annual Government Contractor Industry Survey Highlights Book, Industry Survey Highlights 2010, p. 7.

[28] Based on CRS review of the National Defense Authorization Acts for FY2008-2012. Not all sections in the Title impact private industry; rather, the volume of sections portray the challenges in keeping abreast of legislative changes that could significantly impact industry.

[29] For example, the FY2010 NDAA, Title III (*Operation and Maintenance*) included a section effecting defense acquisitions. See P.L. 111-84, sec. 325.

- the first set of regulations, which applies to the entire federal government (including DOD unless stated otherwise), are found in the Federal Acquisition Regulation (FAR),
- the second set of regulations applies only to DOD and is found in the Defense Federal Acquisition Regulation Supplement, and
- the third set of regulations applies only to individual DOD components and is found in component-unique FAR Supplements.[30]

Procurement actions in DOD must adhere to the various regulations, and program managers must take the regulations into account during the planning and execution of their programs. The rules and regulations governing defense acquisitions can change at a rapid pace. For example, the DOD Directive 5000 series was established in 1971 to regulate the acquisition of major weapon systems. Over the next 40 years, the process for acquiring weapon systems set forth in the 5000 series was revised more than a dozen times –a change approximately once every three years. In some cases, the changes have been dramatic. The 5000 series documents have been issued and reissued, with different versions varying in length, ranging from as few as eight to as many as 840 pages. These regulatory changes also modified the number of milestones and other decision points required for approval from two, to three, to as many as seven. The documentation required for milestone reviews has ranged from one document in 1971 to dozens of documents in 2008.[31]

Successful Acquisition Reform Efforts

Given the results of past acquisition reforms, some analysts have argued that acquisition reform is a fruitless effort; that the fundamental problems with DOD acquisitions lie not in policy but in execution and expectations. In an article entitled *Let's Skip Acquisition Reform This Time*, MIT professor Harvey Sapolsky writes

> The limited number of available reforms have all been recycled. You can centralize or decentralize. You can create a specialist acquisition corps or you can outsource their tasks. You can fly before you buy or buy before you fly. Another blue-ribbon study, more legislation, and a new slogan will not make it happen.[32]

Other analysts point out that some past reform efforts have had modest success, generating savings in certain areas and keeping pace with a changing world. These analysts argue that defense acquisitions can and must be improved,[33] that learning from past reform efforts—understanding what worked, what didn't work, and why—is critical to successful acquisition

[30] The Army, Air Force, Navy and Marine Corps, Defense Logistics Agency, and U.S. Special Operations Command each have unique supplements.

[31] Based on discussions with analysts and government officials, CRS review of regulations and documentation, and review of academic working papers that have not yet been published. See J. Ronald Fox , *Defense Acquisition Reform: An Elusive Goal - 1960 to 2010* , Harvard Business School, Working Paper 11-120 , p. Appendix B, referenced with permission of the author.

[32] Harvey Sapolsky, "Let's Skip Acquisition Reform This Time," *DefenseNews*, February 9, 2009, p. 29.

[33] Robert F. Hale, *Promoting Efficiency in the Department of Defense: Keep Trying, Be Realistic*, Center for Strategic and Budgetary Assessments, January 2002, p. 11; Business Executives for National Security, *Getting to Best: Reforming the Defense Acquisition Enterprise*, A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight, July, 2009, p. iii.

reform.[34]A number of analysts have argued that Congress is critical to significantly improving DOD acquisitions.[35]

Some acquisition reforms have been judged successful. For example, most analysts view the original consolidation of disparate acquisition rules into a single, uniform Federal Acquisition Regulation as an improvement to the system. More recently, Congress has embarked on select acquisition reform efforts that analysts believe have contributed to improving defense acquisitions, including the *Weapon Systems Reform Act of 2009* and legislation and oversight connected with Operational Contract Support.

Weapon Systems Acquisition Reform Act of 2009

In developing the *Weapon Systems Acquisition Reform Act of 2009*, Congress considered reports by government and other analysts that focused on the early stages of weapon system development, prior Congressional hearings and investigations, and extensive consultations with DOD, industry, and outside experts. The Act did not seek to rectify all of the problems related to the acquisition process. Rather, it focused primarily on improving the early stages of weapon system development. Key provisions in the act included

- The appointment of a Director of Cost Assessment and Program Evaluation (CAPE),
- The appointment of a Director of Developmental Test and Evaluation,
- The appointment of a Director of Systems Engineering,
- A requirement that the Director of Defense Research and Engineering periodically assess technological maturity of MDAPs and annually report finding to Congress,
- A requirement that combatant commanders have more influence in the requirements generation process.

Given how recently the Weapon System Acquisition Reform Act was enacted, the full effect of the Act may not be felt until the next generation of weapon systems are in production. However, a number of analysts believe that the Act is having a positive effect.[36] Senior officials within the offices of the CAPE, Developmental Test and Evaluation, and Systems Engineering, believe that their offices are being better resourced and empowered to positively impact weapon system acquisitions.[37] These offices have been given access to senior leaders within the department, opportunities to provide input at key points in the acquisition system, and resources to carry out their responsibilities. For example, the CAPE has contributed to a better understanding of potential costs for a number of major programs, such as the F-35 Joint Strike Fighter program.[38]

[34] See: Robert F. Hale, *Promoting Efficiency in the Department of Defense: Keep Trying, Be Realistic*, Center for Strategic and Budgetary Assessments, January 2002, 7.

[35] See: Business Executives for National Security, *Getting to Best: Reforming the Defense Acquisition Enterprise*, A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight, July, 2009, p. 3.

[36] U.S. Government Accountability Office, *Defense Acquisition Reform: Reform Act is Helping DOD Acquisition Programs Reduce Risk, but Implementation Challenges Remain*, GAO-13-103, December 14, 2012.

[37] Based on meetings these senior officials had with CRS in early 2011.

[38] Based on discussions with senior officials from the Joint Staff, J-8 (Force Structure, Resources, and Assessment (continued...)

Operational Contract Support

In recent years, DOD has significantly improved its use of operational contract support. Many analysts and senior DOD officials have stated that without the efforts of Congress, DOD would not have been as successful at improving operational contract support.[39] Congressional efforts have included establishing the Special Inspector General for Iraq, the Special Inspector General for Afghanistan, and the Commission on Wartime Contracting in Iraq and Afghanistan. Congress has also held numerous hearings, published committee reports, and maintained focus on the issue.

These efforts combined to elevate the importance of the use of contractors and resulted in the development of a body of work that informed DOD and Congress. Examples of Congressional action often cited as having contributed to improving operational contract support include:

- legislation that led to establishment of the office of the Deputy Assistant Secretary of Defense (Program Support),
- legislation establishing general/flag officer billets for acquisition,
- legislation establishing the Defense Acquisition Workforce Development Fund, and
- oversight hearings that raised awareness of contractor abuses and led to the creation of Task Force 2010.[40]

The Changing Landscape of Defense Acquisitions

Much of the foundation of the defense acquisition system was developed during the early years of the Cold War. Over recent years, the defense acquisition landscape has changed significantly and a number of analysts believe that the acquisition system has not been sufficiently responsive to an ever changing world.[41] A 2009 study by the Defense Science Board argued that current DOD acquisition practices are inadequate in a changing industrial world.[42] Significant changes often cited by analysts include the following:

- *The defense industrial base has consolidated significantly over the last 25 years.* According to a study by the Defense Science Board, over the last 25 years, the number of major defense contractors decreased from fifty to six.[43] Such consolidation can hurt competition and innovation.

(...continued)

Directorate) and Joint Operations Support (Acquisition, Technology & Logistics), December 2011.

[39] CRS Report R43074, *Department of Defense's Use of Contractors to Support Military Operations: Background, Analysis, and Issues for Congress*, by Moshe Schwartz.

[40] For a detailed discussion of reform in operational contract support, see CRS Report R43074, *Department of Defense's Use of Contractors to Support Military Operations: Background, Analysis, and Issues for Congress*, by Moshe Schwartz.

[41] Department of Defense, *Defense Acquisition Performance Assessment Report*, January 2006, p. 7.

[42] Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, Buying Commercial*: Gaining the Cost/Schedule Benefits for Defense Systems*, Defense Science Board Task Force on Integrating Commercial Systems into the DOD, Effectively and Efficiently, February 2009, p. xvii.

[43] Office of the Under Secretary of Defense For Acquisition, Technology, and Logistics, *Creating an Effective National* (continued...)

- *DOD is becoming a less influential buyer*. Fewer and fewer U.S. industries are dominated by defense spending.[44] For example, in 1965 DOD accounted for over 75% of all U.S. semiconductor purchases. In 1990, government-wide purchases represented less than 10% of the market; by 2012, government represented less than 2% of semi-conductor purchases.[45]
- As DOD becomes a less important customer, an increasing number of companies are diversifying their revenue streams. In 2012, the top 100 defense companies received 28% of their revenue from defense contracts, down from 38% of revenue in 2007.[46] Other companies are choosing not to compete for defense contracts because of the extensive and ever-changing regulations, increased costs, auditing requirements, and the instability of funding associated with defense contracting, including sequestration, continuing resolutions, and lapses in appropriations.
- *Weapon and information technology systems are more complex and sophisticated.* Some analysts believe that the acquisition system is not nimble enough for acquisition programs that rely heavily on rapidly changing technologies. These technologies are posing new challenges to acquisitions. For example, according to U.S. Air Force Lt. Gen. Christopher Bogdan, the biggest risk to the F-35 program is software development.[47] Some analysts believe that the increasing complexity of systems is the reason that aircraft development times have increased significantly since 1980.[48]
- *U.S. Military Spending is declining.* U.S. defense spending is declining, necessitating cuts to force structure and modernization programs.[49] Despite decreased spending, the U.S. must still be prepared for a diverse range of security challenges.[50] Given current defense spending trends and potential security threats, DOD acquisitions may need to be more efficient to ensure sufficient resources to protect U.S. interests. Increased cost-efficiency could free up resources that can

(...continued)

Security Industrial Base for the 21st Century: An Action Plan to Address the Coming Crisis, Defense Science Board Task Force on Defense Industrial Structure for Transformation, July 2008, p. 15. See also: Kenneth Flamm, "Post-Cold War Policy and the U.S. Defense Industrial Base," *National Academy of Engineering of the National Academies*, vol. 35, no. 1 (Spring 2005); Barry D. Watts, *Sustaining the U.S. Defense Industrial base as a Strategic Asset*, Center for Strategic and Budgetary Assessments, Backgrounder, September 2013, p. 15.

[44] Kenneth Flamm, "Post-Cold War Policy and the U.S. Defense Industrial Base," *National Academy of Engineering of the National Academies*, vol. 35, no. 1 (Spring 2005); See: Business Executives for National Security, *Getting to Best: Reforming the Defense Acquisition Enterprise*, A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight, July, 2009, p. 4.

[45] Data provided to CRS by Semiconductor Industry, October, 2013.

[46] Zachary Fryer-Biggs, "Looking Beyond Defense: Firms Grow Revenue--By Diversifying," *DefenseNews*, July 22, 2013, p. 11.

[47] Andrea Shalal-Esa, "Pentagon Sees Some Risk of Delay in F-35 Software," *NBCnews.com*, April 24, 2013, at http://www.nbcnews.com/id/51649848/ns/technology_and_science-tech_and_gadgets/t/pentagon-sees-some-risk-delay-f--software/#.UlWMmm3zByU.

[48] Office of the Under Secretary of Defense Acquisition, Technology and Logistics, *Performance of the Defense Acquisition System*, 2013 Annual Report, June 28, 2013, p. 57.

[49] Department of Defense, *Defense Budget Priorities and Choices* , Fiscal Year 2014, April 2013, p. 5.

[50] Department of Defense, *Sustaining U.S. Global Leadership: Priorities for 21st Century Defense*, January 2012, p. 1, 4-7.

be used to maintain a robust force structure or fund research and development aimed at maintaining a qualitative advantage over potential adversaries.

- Some analysts have argued that the United States may not dominate defense spending in the future as much as it did in recent years, further requiring a more efficient and effective allocation of resources. These analysts point to China's military modernization, which has been fueled by two decades of steadily increasing military spending. According to a DOD report to Congress, China's officially disclosed military budget increased an average of 9.7% annually in inflation-adjusted terms over the decade from 2003 to 2012. At $114 billion, China's officially announced budget for 2013 represents an increase of 10.7% over 2012. The Pentagon believes China's actual military spending is higher than the officially disclosed figures, with the report to Congress estimating that China's military spending for 2012 was in the range of $135 to $215 billion.[51]
- *Industry is playing an increasingly important role in innovation and development.*[52] DOD is spending a smaller share of its contracting dollars on research and development (R&D) contracts. In FY1998, 18% of contract obligations were dedicated to R&D contracts compared to just 10% in FY2012 (see **Figure 3**). One analyst pointed out that even though the military is still an important funder of specific, leading-edge technologies such as supercomputers and microelectromechanical systems devices, "commercial demand for these products has far outstripped the requirements of the military."[53] At the same time, technologies developed for the commercial market are commonly adapted for military use. As one general officer stated, whereas the military used to go to industry and tell them to create a technology to meet a requirement, increasingly the military is going to industry and asking them to adapt an existing commercial technology to military requirements.[54]

[51] See CRS Report R41108, *U.S.-China Relations: An Overview of Policy Issues*, by Susan V. Lawrence, p. 16.

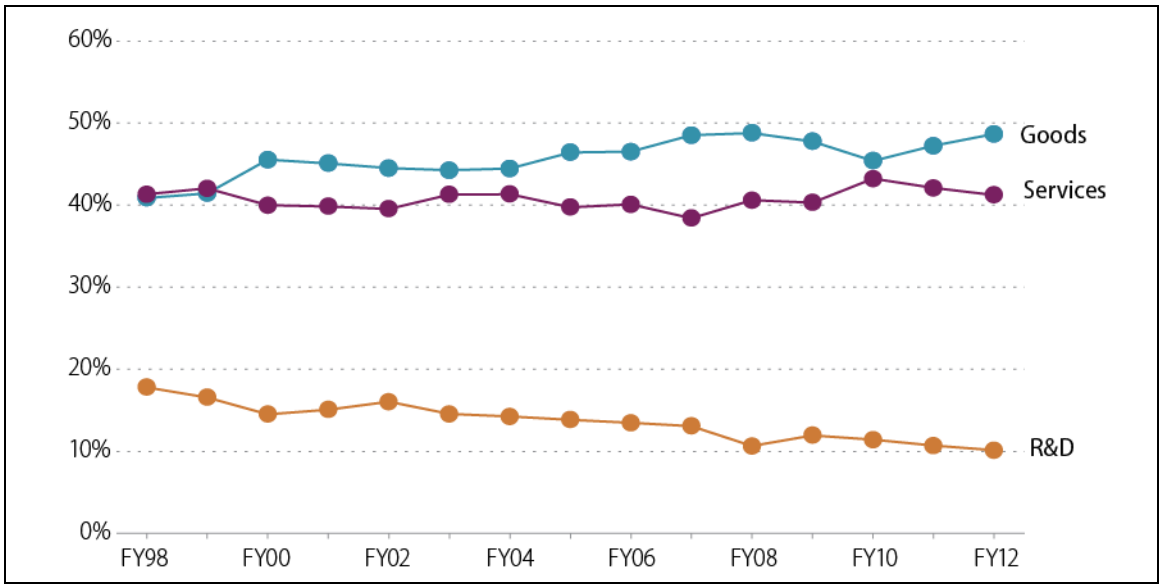
[52] See Business Executives for National Security, *Getting to Best: Reforming the Defense Acquisition Enterprise*, A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight, July, 2009, p. 4.

[53] Kenneth Flamm, "Post-Cold War Policy and the U.S. Defense Industrial Base," *National Academy of Engineering of the National Academies*, vol. 35, no. 1 (Spring 2005).

[54] Based on discussion with CRS analyst, May 8, 2013.

Figure 3. Percentage of Contract Obligations Dedicated to R&D Contracts

FY1998-FY2012



Source: Analysis of data from the Federal Procurement Data System, October 14, 2013.

Many analysts believe that an acquisition system designed to meet the challenges of the Cold War is not sufficiently nimble or efficient to address the security and economic realities of today.[55] They argue that in light of the evolving landscape the current cost overruns, schedule delays, and performance shortfalls in acquisitions have a debilitating effect on our military and threaten America's technological advantage and military capabilities.[56] Some of these analysts argue that a comprehensive acquisition reform is urgently needed.[57] Norman Augustine (former CEO of Lockheed Martin) and former Senators Gary Hart and Warren Rudman jointly wrote that the defense acquisition system operates

> too slowly and at vastly greater cost than necessary. In earlier times we could arguably afford such flaws in efficiency, but we can afford them no longer.... We must examine the status quo systemically, in all its aspects, in order to make necessary and long overdue changes. If we do not, we will be in an increasingly sclerotic defense acquisition process that may one day no longer be able to supply American war fighters with the means to assure this nation's freedom and security.[58]

[55] Department of Defense, *Defense Acquisition Performance Assessment Report*, January 2006, p. 6.

[56] See: Business Executives for National Security, A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight, July, 2009, p. 4. Then Secretary of Defense William Perry used the same logic to implement acquisition reforms in the 1990s. He stated "Because the world in which DoD now must operate has changed beyond the limits of the existing acquisition system's ability to adjust or evolve -- the system must be totally re-engineered. If DoD is going to be capable of responding to the demands of the next decade, there must be a carefully planned, fundamental re-engineering or re-invention of each segment of the acquisition process." See Honorable William J. Perry, *Acquisition Reform: A Mandate for Change*, Department of Defense, February 9, 1994, p. 9.

[57] See Department of Defense, *Defense Acquisition Performance Assessment Report*, January 2006, p. Introductory Letter by Chairman Ronald Kadish.

[58] Business Executives for National Security, *A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight*, July, 2009, p. iii.

Just as the acquisition landscape has changed in recent years, many analysts and DOD officials argue that DOD has also undergone changes that may make significant reform possible. Some DOD officials and analysts detect a culture shift underway within the Department - a shift that reflects a better understanding of the importance of defense acquisitions, and a fuller commitment on the part of senior leadership, uniform personnel and civilian personnel, to support efforts to improve defense acquisitions. Changes contributing to the culture shift include the following:

Operations in Iraq and Afghanistan have highlighted the importance of acquisitions. In the early years of the conflicts, contracting in Iraq and Afghanistan was done on an ad-hoc basis, without significant consideration of implications for foreign policy and without putting in place necessary oversight systems. Insufficient resources were dedicated to oversight, resulting in poor performance, billions of dollars of waste, and failure to achieve mission goals.[59] However, the experiences of the operational force have highlighted the critical role of contractors in military operations. These experiences underscored the importance of acquisitions to senior leaders and prompted numerous internal efforts to examine contractor support, such as the report of the Commission on Army Acquisition and Program Management in Expeditionary Operations (known as the Gansler report).

Constrained budgets are fostering a culture of better decision making. Former Secretary of Defense Robert Gates stated that as a result of defense spending more than doubling between FY2001 and FY2010, "we've lost our ability to prioritize, to make hard decisions, to do tough analysis, to make trades."[60] Declines in defense acquisition spending since FY2008 require, and have resulted in, efforts to prioritize programs, reign in the 'gold-plating' of requirements, and increased the focus on costs.[61]

Data is improving.[62] Data reliability is a critical element in making informed policy decisions.[63] If data is lacking or is unreliable, there may not be an appropriate basis for measuring or assessing the effectiveness of contracting, making policy decisions, or providing transparency into government operations. In some circumstances, a lack of reliable data could lead analysts and decision makers to draw incorrect or misleading conclusions. The result could be policies that squander resources, waste taxpayer dollars, and threaten the success of the mission.[64]

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[59] CRS Report R43074, *Department of Defense's Use of Contractors to Support Military Operations: Background, Analysis, and Issues for Congress*, by Moshe Schwartz.

[60] Department of Defense, "DOD News Briefing with Secretary Gates and Adm. Mullen from the Pentagon," press release, June 6, 2011, http://www.defense.gov/transcripts/transcript.aspx?transcriptid=4747.

[61] See Yamil Berard, "Former Pentagon leader says defense cuts are necessary," *Fort Worth Star-Telegeram*, October 16, 2013.; Barry D. Watts, *Sustaining the U.S. Defense Industrial base as a Strategic Asset*, Center for Strategic and Budgetary Assessments, Backgrounder, September 2013, p. 15.

[62] Office of the Under Secretary of Defense Acquisition, Technology and Logistics, *Performance of the Defense Acquisition System*, 2013 Annual Report, June 28, 2013, p. 106.

[63] CRS Report R41820, *Department of Defense Trends in Overseas Contract Obligations*, by Moshe Schwartz, Wendy Ginsberg, and Daniel Alexander; U.S. Government Accountability Office, *Reliability of Federal Procurement Data*, GAO-04-295R, December 30, 2003, p. 1. For an additional discussion on the importance of having reliable data to develop policies affecting acquisitions, see U.S. Government Accountability Office, *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes*, GAO-07-20, November 9, 2006.

[64] For a discussion on the importance of good contract data to improving government efficiency and saving taxpayer money, see U.S. Government Accountability Office, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue: Collecting improved data on interagency contracting to minimize duplication could help the government leverage its vast buying power*, GAO-11-318SP, March, 1, 2011, p. 70.

Advances in information technology are making it possible to better track and analyze larger amounts of data. DOD is improving its IT systems and has embarked on a number of wide-ranging efforts to gather and analyze data to inform policy decisions, often at the behest of Congress. For example, the *Weapon System Acquisition Reform Act of 2009* required DOD to conduct a root cause analysis of the cost, schedule and performance of Major Defense Acquisition Programs that experience cost growth that surpasses the thresholds set forth in the Nunn-McCurdy Act.[65] Over the years, these analyses have provided insight into what drives cost growth. Despite the progress being made, there continue to be significant gaps in the data available and reliability of some existing data.[66]

A Framework for Improving Acquisitions

Improving the Workforce

Despite the hundreds of disparate recommendations to improve defense acquisitions, most reports seeking to address the fundamental weaknesses of the system arrive at the same conclusion: the key to good acquisitions is having a good workforce and giving them the resources, incentives, and authority to do their job.[67] As David Packard, co-founder of Hewlett-Packard and former Deputy Secretary of Defense wrote in a report to President Reagan,

> Excellence in defense management cannot be achieved by the numerous management layers, large staffs, and countless regulations in place today. It depends...on reducing all of these by adhering closely to basic, common sense principles: giving a few capable people the authority and responsibility to do their job, maintaining short lines of communication, and holding people accountable for results.[68]

Workforce is not the only area that analysts believe need to be improved—numerous recommendations are aimed at the budget process, requirements development, cost estimating, and other structural problems. However, without a culture that promotes good acquisition decisions, reform efforts will not achieve their fullest potential. This is true not only for the acquisition workforce but also for other people involved in the process, such as those involved in developing requirements and budgets. As DOD Comptroller Robert Hale wrote in 2002

> Efficiency requires change, and change is difficult to implement in any organization—public or private. To have any chance of success, there must be an incentive to change. Incentives start with the climate created by top leaders... But commitment must extend beyond the senior leadership to the Defense Department's field commanders and managers. Efficiencies

[65] P.L. 111-23, section 103.

[66] Office of the Under Secretary of Defense Acquisition, Technology and Logistics, *Performance of the Defense Acquisition System*, 2013 Annual Report, June 28, 2013, p. 105; U.S. Army, *Army Strong: Equipped, Trained and Ready*, Final Report of the 2010 Army Acquisition Review, January 11, 2011, p. iv. The report found that "The Army lacks a sufficiently robust and trustworthy database on acquisition programs, workforce and lessons learned," p. 42.

[67] See below. For additional discussions, see Thomas Christie, "Sound Policy, Awful Execution," *DefenseNews*, December 15, 2008, p. 53. Thomas Miller, "Rearranging Deck Chairs on the Titanic: Why Does Acquisition Reform Never Work?," *Defense AT&L*, November-December 2010, p. 27; Scott Reynolds, "Let's Fix It: A Five-Step Plan for Improving Acquisitions," *Defense AT*&L, November-December 2009, p. 18.

[68] *A Quest for Excellence*, Final Report to the President by the Blue Ribbon Commission of Defense Management, June 30, 1986.

> achieved at the base or installation level could add up to substantial savings, and the individuals running these bases will be more likely to implement changes if they have incentives to do so.[69]

It is this belief that prompted Under Secretary of Defense Frank Kendall to introduce guidance on implementing the Better Buying Power initiatives with the following overarching principle:

> Policies and processes are of little use without acquisition professionals who are experienced, trained, and empowered to apply them effectively. At the end of the day, qualified people are essential to successful outcomes and professionalism, particularly in acquisition leaders, drives results more than any policy change.[70]

[69] Robert F. Hale, *Promoting Efficiency in the Department of Defense: Keep Trying, Be Realistic*, Center for Strategic and Budgetary Assessments, January 2002, p. 20.

[70] Frank Kendall, *Implementation Directive for Better Buying Power 2.0 - Achieving Greater Efficiency and Productivity in Defense Spending*, Office of the Under Secretary of Defense Acquisition, Technology and Logistics, Memorandum, April 24, 2013.

The Importance of People and Proper Incentives

Numerous reports have highlighted the importance of people in successful acquisitions. Below are conclusions from some of the most influential reports on defense acquisitions from 1970 to the present.

- "Regardless of how effective the overall system of Department procurement regulations may be judged to be, the key determinants of the ultimate effectiveness and efficiency of the Defense Procurement process are the procurement personnel.... The importance of this truism has not been appropriately reflected in the recruitment, career development, training, and management of the procurement workforce ." [71] *Fitzhugh Report (1970)*
- "DOD must be able to attract, retain, and motivate well qualified acquisition personnel."[72] *Packard Report (1986)*
- "Making fundamental improvements in acquisitions will require attaching the cultural dimension of the problem. Changes of the type needed will not come easily. They must be directed at the system of incentives."[73] *GAO (1992)*
- "Give line managers more authority and accountability (reward results, not just compliance with rules; focus on the customer)."[74] *Perry Report (1994)*
- "The department should focus on creating incentives so that commanders and managers seek efficiencies."[75] *Robert Hale (2002)*
- "To repeat: the emphasis must be on the individuals in line management.... the key to effective execution of any contract is not the quality of the contract, it is the quality of the program management responding to clear assignment of authority and accountability for each program."[76] *QDR Independent Panel (2010)*
- "There is little doubt that acquisition reforms produce limited, positive effects because they have not changed the basic incentives or pressures that drive the behavior of the participants in the acquisition process."[77] *Defense Acquisition Reform: 1960-2000 (2011)*

Most analysts believe that a number of steps need to be taken to improve the performance of the acquisitions workforce.[78] Three common recommendations for doing this include the following:

1. recruiting talented people and providing them with the right training,
2. providing the right incentives, and

[71] Department of Defense, *Report to the President and the Secretary of Defense on the Department of Defense by the Blue Ribbon Panel*, July 1, 1970, p. 94.

[72] *A Quest for Excellence*, Final Report to the President by the Blue Ribbon Commission of Defense Management, June 30, 1986, p. xxv.

[73] U.S. General Accounting Office, *Weapons Acquisition: A Rare Opportunity for Lasting Change*, NSIAD 93-15, December 1992, pp. 2-3.

[74] Honorable William J. Perry, *Acquisition Reform: A Mandate for Change*, Department of Defense, February 9, 1994, p. 9.

[75] Robert F. Hale, *Promoting Efficiency in the Department of Defense: Keep Trying, Be Realistic*, Center for Strategic and Budgetary Assessments, January 2002, p. iii.

[76] U.S. Institute for Peace, *The QDR in Perspective: Meeting America's National Security Needs in the 21st Century*, Final Report of the Quadrennial Defense Review Independent Panel, July 28, 2010, p. 86.

[77] J. Ronald Fox, *Defense Acquisition Reform 1960-2009: An Elusive Goal* (Center of Military History, 2011), p. 190.

[78] For example, one report found that Army acquisition competencies have eroded in the last two decades; the Army has reduced the number of qualified people essential to acquiring modern equipment. See U.S. Army, *Army Strong: Equipped, Trained and Ready*, Final Report of the 2010 Army Acquisition Review, January 11, 2011.

3. granting the authority to make decisions and holding people accountable for those decisions.

Building a Capable, Trained, and Sufficiently Sized Workforce

Insufficient resources or shortages in the numbers properly trained acquisition personnel increase the risk of poor contract performance, which in turn can lead to waste, fraud, and abuse.[79] The issue is not just the number, but also the quality and capability of the workforce.[80]

In an effort to improve the size and quality of the acquisition workforce, the FY2008 NDAA mandated the establishment of the Department of Defense Acquisition Workforce Fund to enable the "recruitment, training, and retention of acquisition personnel.[81]" From FY2008 through FY2012, DOD obligated $2.3 billion through the fund. According to DOD, this funding was used to augment training and hire an additional 8,300 people and in contracting, cost estimating, systems engineering, auditing, and other related fields. Many analysts believe that while DOD and congressional efforts are starting to have a positive impact on the acquisition workforce, additional support and focus is needed.[82]

DOD has recognized the need to dedicate sufficient resources to develop a good, capable workforce. According to the 2010 Quadrennial Defense Review, "to operate effectively, the acquisition system must be supported by an appropriately sized cadre of acquisition professionals with the right skills and training to successfully perform their jobs.... We will continue to significantly enhance training and retention programs in order to bolster the capability and size of the acquisition workforce."[83]

Creating the Right Incentives

Many analysts argue that even with a sufficiently robust, highly trained and capable workforce, the right incentives must be in place. Yet often the incentives in the acquisition process encourage people to make poor decisions.[84] For example, there is a culture within DOD that encourages the obligation of funds before they expire out of fear that if money is not spent, funding for

[79] J. Ronald Fox, *Defense Acquisition Reform 1960-2009: An Elusive Goal* (Center of Military History, 2011), p. 195, 199.See also, Commission on Wartime Contracting In Iraq and Afghanistan, *At What Risk? Correcting over-reliance on contractors in contingency operations*, Second Interim Report to Congress, February 24, 2011, p. 17; United States Institute of Peace, *The QDR in Perspective: Meeting America's National Security Needs in the 21st Century*, 2010, p. 39; U.S. Government Accountability Office, *Military Operations: High-Level DOD Action Needed to Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces*, GAO-07-145, December 18, 2006; Commission on Wartime Contracting In Iraq and Afghanistan, *Transforming Wartime Contracting: Controlling costs, reducing risk*, Final Report to Congress, August, 2011, p. 83-84.

[80] See: Business Executives for National Security, *Getting to Best: Reforming the Defense Acquisition Enterprise*, A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight, July, 2009, p. 3.

[81] P.L. 110-181, section 852.

[82] Data provided by DOD. See also Department of Defense, *Defense Acquisition Workforce Development Fund (DAWDF) FY2012 Report to Congress*, Department of Defense, April 2013, p. 4.

[83] QDR, p. 77-78

[84] J. Ronald Fox, *Defense Acquisition Reform 1960-2009: An Elusive Goal* (Center of Military History, 2011), p. 197-199; Department of Defense, *Defense Acquisition Performance Assessment Report*, January 2006, p. 5; See: Business Executives for National Security, *Getting to Best: Reforming the Defense Acquisition Enterprise*, A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight, July, 2009, p. 3.

future budgets will be cut. This belief can drive managers to prioritize spending money based on an arbitrary calendar deadline instead of sound business decisions.[85] Resetting incentives to ensure that they align with desired outcomes can improve the decisions of the workforce.

Another example of incentives driving poor acquisition decisions relates to cost estimating. Senior Defense officials, both past and current, acknowledge that program advocates have strong incentives to underestimate program acquisition costs. Contractors use low cost estimates to win the contract; program representatives use low estimates to argue for approval of the system against competing systems.[86] In 1981, then-Deputy Secretary of Defense Frank C. Carlucci testified that low cost estimates "are fueled by optimistic contractor proposals to win competitions and program managers who want to see their programs funded."[87] Almost 30 years later, then-Under Secretary of Defense for Acquisition, Technology, and Logistics John Young echoed this sentiment, stating "the enterprise will often pressure acquisition teams and industry to provide low, optimistic estimates to help start programs."[88]

The absence of more reliable cost estimates denies Congress the ability to decide on competing strategic and budget priorities based on realistic cost assumptions and denies DOD the opportunity to develop a well-conceived acquisition plan. The 2010 Quadrennial Defense Review stated, "our system of defining requirements and developing capability too often encourages reliance on overly optimistic cost estimates. In order for the Pentagon to produce weapons systems efficiently, it is critical to have budget stability—but it is impossible to attain such stability in DOD's modernization budgets if we continue to underestimate the cost of such systems from the start."[89]

Establishing Authority and Accountability

Authority and accountability is viewed as a critical element in building an effective workforce.[90] Without authority, even the most skilled and incentivized professionals cannot effectively run and manage a program. Yet many analysts believe that the management structure is too bureaucratic; that too many people can say no or influence a program. As one program manager recently quipped, the inside joke among program managers is that "We are not really sure who runs the program."[91] Without anyone having practical authority to manage a program, there is no one to effectively hold accountable. As the QDR Independent

[85] Robert F. Hale and Frank Kendall, *Department of Defense Management of Unobligated Funds; Obligations Tenets*, Office of the Secretary of Defense, Memorandum, September 10, 2012.

[86] House Armed Services Hearings, 97th Cong., 1st Sess., Volume 11, 1981. Op. Cit. p. 883.

[87] House Armed Services Hearings, 97th Cong., 1st Sess., Volume 11, 1981. Op. Cit. p. 1086.

[88] John J. Young, Jr., *Reasons for Cost Changes for Selected Major Defense Acquisition Programs (MDAPs)*, Memorandum, January 30, 2009.

[89] Department of Defense, Quadrennial Defense Review Report, February 2010, p. 76.

[90] The Packard, for example, stated "We must give acquisition personnel more authority to do their jobs. If we make it possible for people to do the right thing the first time and allow them to use their common sense, then we believe that the Department can get by with far fewer people." See p. xxiv.

[91] Based on conversation with program managers and other acquisition personnel, September 14, 2013.

concluded, "the fundamental reason for the continued underperformance in acquisition activities is *fragmentation of authority and accountability for performance*."[92]

Targeted Reform Efforts

In addition to improving workforce management, as discussed above, targeted reform efforts, similar to the Weapon System Acquisition Reform Act of 2009 and efforts to improve Operational Contract Support can generate significant financial savings and operational benefits. Examples of possible targeted areas ripe for reform include

- Streamlining acquisition laws and regulations and
- Focusing on contract logistics.

Streamlining Acquisition Laws and Regulations

In some instances, regulations aimed at improving the acquisition process or promoting important public-policy goals impose unintended cost or regulatory burdens to industry. A number of analysts have argued that repealing or amending regulations that no longer provide a benefit could serve to simplify the acquisition process, remove unnecessary regulatory burdens on industry, and entice more companies to compete for defense and other federal government contracts. Sometimes, the laws and regulations governing defense procurement can add to the costs of doing business, as may occur in the case of certain domestic source restrictions like the Berry Amendment. Such a perspective does not necessarily argue for wholesale removal of regulations and oversight, but at a minimum argues for adopting an approach of weighing the costs to industry and government against the policy and oversight benefits of the regulations in question.[93] Congress could also choose to amend certain statutes and regulations in such a way as to alleviate the regulatory or financial impact while preserving the fundamental intent of the regulation.

Contract Logistics

Some government officials and industry experts have identified logistics as an area where significant cost savings could be generated without having an impact on operational capabilities.[94] Recent reports have identified instances of wasteful spending in this area. For example, the DOD Inspector General has developed a body of work that found

- Boeing charged the Army about $13 million more than fair and reasonable prices for 18 parts on a support contract,[95]

[92] U.S. Institute for Peace, *The QDR in Perspective: Meeting America's National Security Needs in the 21st Century*, Final Report of the Quadrennial Defense Review Independent Panel, July 28, 2010, p. 85. Italics as in original.

[93] Honorable William J. Perry, *Acquisition Reform*, Department of Defense, A Mandate for Change, February 9, 1994, p. 8.

[94] Based on conversations of these officials with CRS analysts, July 2013 through October 2013.

[95] Department of Defense Inspector General, "Excess Inventory and Contract Pricing Problems Jeopardize the Army Contract with Boeing to Support the Corpus Christi Army Depot," Report D-2011-061, May 3, 2011.

- Sikorsky charged the Army approximately $12 million more than fair and reasonable prices for 28 parts,[96] and
- Boeing charged DLA Aviation $13.7 million more than fair and reasonable prices for 27 parts associated with 1,469 delivery orders.[97]

Earlier this month, the Special Inspector General for Afghan Reconstruction reported that military forces in Afghanistan were unable to account for about $230 million worth of spare parts and then ordered $138 million of additional parts without sufficient accountability.[98] Given the examples of potential savings identified to date, Congress could consider logistics as a potential area for increased congressional oversight.

Chairman McKeon, Ranking Member Smith, this concludes my statement. I will be pleased to respond to any questions the Committee may have.

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[96] Department of Defense Inspector General, "Pricing and Escalation Issues Weaken the Effectiveness of the Army Contract with Sikorsky to Support the Corpus Christi Army Depot," Report D-2011-104, September 8, 2011,

[97] Department of Defense Inspector General, "Improved Guidance Needed to Obtain Fair and Reasonable Prices for Sole-Source Spare Parts Procured by the Defense Logistics Agency from the Boeing Company," Report DODIG-2013-090, June 7, 2013,

[98] Special Inspector General for Afghanistan Reconstruction, Afghan National Army: Combined Security Transition Command-Afghanistan Lacks Key Information on Inventory in Stock and Requirements for Vehicle Spare Parts, SIGAR 14-3, October 16, 2013, p. 1.