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THE DEPARTMENT OF DEFENSE AT HIGH RISK: THE CHIEF MANAGEMENT OFFICER'S RECOMMENDATIONS FOR ACQUISITION REFORM AND RELATED HIGH-RISK AREAS

HEARING

BEFORE THE

FULL COMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

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THE DEPARTMENT OF DEFENSE AT HIGH RISK: THE CHIEF MANAGEMENT OFFICER'S RECOMMENDATIONS FOR ACQUISITION REFORM AND RELATED HIGH-RISK AREAS

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
Washington, DC, Wednesday, May 6, 2009.

The committee met, pursuant to call, at 10:03 a.m., in room 2118, Rayburn House Office Building, Hon. Ike Skelton (chairman of the committee) presiding.

OPENING STATEMENT OF HON. IKE SKELTON, A REPRESENTATIVE FROM MISSOURI, CHAIRMAN, COMMITTEE ON ARMED SERVICES

The CHAIRMAN. Good morning, ladies and gentlemen. We welcome you to today's hearing on the Department of Defense (DOD) at high risk, the recommendations of the chief management office on acquisition reform and related high-risk areas.

I should note up front that this hearing is a follow-up to our hearing on March the 12th with the Government Accountability Office (GAO) about their 2009 high-risk update and helps satisfy the committee's oversight obligations under the Tanner resolution.

Our witness is Deputy Secretary of Defense Bill Lynn, who also has the distinction of being the Department's Chief Management Officer, a responsibility given to him largely as a result of GAO's recommendations. He has with him Mr. Shay Assad, Acting Deputy Under Secretary of Defense for Acquisition and Technology, and Beth McGrath, Assistant Deputy Chief Management Officer. They will assist Secretary Lynn in answering questions.

The focus of today's hearing is narrower than the earlier hearing with GAO. We will focus today on acquisition reform.

However, Secretary Lynn, the committee expects that you will provide us with a full response to the findings and recommendations of the GAO in its 2009 high-risk update for the record.

The committee is committed to addressing all of the Department's high-risk areas and will remain focused on all of these issues, not just this year, but, of course, beyond, until we are able to reduce the risk in these areas to manageable levels.

I should note that as the budget is not yet released, Secretary Lynn will not be addressing budget issues in his testimony today, and we have told the Secretary that, and so that will be out of bounds.

The focus on acquisition informing today's hearing is more than timely. Tomorrow, the committee will mark up H.R. 2101, the Weapons Acquisition System Reform through Enhancing Technical

Knowledge and Oversight (WASTE TKO) Act of 2009. Ranking Member McHugh and I, along with our partners, Rob Andrews and Mike Conaway, the leaders of our panel on defense acquisition reform, introduced the WASTE TKO Act to match the good work of our colleagues in the Senate, Senators Levin and McCain.

We believe our bill will help substantially improve the oversight of acquisition of major weapons systems, but I point out that the bill we are going to mark up tomorrow deals with major weapons systems, which is only about 20 percent of the Department of Defense acquisition, but it is a significant step in the right direction.

That bill introduces three significant new concepts. Number one, we require the Secretary of Defense to designate an official as the Department's principal expert on performance assessment who will give us unbiased assessments of acquisition reforms.

Number two, we create an intensive care unit for sick programs. Those are programs that are not meeting the standards for system development or have had critical Nunn-McCurdy breaches, and they will get additional scrutiny.

Number three, we require the Department to set up a system to track the cost, growth, and schedule changes that happen prior to milestone B. It is before milestone B, as we all know, that 75 percent of the program's costs are actually determined.

We will mark up the legislation in committee tomorrow with the goal of moving it through the House as a standalone measure and completing conference with the Senate before Memorial Day. However, many, and especially our panel on defense acquisition reform, will continue to work on acquisition reform this year and next and on the 80 percent of acquisition which lies outside the scope of the bill we will be marking up.

We look forward, Secretary Lynn, to your testimony and the full range of acquisition testimony today.

Now let me turn to my good friend, my colleague, the gentleman from New York, John McHugh.

[The prepared statement of Mr. Skelton can be found in the Appendix on page 41.]

STATEMENT OF HON. JOHN M. MCHUGH, A REPRESENTATIVE FROM NEW YORK, RANKING MEMBER, COMMITTEE ON ARMED SERVICES

Mr. MCHUGH. Thank you very much, Mr. Chairman. Let me join you in welcoming our distinguished guests.

Mr. Secretary, welcome for your inaugural visit. I hope it sets the stage for many more pleasant appearances before this committee, and we wish you all the best in your new duties.

As the Chairman noted, today is a follow up to a hearing we held in March on some of the findings with respect to GAO's assessment of high-risk federal programs, and that is certainly important, but, as well as the Chairman noted, this is a quite timely opportunity as we will be marking up the acquisition bill.

I want to add my words of appreciation to Mr. Andrews and Mr. Conaway and to the panel that they led in coming up with, I think, a terrific product to deal with this issue.

GAO found a lot of frustration in managing some of these high-risk programs. It seems when a DOD program makes the list, it

simply does not get removed, and we have to ask ourselves: Does either DOD management systems and processes represent an inherently risky undertaking, or perhaps has, historically at least, DOD management been incapable of addressing the root causes? The fact is we just cannot throw up our hands and accept that the Department cannot or will not address these challenges, but rather we have to take action.

And, Mr. Secretary, I know you understand full well in large measure that responsibility falls on your shoulders, particularly as the Chief Management Officer, and it is one we share on this committee. It is a responsibility that we hold, along with you, to assume a leadership role in advocating for reforms, particularly for areas deemed at high risk, such as defense acquisition, and speaking for myself, I pledge we will stand ready to work with you in achieving those objectives.

Many in this body have argued, not so much in this chamber, that curtailing the cost of weapons programs through reforms to the acquisition system will generate sufficient revenue to offset what they view as both possible and desirable cuts in defense budgets.

I want to be clear: I fully agree that reforms are needed. We have to keep in mind, however, that any cost savings are not going to materialize overnight. As the Chairman noted, along with many of our colleagues on this committee, we introduced legislation on acquisition reform and added our committee voice to the ongoing efforts to reform the defense acquisition process. It is similar in many ways to the bill introduced in the other body by Senators Levin and McCain. Yet our proposal would create a more transparent procurement system with added competition and independent scrutiny.

And while creating, as what the Chairman rightfully noted, was intensive care for programs that have already entered into production, our approach focuses heavily on the early stages of development where, as he noted again very accurately, most of the sins of high-risk programs are created. This should, in our view, enable the Department and military services to save significant money on new starts, thus providing better outcomes over the life of these weapons programs. However, the fewer new acquisition programs created, the fewer opportunities there may be to capitalize on these reforms.

Mr. Chairman, I would ask that my entire statement be entered into the record.

[The information referred to was not available at the time of printing.]

The CHAIRMAN. Without objection, of course.

Mr. MCHUGH. And I will simply say in conclusion, as I reiterate, although I strongly believe continued reforms of procurement processes and other DOD business processes are essential, I have to break with those that point to waste and mismanagement in DOD as grounds for tightening the defense budget. Cuts in programs that suffer from cost overruns are warranted when they reform behaviors that led to negative procurement outcomes, but employing across-the-board cuts, as some have suggested, is, in my judgment,

a blunt instrument that does little to resurrect the Defense Department's business practices.

Secretary Lynn, thank you, again, for being here, for taking the time to be with us this morning, and we look forward to the discussion ahead and, as I said, working with you.

Thank you, Mr. Chairman. With that, I would yield back.

The CHAIRMAN. Thank you, Mr. McHugh.

I will announce again tomorrow that we will be marking up the acquisition bill, and besides a special thanks to Mr. Andrews, Mr. Conaway, the two leaders of the panel, additional thanks go to members of the panel—Mr. Cooper, Mr. Ellsworth, Mr. Sestak, Mr. Hunter, Mr. Coffman—for their work on it, and we hopefully will be able to finish the markup tomorrow and take it up on the floor within the very, very near future.

Secretary Lynn, an old friend of ours, we appreciate your being with us today, and we look forward to your testimony. So please proceed.

STATEMENT OF SEC. WILLIAM LYNN, DEPUTY SECRETARY OF DEFENSE, DEPARTMENT OF DEFENSE

Secretary LYNN. Thanks very much, Mr. Chairman, Congressman McHugh.

The CHAIRMAN. You may want to pull that real close to you.

Secretary LYNN. Okay. Generally not accused of having a——

The CHAIRMAN. There you go.

Secretary LYNN [continuing]. Low-speaking voice, but thank you.

Thank you very much for the opportunity to provide an overview of the Defense Department's plans for acquisition reform. As you have noted, Mr. Chairman—Mr. McHugh also noted—I am the Chief Management Officer of the Department, and underneath that rubric, I have the primary responsibility for ensuring the smooth functioning of the Department, and this includes oversight of the weapons acquisition process.

On several occasions, the President has talked about the urgent need for acquisition reform. He has stated that it is an important part of the overall attempt at reforming government practices, gaining efficiency, and improving our national security.

I know that this committee shares the President's concern about how the Department makes acquisition decisions and is preparing legislation that the Chairman mentioned will be in markup tomorrow, and this legislation will address those areas that need reform. I and the rest of the Department look forward to working with you, as well as your counterparts in the Senate, in addressing these longstanding issues.

And I will ask that my full statement be put in the record, but let me make a few points and then turn to your questions.

The CHAIRMAN. Without objection.

Secretary LYNN. The first step in reforming our acquisition system is to have a firm grasp of the major problems. The problems start with the process where we establish the requirements for new weapons systems. Too often, we establish requirements that are at the far limit of technological boundaries.

A related problem is our difficulty in making tradeoffs between improved performance on one hand and cost and schedule param-

eters on the other. In what is often an admirable effort to get the best technology in the hands of the war fighter, we choose to reach for one last performance improvement, but the end result of this so-called requirements creep is that we delay getting any improved system to the war fighter and we pay so much for the capability that we displace other priorities from the budget.

One of the critical reasons for some of our shortcomings in the acquisition process is the lack of critical skills in the acquisition workforce. Over the last ten years, defense contract obligations have nearly tripled, while our acquisition workforce has fallen by more than ten percent. In the absence of these personnel, we have outsourced too many functions that should be performed inside the Department.

We also rely on over-optimistic cost estimates that assume that every step in the development process will go as planned. These estimates do not include sufficient provision for unexpected technological production or other challenges, and in the end, it is impossible to attain budget stability if we underestimate the cost of our weapons systems from the start.

Finally, the entire weapons development cycle is too lengthy, as long as two decades from concept development to full production. This means that the Department has to go outside the normal acquisition process for urgent war-fighting needs, as was the case with the Mine Resistant Ambush Protected vehicle (MRAP) to address the Improvised Explosive Device (IED) problems in Iraq. Every additional process, every additional review that we add to the acquisition cycle in an effort to reform it can undercut itself by lengthening the overall cycle time.

To address the problems that I have just outlined, the Department is undertaking a far-reaching set of reforms, a set of reforms that I think is consistent with the direction of the bill that you have before you in your markup and similar to the Levin-McCain bill in the Senate.

Our initiatives start with people. It is our most important resource. In order for the acquisition system to function effectively, it must be supported by an appropriately sized cadre of acquisition professionals with the right skills and the right training to successfully perform their jobs. In the budget that we will submit tomorrow, we will propose increasing the number of acquisition personnel by 20,000 positions over the fiscal year 2010 to 2015 Future Years Defense Program (FYDP).

This will include over 9,000 contracting, cost-estimating, pricing, as well as contract oversight positions at the Defense Contract Audit Agency and the Defense Contract Management Agency. These new positions will ensure that DOD knows what it is buying and gets what it pays for. The remaining 11,000 new hires will come from the conversion of existing contractor positions to federal civilian positions. These are positions in systems engineering and program management and logistics and in business management.

Second, we would propose several steps to put greater discipline into the front end of the acquisition process. Each major program will be subject to a mandatory process entry point, the material development decision milestone prior to milestone A. This will ensure programs are based on approved requirements and a rigorous as-

sessment of alternatives. The objective will be to balance performance needs with schedule and cost limitations.

To reduce technical risk, our standard practice will be to conduct a preliminary design review before milestone B. In addition, independent reviews must certify the maturity of program technologies, and we will use competitive prototypes whenever possible and cost effective. While we ensure oversight, we must not overburden the process with reviews. The lead time to design and deliver capability is already too long. As a result, we will be mindful to not overburden ourselves with more checkers than those being checked.

A third improvement we would propose to make is in the area of cost estimating. To strengthen our cost analysis capability, we plan to expand the size and the capabilities of the Department's independent cost arm, the Cost Analysis Improvement Group, or CAIG. To reduce the risk of cost overruns, we will establish a preference for funding acquisition programs to the CAIG's estimate of the President's budget request and to include those estimates in the Future Years Defense Program.

There is one important caveat, however. We should avoid separating the cost-estimating function that is inherent in the CAIG from the overall Program Analysis and Evaluation (PA&E) organization. PA&E performs a wide variety of planning and programming functions that require accurate cost estimates. These include the Quadrennial Defense Review, program assessments, FYDP analysis, as well as weapons systems cost estimates. All of these functions require a strong cost analysis team, and that cost analysis team should be integrated inside PA&E.

A fourth proposal would be to strengthen the execution phase of our weapon development process.

First, we plan to explore greater use of fixed-price development contracts. In the past, we have defaulted to the use of cost-type contracts for development programs. And there are risks inherent in using fixed-price contract vehicles for development programs that involve cutting-edge or exotic technologies. But if we succeed in reducing the technological risks of many programs through the strengthened front-end process that I just described, we should be able to make greater use of fixed-price contracts in development programs. This should make cost estimates more predictable and cost overruns less frequent.

Second, to address the issue of requirements creep, we will continue to use configuration steering boards to provide a mechanism to preclude destabilizing requirements from being introduced midway through a weapons development process and, further, to match requirements with technology that is mature.

Third, to align profitability with performance, we have several initiatives. Most contract fee structures, for example incentive fees, will be tied to contractor performance. We will restrict the use of award fee contracts to those situations where more objective measures do not exist. We will also examine the use of unpriced contractual actions whenever possible. Excuse me. We will eliminate the use of unpriced contractual actions whenever possible, and we will ensure the use of multi-year contracts is limited to instances when real and substantial savings will be accrued to the taxpayer.

Let me sum up by saying DOD acquisition reform is extraordinarily complex and challenging. We are mindful of the fact that since the end of World War II, there have been nearly 130 studies of acquisition reform. Many very smart people have tried and have met with only limited success.

In this regard, we need to keep in mind the importance of not making the system worse in our efforts to achieve reform. But with these lessons in mind, we will move forward and continue to improve our acquisition workforce, our procurement and acquisition processes. We are confident that the results we achieve on behalf of the war fighters and the taxpayers will be well worth the effort.

This committee and the Senate have both formulated legislation aimed at improving our acquisition system. We agree with the strategic direction of both bills, and we wish to work with the Congress to ensure that we get the best-designed initiatives that can be effectively implemented.

As the DOD Chief Management Officer, I am committed to improving the Department's business operation, and there is no doubt in my mind that significant improvement is achievable in this area.

I look forward to working with you, Mr. Chairman, and am happy to take any of your questions.

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

The CHAIRMAN. Thank you so very, very much. It is good to have you back before us, and I assume that Mr. Assad and Ms. McGrath will be available for questions.

Secretary LYNN. When they get that tough. Yes, sir.

The CHAIRMAN. When they get that tough. All right.

Secretary Lynn, it sticks out all over your testimony about the need for good personnel in the acquisition field. Would you care to expand on that? How do you get them and how do you keep them? This is, I think, the pole star of any solid reform, getting the good people to follow the law that we pass and to do it correctly.

Secretary LYNN. You are absolutely right, Mr. Chairman. The foundation of any acquisition reform effort is to expand the workforce, to improve their quality through enhanced training and better standards.

We are proposing, as I said in my testimony, 20,000 additional acquisition workforce personnel. Frankly, we are correcting a process where I think we oversteered in the 1990s and subsequently. We took too many people out of the acquisition workforce. I think that was actually an example of where an acquisition reform effort went awry. That was intended as a reform effort, but I think it, as I say, oversteered.

We are trying to get back to the center line with these additional 20,000 people. We are gearing up our human resource process to be able to hire them. We will be both hiring new personnel and we will be looking to replace some positions that are now outsourced to government contractors.

The CHAIRMAN. In the House bill that we plan to mark up tomorrow, we focus on the early stages of acquisition as well as on programs that have demonstrated poor performance. I would appreciate your thoughts on whether this focus is correct, or if we should be pursuing a different path.

Secretary LYNN. I think your focus on the front end is absolutely right, and I would point out three areas that I think are in your bill, but let me emphasize them.

One, I think, at the front end, we need to make as much use of competitive prototyping as we are able to. We are not able to do it in every instance. You cannot competitively prototype aircraft carriers, for example, but you can do it for subsystems of the bigger systems and so on. That competitive prototyping will lead to more mature technologies and a better understanding of our ability to meet the requirements.

Second, we need better cost estimating. Too often, our cost estimates are success oriented. They assume everything will go right. There is no malice in this, but very seldom in these kinds of complex endeavors does everything go right. So we need to price in the kinds of risks that we expect so that we have the best cost estimate.

And then finally, we need to make sure that we are in the front end putting in technologies that are mature. Towards that end, we are proposing to do technology readiness assessments at each stage of the process so we ensure that we have technologies at the appropriate readiness level before we introduce it into a weapons system.

The CHAIRMAN. Thank you.

Mr. McHugh.

Mr. MCHUGH. Thank you very much, Mr. Chairman.

Mr. Secretary, you mentioned in your testimony about how complex and challenging this acquisition reform effort is, and that is certainly true. You also referenced the Cost Analysis Improvement Group. The chairman of that group reports to the director of Program Analysis and Evaluation. There is also an official responsible for systems engineering and developmental test and evaluation, the director of systems and software engineering who reports to the Under Secretary of Acquisition, Technology and Logistics.

It sounds as though I am going to make a joke here. I am not, and I am not suggesting any of those positions are unimportant, but I would like to refer to the House bill and the Senate bill. We have some proposals in both of those to account for authorities and the execution of the responsibilities under those positions, and in the Senate bill, it is proscribed pretty tightly. They create an independent office and name and direct where those authorities shall go. In the House side, we allow the Secretary of Defense to assign these functions versus establishing the independent director.

If you want to choose the Senate or House approach over the other, I would be happy to hear that, but without trying to put you in too difficult a position, I would be interested if you could speak to the advantages and disadvantages of doing it one way versus the other, providing the Secretary with the authority to assign those functions versus mandating, fiating, an outside independent source.

Secretary LYNN. Well, with accepting your admonition without expressing a direct preference for one bill or the other—and we do support the direction of both bills, by the way. We think both bills move in the right direction, and we are discussing here just how best to do it. So I want to make that clear.

With regard to those organizational changes, I think, as a general rule, the Secretary would like as much flexibility as the Con-

gress is prepared to give them to achieve the objectives that the Congress lays out in these bills.

With regards specifically to the question of the CAIG and where it should be placed, I believe, as I indicated in my testimony, that because of the diverse duties of the CAIG that extend beyond just weapons systems costing, it is better placed in the overall Program Analysis and Evaluation office. In that way, it still has the independence. It does not report to the acquisition side of the house, so it is independent of that, and it reports in a line through PA&E directly to the Secretary. But I think keeping it inside the larger whole of PA&E will strengthen the cost analysis in areas other than weapons systems.

Mr. MCHUGH. I should note, if you want to pick the House bill over the Senate bill, you are free to. I just did not want to be the one to pose the direct question.

Secretary LYNN. Yes. Yes, I occasionally testify before the Senate as well, so——

Mr. MCHUGH. I have heard rumors to that effect.

So, looking at the data, it is interesting that programs that experience a Nunn-McCurdy breach, it appears, are rarely, if ever, cancelled. I suspect there is a variety of reasons for that. By the time you get to that point, there is a lot invested.

But it would suggest, at least on the face, that those programs at the Nunn-McCurdy breach touchstone are really deemed a higher priority than other DOD objectives since you have to restructure after a breach, you have to spend money, and those dollars have to come out of usually other programs.

I am just curious to what extent does DOD or do you envision DOD allowing and involving the senior leadership to consider impacts on those other programs when a Nunn-McCurdy breach happens? When the program is reconfigured to go forward and, as a result, has new investments placed in it, how do you consider the tradeoffs prior to that? Do you have any thoughts on what might happen in those circumstances in the future?

Secretary LYNN. Yes, sir, Mr. McHugh. I will make a couple of points introductory. I think you are right. Cancellations are infrequent even with Nunn-McCurdy breaches. It does take a substantial amount to be able to go through with that. That said, we are proposing the cancellation of the VH–71A that did just suffer a substantial Nunn-McCurdy breach. So there is one example in the other direction.

Really the opportunity cost, I think, is what you are talking about. Is that considered when you are looking at putting additional resources towards a system that is overrun? We do look at that as part of the certification process. I would say we probably pay even more attention to it as part of the overall strategic review and the program and budget reviews. As you put those together, you very much look at the opportunity costs of proceeding with a now more expensive system at the expense of some other programs that will have to suffer within the constrained budget.

Mr. MCHUGH. Thank you very much, Mr. Secretary.

Mr. Chairman, I will yield back.

The CHAIRMAN. Thank you.

Mr. Ortiz.

Mr. ORTIZ. Thank you, Mr. Chairman.

You know, Congress has set forth criteria and oversight mechanisms intended to ensure discipline in the acquisition process. Yet, despite these reforms, major defense acquisition programs are consistently over schedule and over budget. How much of the cost growth in the programs is due to inaccurate cost estimations and poor planning up front, and how much is due to mismanagement or waste after the programs have been initiated?

And maybe you can respond to that because I have been here 27 years. I have seen helicopters that were supposed to be built that never flew. I could go on and on. But maybe you could give us an estimate as to how much the cost has gone up or increased because of poor planning up front and how much is due to mismanagement, and maybe you can enlighten us a little bit, Mr. Secretary.

Secretary LYNN. Yes. Let me try and help with that. I think the two biggest reasons for cost overruns and schedule delays are the acceptance of too much risk at the outset, is, I think, the largest reason. I think we take too much technological risk at the outset. We have a tendency to reach for the exotic technology that looks like the highest performance.

It is appealing on a PowerPoint slide. Unfortunately, we need the engineering and the technological maturity to make it happen, and we do not always have that, and I think that drives getting into programs that do not have sufficient technological maturity, taking risks in that area, are the biggest driver.

The second biggest driver, I would say, is the success-oriented cost estimation, that we do not get the cost estimate right at the beginning because we have not taken account of all of the things that might happen along the path of the development process. I think those two reasons drive the biggest portion of those cost overruns you are referencing.

Mr. ORTIZ. On that point, you mentioned about maybe hiring 20,000 new people to help you. How are you going to go about knowing exactly what type of skills you need? I mean, you hire 20,000 people. That is a pretty good size number of people. Do you have something planned as to how you are going to hire these people and what specific skills you need?

Secretary LYNN. Yes. Yes, we do. We think we need program managers. We need cost estimators, we need software engineers, and we need systems engineers. And we do have a plan, at least at a general level, as to what types of people and what organizations and in what year we would try and hire them.

Mr. ORTIZ. In my opinion——

Secretary LYNN. I would be happy to provide that for the record.

[The information referred to is retained in the committee files and can be viewed upon request.]

Mr. ORTIZ. Yes, sir.

In my opinion, I think that we contracted out a lot of positions, and we did not have a discipline as to all the allegiance that they had towards the contractor or the Defense Department. This is only my estimate. I think that when you contract too much, you lose that chain of command, and maybe I am wrong, but this is what I have seen throughout the years, and we are talking about something happened when we are short 20,000 people.

Something went wrong, Mr. Chairman, somewhere.

Go ahead, sir.

Secretary LYNN. Well, I was going to agree with you, Mr. Ortiz. I think we oversteered in the 1990s, and we saw outsourcing of government functions as a good in and of itself, and I think what we need to do—in some cases, outsourcing is, indeed, the right way to go. There are some functions that are far more appropriately or more efficiently done by a contractor workforce.

But there are other functions that are inherently governmental or that need to be performed for other reasons by government personnel, and you need to make an assessment up front of which functions you think should be performed by government personnel, which should be performed by contractor, before you undertake the outsourcing efforts, and we think that was not done.

Mr. ORTIZ. I agree. Sometimes I feel that we need to contract out when it makes sense, but I do not think we need to lose those employees that should be truly committed to the Defense Department.

Thank you, Mr. Chairman.

The CHAIRMAN. In the process of having fewer contractors and bringing that back in house to people that work for the Department of Defense, will you have a significant personnel challenge to bring on board highly trained, capable people. It is not going to happen overnight, is it?

Secretary LYNN. No, it is definitely not going to happen overnight, Mr. Chairman, and it is a significant challenge for our human resource organizations. We are trying to gear them up this spring and summer with the anticipation and the hope that Congress will approve these proposals so we will be ready to act on them at the beginning of the fiscal year.

But let me acknowledge up front that we have front-loaded these increases, and it is an aggressive proposal. We think it is a needed proposal, but it is aggressive, and for the reasons that Mr. Ortiz indicated, we need to be aggressive here, but we are mindful that this is going to be a difficult organizational challenge to bring all these people on and to properly train them and get them in the right places.

The CHAIRMAN. Thank you.

Mr. Bartlett.

Mr. BARTLETT. Thank you.

In a recent hearing, we asked the witnesses to kind of help us quantify the reasons for overrun and schedule delay, and we asked them to quantify three different categories that could account for the overrun. One was the requirement creep, a second was intentional underbidding so you look competitive, and the third was being overly optimistic, which you have commented on at some extent.

This group of four generally felt that requirement creep was the largest of these three, that the second was being overly optimistic, and the underbidding had a meaningful percentage, but not as high as the other two.

The requirement creep is understandable. If a program takes decades in its development, if we, in fact, fielded what was originally bid, it would be obsolete when it was fielded, would it not? And so the requirement creep is very understanding. As time goes

on and new technology develops, there is a desire to make this as good as it can be because we are not going to have a new one for 30 to 50 years. That is how long these major platforms last out there.

How do we get around this? The presidential helicopter is a good example of it, way over budget. I think it was an enormous requirement creep here, more and more requirements piled on as the program went on, and how do we get around this? Can we have an open architecture so that we can, in fact, bid what was originally bid and know that we can upgrade it so it is not going to be obsolete when it gets in the field?

Secretary LYNN. Yes, I think we can, Mr. Bartlett. That was one of the reasons I was indicating that, as we look at acquisition reform, we need to be careful that we do not add so many reviews and checks, in an effort to reform the process that we lengthen it further and get into the cycle that you just described.

We do need to try and shorten the development cycle. The length of the cycle itself is part of the reason for requirement creep. I think where you are headed—and it is not a new idea, but it is an important one to make sure that we institutionalize—is so-called spiral development, that you develop the initial capability in a more constrained timeframe. You look at additional capabilities on a second and third spiral.

When those technologies are sufficiently mature to be introduced, I think that walks the line between getting needed capability to the war fighter and making changes that technology allows you at the appropriate time.

Mr. BARTLETT. Don't you think that the MRAP development showed us that we might be able to do things quicker? We went from a blank piece of paper to something in the field in a remarkably short period of time. Do you really have to take as long as we take for these systems development?

Secretary LYNN. Clearly not, and the MRAP is an example of that, although the startling thing about the MRAP is it largely circumvented all of the acquisition processes. So the——

Mr. BARTLETT. Doesn't that tell us something about the acquisition processes that we were successful and we circumvented them?

Secretary LYNN. Actually, I should correct myself. We shortened them significantly. You know it helps to have the Secretary of Defense as the program manager. That tends to drive people's attention, and you cannot do that for every program. But I agree with you. I think it does indicate that we can do things faster.

Mr. BARTLETT. Thank you.

I think these two things are key to any successful improvement. One is making sure we avoid the creep in requirements, and we can do that if we have a really short cycle because then we know what we field is not going to be obsolete.

What we field many times is not what we bid on, and the costs will be higher if you are including new technology. So it is kind of unfair to say that we have really poor management. I think putting in new technologies is good management, don't you, so that the war fighter has the best available?

Secretary LYNN. That is absolutely the case, Mr. Bartlett. I just think we need to balance between the admirable desire to get the

best technology to the war fighter and the schedule that you indicated at the start of your remarks, as well as the cost. And you need to balance those three, and I think on programs that have gone awry, you will almost inevitably find that the balance was not maintained.

Mr. BARTLETT. Well, we seem to be slow learners. I have been here 17 years now, and it really has not changed. Let's hope that it changes now.

Thank you, sir.

Secretary LYNN. Thank you.

Mr. ORTIZ. [Presiding.] The Chair recognizes Mr. Taylor.

Mr. TAYLOR. Mr. Secretary, thank you for being with us, and I will start by saying I agree with almost everything you said. The devil is in the details.

So let's start with the electromagnetic launch for the next generation of carrier. One of the things that I have discovered over the years, starting with the Littoral Combat Ship (LCS) program and others, is that by handing off the baton every year or two within the program, everyone leaves saying, "Everything was fine on my watch. When I left, that program was on track," passes the baton. "When I left, that program was on track." And we wake up at about the 90 percentile with a ship where the main reduction gear was cut backwards. No one even caught it until it is in the ship and you have to cut the ship open to pull it out. A $220 million ship becomes a $500 million ship, 18 months late, and they are bragging on it. They should not be bragging on it.

I say this because I would hope one of the things you are going to change is accountability, that someone becomes responsible for a program, like the Electromagnetic Aircraft Launch System (EMALS), that you name someone who says, "You are going to take this from concept through prototype."

And once that prototype is approved, you are going to take one other person, because that is going to be about another three-and-a-half, and say, "You are going to take this from prototype to the ship that is delivered by the Navy, and your whole career rests on that. If you fail, you are fired. If you succeed, you get promoted."

Because we have seen with the LCS, we have seen with so many other programs, unless someone pays attention to this electromagnetic launch, we could wake up with a $7 billion helicopter carrier that was supposed to be an aircraft carrier.

Now I am hearing you say all the right things, but what are you doing as far as accountability where somebody's career rests on that program, that $7 billion program being delivered on time and on budget?

Secretary LYNN. I agree with you, Mr. Taylor, that accountability is a critical element of this. I think lengthening the tours for acquisition personnel is part of that. There is a tradeoff to be made on the military personnel side where part of the leadership dynamic of the military is going through a number of different types of positions so that we build those leaders.

That is in tension with the need to maintain someone in a relatively long period of time in an acquisition position, so you do not want to disadvantage those people, but you want to gain what you just said, is the length of time in the seat so that they are seeing

at least a stage through to completion. And we are trying to balance that. With regard to EMALS, it is critical to the next aircraft carrier, and we need to get——

Mr. TAYLOR. So, while I have you up here, who is that person going to be? Who is going to be responsible for seeing to it that EMALS works because, if it does not work, it is my understanding that Secretary Stackley has said, "We are going with EMALS. We are not even going to have a fallback plan on steam."

Again, I respect his opinion, but since that is the plan and there is no fallback, this has to work, or we have a $7 billion aircraft carrier that is only good for launching helicopters.

And we will not really know until about 2013, and by that time, we are really way down that line towards the $7 billion aircraft helicopter carrier. So who are you going to name in the near future to be responsible for this program, and how are you going to empower him to get the job done?

Secretary LYNN. Mr. Taylor, I am going to have to get back to you for the record on the EMALS program.

[The information referred to can be found in the Appendix on page 55.]

Secretary LYNN. The Office of the Secretary of Defense (OSD) staff is working with the Navy staff on that program as we speak, and we will come back to you with what our plan is to ensure that the support program——

Mr. TAYLOR. Well, let's take it down to a simpler program.

Secretary LYNN. I am sorry?

Mr. TAYLOR. Who in your organization can tell me what the LCS 1 version should cost, what we should be allocating for next year's budget? Who in your program can tell me what LCS 2 should cost? And, again, I appreciate everything you said, and I am not disagreeing with what you said, but I have to believe in your core competency that you have right now that someone in that organization ought to know what that ship should cost. And what I am afraid—just to reinforce your point, I am not so sure there is anyone in your organization who knows what one linear foot of quarter-inch steel costs to weld, and I would welcome you telling me that I am wrong.

And the other thing that I do not see that I would hope you would make as one of your challenges—I think you have a lot of people in your acquisition force who can look at a spec and say, "Yes, they welded it the way they were supposed to. Those are the materials that are in there." What I do not see is anyone in your force who can say, "And you know what? You could have done this better. You could have done this faster. You could have done this cheaper." And I would hope that you would also make that part of what you are trying to accomplish because, quite honestly, we are dealing with a couple of shipyards—they are my friends, but they want the most money for the ship.

We as a Nation have to be getting the most ship for the money, and that does put us at opposite points of view, but, for the sake of the taxpayers, we are the ones that have to prevail.

Secretary LYNN. I think that is right, Mr. Taylor. That is one of the reasons for our proposal to pull more personnel back into the acquisition workforce, is to make sure we have the right expertise,

the right engineering talent, to understand those trades and to be able to judge what the contractors are doing and make our own analysis of where we stand rather than just rely on outside estimates.

Mr. TAYLOR. Would you get back to me on the LCS 1 and 2 please——

Secretary LYNN. Yes, sir.

[The information referred to can be found in the Appendix on page 55.]

Mr. TAYLOR [continuing]. For the record? Thank you.

Mr. ORTIZ. The Chair recognizes Mr. Conaway from Texas.

Mr. CONAWAY. Thank you, Mr. Chairman.

Welcome, Mr. Secretary, welcome to the new team.

I want to go down two different lines of questioning.

One gets back to the personnel plan that you have in place. It is a multi-year plan. It looks similar to a multi-year acquisition of a weapons system, and I want to make sure that we are not overly optimistic as to being able to fulfill that plan.

Can you also visit with us a little bit about your analysis of the cost differential between the current system we have in place versus this new system that you are talking about where you have pulled all these contractors in, put them on the federal payroll for a career? How does that look like with respect to the, you know, long-term employee benefits that they will accrue and those obligations that will come to us? Where is the differential? How much more money are we going to spend under this new plan, new system, that you are proposing versus the way we have been going?

Along with that—and it may be a part of that cost analysis—have you built into the system certain new advantages with respect to this new workforce that will be more directly controlled by DOD that if you do not—are not able to hire against that schedule that you have laid out until 2015 that that is not going to happen. In other words, the same kind of risk analysis on this employee plan that you would have on a major weapons system, that if you do not meet those milestones, you do not have those people in place, you know, what impact will that have to the system that you are putting forward, and then we will talk a little bit about the preference to the CAIG estimates in your budgeting process.

So, if you would talk a little bit about the overall hiring thing, we had some conversations with some folks at Raytheon and others that the contractors' side is shorthanded in this arena as well. It is a graying workforce. It is a group of folks that are reaching the end of their careers, and so you as DOD are now going to be in direct competition with the private sector who need those similar type skills to be able to maneuver this complex acquisition scheme that, you know, we currently have in place. So flesh out a little bit more about the new employee plan that you have.

Secretary LYNN. Sure. As I said, we are pushing to front-load this process to get people on as quickly as possible. I do not think we have gone beyond the bounds, but we are going to get people on absolutely as quickly as we can.

In terms of the cost, we think, actually, the cost for bringing them into the government will be somewhat cheaper than having them in the contractor workforce. That goes into the—we talked

about with Mr. Ortiz the question of where do you use government personnel, where do you use contractor personnel.

In general, it is more cost effective to use contractor personnel if the need is episodic. If you need them for a couple of years and then you do not need them for several years, you can bring in contractor expertise rather than hiring full-time personnel with the benefits and the pension and so on that you indicated.

These personnel are not like that. We see these as long-term, full-time government employees that will be part of the weapons acquisition process over the long haul. In those kinds of cases, it is generally cheaper to have them on the government payroll. You are not paying a profit to a contractor and so on. And that is the type we have, so we think that this will be cheaper.

I do not know. Shay, do you want to add anything?

Mr. ASSAD. Yes, sir. Yes, sir. We plan on bringing on board in 2010 4,100 people. It will be 1,585 contract oversight professionals. Twenty-five hundred or so will be program management, systems engineers, logistics professionals, business management professionals, mostly from contractor conversion.

The Secretary is absolutely right. There is no doubt that, over the long term, the cost of contractors is higher than what it would cost us to have——

Mr. CONAWAY. I understand that is intuitively the case, but have you put pencil to paper——

Mr. ASSAD. Yes, we have.

Mr. CONAWAY [continuing]. To show that? And so you are expecting to be able to convert existing contractor personnel who make more money in the private sector to the public sector because, one, you are going to say those contracts go away. So they are out of work. They do not have any choice. So you are going to bring them on for less money than they are making?

Mr. ASSAD. No. Actually, what we are converting is not the contractor themselves. We are converting the position.

Mr. CONAWAY. Well, I understand that, but——

Mr. ASSAD. It will actually compete the position at one of the most talented——

Mr. CONAWAY [continuing]. Where are those people going to come from?

Mr. ASSAD. Well, some of them may, in fact, come from the contractor community. Others will come from the private sector.

Mr. CONAWAY. All right. Well, I just want to make sure that we are not overly optimistic in this deal because this is important stuff, and I agree with you bringing these folks back, but I also want to do it with eyes wide open, knowing that if you are over-aggressive here, over-optimistic as to what you can do, that there may be some impacts down the road as well.

You mentioned in your testimony that you are going to have a preference for the CAIG estimates. Help us to understand that. And will that include a formalized process of reconciling the differences between what the independent estimate is for a particular program versus what the program manager and the contractors are coming up with? Will that difference be reconciled so that the decision maker can make a rational decision as to what your preference is going to be?

Secretary LYNN. Yes, the decision maker, which, in most cases, will be the Under Secretary for Acquisition, Technology and Logistics, will have both estimates. We will be able to understand what the differences are between both estimates, have some flexibility, but, as I said, we are going to put in a preference that, all things being equal, we should go to the CAIG estimate, and the thinking is that over time you will have the overall program better funded and there will be less churn and less disruption in the weapons acquisition program if you get those cost estimates right up front.

Mr. CONAWAY. All right.

Thank you, Mr. Chairman.

I look forward to working with you, Mr. Secretary. Thank you.

Secretary LYNN. Thank you.

Mr. ORTIZ. The Chair recognizes Mr. Andrews.

Mr. ANDREWS. Thank you, Mr. Chairman.

Mr. Secretary, thank you and your team for your help. I appreciate your testimony and the input you have had on the legislation on which we are working, and I realize why it is of such high quality because I read your biography, saw you attended the finest law school in the United States of America, Cornell Law School, which you may also guess is my alma matter as well from that comment.

I appreciate your observations about our emphasis on pre-milestone B, and I wanted to ask you another question which flows from the panel we had last week, and that was the discussion about how to deal with requirement creep. Now this is not in the bill that we are considering tomorrow, but it is a question we are interested in as we go down the road.

The first idea from that panel was that we need to institutionalize the process of listening to combatant commanders and others in the field at the very outset of the requirements process. Do you agree with that general direction?

Secretary LYNN. Yes.

Mr. ANDREWS. And we would welcome your suggestions in writing at a later time about how we might flesh that out.

And then the second consensus of that panel was that we are confusing the way we presently operate this, a requirement with an aspiration, that we label things as requirements that really are things to which we would aspire in a perfect world. But we are doing a pretty poor job of sorting out what we really need from what we would like to have, and then an enormous amount of money is spent on that what-we-would-like-to-have category. A, do you agree with that assessment? And B, if you do, what kind of changes do you think we might make to solve that problem?

Secretary LYNN. I think that is an important point, Mr. Andrews. Requirements creep is what gets the attention, as I mentioned it, and that is where we change the requirements as we go along as something better comes, and that is certainly part of the problem, and we have some proposals—configuration steering boards and the spiral development I talked about with Mr. Bartlett—that would help to address that.

But you are talking in some ways about a different but related problem——

Mr. ANDREWS. Yes.

Secretary LYNN [continuing]. Which is the desire at the start to reach for requirements that do not match the technology. You have requirements, and it looks nice on the PowerPoint slide, and it would be great if we could do it, but, you know, PowerPoint is not engineering, and we do not have the technology at a sufficient level of maturity, and it turns out to bring that technology to that level of maturity, it costs far more and takes far longer than we ever imagined.

Mr. ANDREWS. And may offer only marginal improvement in the goal that we are trying to achieve. May, in fact, exceed the goal we are trying to achieve.

Secretary LYNN. And I think that is right, and we need to rebias the system away from the 99 percent solution more towards the 80 percent solution that can be achieved in a definable period of time. I think that is, frankly, what happened with MRAP. I mean, MRAP was not perfect, but it was more than good enough to meet the IED threat.

Mr. ANDREWS. And I would note it was very much driven by the commanders in the field. This committee under former Chairman Hunter's leadership with present Chairman Skelton very much brought in the field people, listened to them, and that drove the requirements process.

Let me ask one final question that pertains back to the bill. Do you have any suggestions for us about the amount of discretion that we give the Secretary of Defense with respect to assigning the functions among various directorates? Do you think that the flexibility we assign is sufficient?

Secretary LYNN. I think that you do need to provide the Secretary some discretion. I think it is very hard to legislate an organization. You need an agile organization to be able to deal with the problems as they come up. I think, as I understand the bill, you ask the Secretary to report how he is going to do it is the appropriate balance between discretion and the direction.

Mr. ANDREWS. Thank you.

The final thing that I would say is that, when hopefully this bill becomes law, we certainly want the Secretary to take very seriously the conflict of interest provisions, as I know you do, but we did not want to micromanage those rules either, and I think you will note that in our bill we have very strong anti-conflict of interest provisions, but we try not to foresee every circumstance and leave to the Secretary's discretion in a rulemaking procedure the best way to deal with that. Do you concur with that approach?

Secretary LYNN. I think that is the right approach. As we have indicated, we want to move away from this lead systems integrator approach that brought too much of what really is an inherently governmental function out or pushed it out to the private sector.

That said, we do not want to go too far in the other direction. We do want to retain the system of having prime contractors, and that relies on the fact that there is some discretion among those contractors, and maintaining strict rules on conflict of interest is important, but you do not want them to be so strict that you cannot operate.

So, again, it is a balancing issue. It is a matter of nuances.

Mr. ANDREWS. Said like a good Cornell lawyer. We appreciate that.

Mr. ORTIZ. The Chair recognizes Mr. Coffman.

Mr. COFFMAN. Thank you, Mr. Chairman.

Just a statement: This is all about weapons acquisition, which is the modernization of our armed forces, and I know that there is some discussion that we do not have a peer competitor right now so we do not need to modernize, and I would hope that the discussion would be that we do not want a peer competitor, that we do need to modernize.

On the issue of immature technologies, it seems like oftentimes we are envisioning a threat, and so we are trying to leapfrog forward. Is there any way or is it your thinking where we can bifurcate the process in terms of the development of the technologies versus who produces the system?

Secretary LYNN. Well, that is exactly what the competitive prototyping proposal that we want to utilize would do, is that you have several contractors develop the technology, and then you choose between those competitors, so those would be separate contracts, yes.

Mr. COFFMAN. Very good.

On the issue about bringing folks in house, I think Congressman Conaway had gone in this direction, but I want to stress a concern, and that is it is sometimes difficult to understand the ebb and flow of a workforce in terms of what is episodic and what is not, and I think you used those terms, and it seems like once somebody goes into the federal workforce, they are in the federal workforce, irrespective of where those workflows go.

And so I really want to caution you on a go-slow approach in terms of doing that because we may wind up with some problems in terms of efficiencies by virtue of having folks where there is not a consistent enough workload, and yet we are stuck with them inside the system. I do not think that our current structure is flexible enough to say to somebody who is inside the personnel system that the workload is not substantial enough, that we are going to lay you off, that that simply just does not occur in the federal workforce.

Secretary LYNN. Well, I think you are right in the sense that, as I indicated, I think we oversteered earlier in pushing too many positions out to the contractor workforce. I would agree with your point similarly we do not want to oversteer in the other direction and bring too many positions in and have people in for whom we do not have permanent functions because I agree with you. A federal hiring decision is not an absolutely permanent decision, but it is relatively so.

So we want to make sure that we think we have those positions for the long haul and not just be meeting a temporary need. Where we are meeting a temporary need, assuming it is not an inherently governmental function, often an outsourced approach is the better one.

Mr. COFFMAN. Thank you, Mr. Chairman. I yield back the balance of my time.

Mr. ORTIZ. The lady from Guam, Ms. Bordallo.

Ms. BORDALLO. Thank you very much, Mr. Chairman.

Secretary Lynn, thank you for your testimony and congratulations on your new assignment.

I look forward to working with you over the coming months, especially on Guam-related issues, and to that end, I am wondering what, if any, lessons learned has the Department of Defense taken from this recent Government Accountability Office report on high-risk programs and applied to other major programs like the Guam buildup?

I understand the GAO report focused on major weapons systems programs, but I do not see why such lessons could not be applied to major military construction programs. So, similarly, we have seen significant cost increases in implementing previous Base Realignment and Closure (BRAC) decisions. What will the Department of Defense do to ensure that these cost increases are mitigated against on Guam and with other similar major realignments?

Secretary LYNN. Well, I think you are right that there are certainly parallels between weapons systems costing and, frankly, any major project funding, and that would include construction, and the solutions are similar.

You need to make sure you know what you are buying before you get into it. So you need to have—in weapons systems, that means you need technological maturity. In construction, it tends more to mean that you want the percentage of design completion to be very high before you commit resources to construction, and that is certainly the approach we want to take on Guam as well as other BRAC-related——

Ms. BORDALLO. Mr. Secretary, can I say then that we will be on your radar screen?

Secretary LYNN. Oh, you already are on my radar screen.

Ms. BORDALLO. Thank you.

Thank you, Mr. Chairman.

Mr. ORTIZ. Mr. Wittman.

Mr. WITTMAN. Thank you, Mr. Chairman.

I thank the panel members for joining us today.

Secretary Lynn, a question, you know, as we look at this process and we see how things have developed, I know we have focused on places where it has broken down, but I think there are also, if we dig deeply there, some examples of excellence in the decision-making there. What do you think are ways that we can pick out those lessons of excellence that have happened in the decision-making process, stand those up, and look at ways to maybe reward those or ways to take those models where things have worked extraordinarily well and apply them into the future in the acquisition process?

Secretary LYNN. Well, I think that is part of what the Secretary was talking about when he indicated he wanted to make sure that we had the lessons of the recent conflicts resident in our weapons acquisition process. So we have had a remarkable success with the MRAP, and that success, I think, is a credit to the Department. It is a credit to the contractors. It is a credit to the Congress for providing the resources in a timely way.

So we are trying to look at that model and seeing, you know, what can we—you cannot single out systems quite in that way every time, but what general lessons can we learn, and, in par-

ticular, how do we expedite the process in the way it was done with the MRAP?

Mr. WITTMAN. I think that is a great point.

I also want to look at, too, how do we place—or what are your thoughts about how we place incentives in the program to reward good decision-making, especially when we have, you know, problems with cost estimates that some of the technological aspects of trying to stand up these systems.

What do you think would be a good system of incentives at each point in the process where we have had problems to place those positive incentives there to lead people toward good decision-making or to lead them to say, "Wait a minute. We have hit a problem with this program." Where decision-making ought to stop, or we ought to be forthright in saying, "Listen, we cannot do what we are being asked to do within this set of requirements, within these set of particular budget guidelines." To create some incentives there for people to be, you know, much more judicious and focused in their decision-making?

I mean, do you have some thoughts or ideas about how we can accomplish that?

Secretary LYNN. Yes, sir. I have two thoughts. Let me answer it on two levels. One is process. The other is culture.

On the process side, we are attempting to realign the contract process and the fee structure so that it rewards performance to a greater degree than it does today, and so our contractor base is going to be very responsive to how we set up our fee structure, and if we are able to do it in a way that it rewards performance and the kind of performance we want, I think we will see change in that regard and see it quite quickly. That would be the process side.

Inside the Department, it is less of a process issue and more of a cultural issue. We have talked about requirements creep. Well, requirements creep comes from a very natural desire to get the best product out to the war fighter, and there is absolutely nothing wrong with that. In fact, it is all right.

But the cultural change you have to get in the acquisition workforce is that, in some cases, getting a technology or going for a technology that is not mature and takes additional time and additional funding may not be the best thing for the war fighter. You may not get anything to them for a while, and the additional cost may displace other higher priority things out of the budget.

So we need to get that a little bit broader view inside the acquisition workforce, along with the natural and admirable desire to get that best technology to the war fighter.

Mr. WITTMAN. I think those are absolutely necessary, and I also think, too, your comment on the side of the contractors to provide incentives for them on the performance side, I think that is absolutely critical.

What we ought to look at, too, is making sure that we provide incentives for them along the way that if they see the process not able to get to where everybody believes it ought to be on the requirement side or the cost side, to provide some incentives for them to be able to stand up and say, "Well, wait a minute. Things have to stop. This is not going where we think it ought to go" or "It is

not going where everybody has pointed out where it should be going."

If we can also provide some incentives there, I think that also makes a process that engages them to make sure they are making good decisions at every point in the process.

Thank you, Mr. Chairman. I yield the balance of my time.

Mr. ORTIZ. The Chair recognizes Mr. Ellsworth.

Mr. ELLSWORTH. Thank you, Mr. Chair.

I thank the witnesses.

Secretary Lynn, I would like to—we have heard today talk about competition and fixed pricing and sole sourcing. I would like to concentrate and have an explanation or your thoughts on the Joint Strike Fighter and particularly the engine.

If you could walk through for me your thoughts on that—I know that earlier in history we have had, you know, the great engine war in regards to the F–16—and why that might not be good for the program, for the Joint Strike Fighter, why that would not be good for the American taxpayer.

If the DOD is truly going with a single-source engine, is that smart thinking, in your opinion, and should we not look at a second source for the engine for that Joint Strike Fighter? Could you explore that for me? Are you familiar with that?

Secretary LYNN. Sure. We have looked at it.

We have talked a lot about the CAIG today. The CAIG did a study of the benefits of the alternative engine, and the CAIG came to the conclusion that it did not pencil out, that the initial—it takes a pretty substantial initial development cost to develop that second engine, and then you have to split the production.

So you do not get quite the learning efficiencies between two lines. You balance those costs against the benefits that you get—and we do think you will get some benefits in terms of pricing down the line—and you do a calculation and determine the net present value, and the CAIG came to the conclusion that the initial cost outweighed any benefits that you would get down the line.

Similarly, we asked one of the independent federal research centers, the Institute for Defense Analyses, to do a similar analysis, and they came to a similar conclusion.

Mr. ELLSWORTH. Are the engines to your knowledge pretty similar? Do you know any kind of percentage of how close the engines are between the companies on——

Secretary LYNN. I do not know. I mean, obviously, they would have to go into the same airplanes, so they obviously have to have the same kind of capability, but I could not go beyond that.

Mr. ELLSWORTH. Thank you very much.

I would yield back. Thank you, sir.

Mr. ORTIZ. Ms. Fallin from Oklahoma.

Ms. FALLIN. Thank you, Mr. Chairman.

Secretary Lynn, we appreciate you coming today and sharing some of your views.

With the tremendous amount of acquisition—I have to get that word right. I do not want to use the wrong word—acquisitions being done within Department of Defense, it must be challenging to balance the workforce needs with the acquisition needs of DOD.

What type of systems do you have in place to maintain that acquisition workforce, and how do you have a proper balance to make sure that you are keeping pace with the tremendous amount of needs that you have to let those contracts, the rules, the regulations, the changing needs of Congress, and edicts that you have from here?

Secretary LYNN. Well, as I indicated, we have a proposal to substantially increase the size of the force. Together with that, we have proposals to increase the training and the other support elements.

And we have Shay Assad who is really the expert in this area, and I will ask him to provide more detail along the lines of what you asked.

Mr. ASSAD. Yes, sir.

We actually have within the Acquisition, Technology and Logistics organization reporting directly to the Under Secretary a director of human resources and human capital. He is responsible for having developed the human capital strategy plan together with acquisition and technology.

So we very specifically have a plan about how we want to grow the workforce. It is, in fact, a five-year plan, and we have a very good sense of both the contractor portion of the acquisition workforce—that is, the contractors who support the acquisition workforce—as well as what our organic capability is.

And we are really trying to do two things, as we go along in this five-year period. We are trying to grow our organic capability and we are changing the mix so that there are less contractors supporting the acquisition workforce, but still a substantial number, approximately 40,000. So it is not like, you know, this shift that we are making is going to eliminate contractor support to the acquisition community. That is not where we are headed.

But we very much will be attentive on an annual basis to sit down and present to the leadership where we are at in terms of what is the progress we are making on hiring, what changes do we see in the throughput, and we do competency assessments of our workforce.

We did a very substantial competency assessment, probably the biggest in federal government, with the contracting workforce over the last year, some 18,000 to 19,000 employees participated in that. And it gives us a good sense of what their capabilities are.

And we will measure that not just in the contracting community, but across the entire 127,000 to 147,000 folks who do acquisition so we can have a better sense of what progress we are making in terms of training and their capability and how do we adjust that to the most important thing, which is meeting the needs of the war fighter.

Ms. FALLIN. So are there any other factors that you are going to use to determine if you are achieving the results between a balance between the federal employees and the private contractors?

Mr. ASSAD. Absolutely. We will have metrics that we will measure on a quarterly basis, and we will report those up to the Chief Management Officer.

Ms. FALLIN. And are you working with any of the higher education institutions when it comes to our college graduates coming

out to try to encourage them to get into these types of fields to build up that workforce in future years?

Mr. ASSAD. The Defense Acquisition University has several partnerships and very successful partnerships with some organizations. The Air Force Logistics Command comes to my mind. They have a very good partnership with Macon College in terms of the college has actually created a contracting and procurement curriculum, and so graduates will be coming out of that and going right into our intern programs. So that is a very big part of our intern program and our strategy as we go forward.

Ms. FALLIN. Okay. Thank you very much.

Thank you, Mr. Chairman.

Mr. ORTIZ. The Chair recognizes Mr. Spratt.

Mr. SPRATT. Mr. Secretary, we are fortunate to have you where you are with your experience, your intellect, but I have to sit here and wonder if even you with your intellect can really—the daunting task that lies before you to do the things you described today, I do not think you would diminish that yourself.

But, as I listen to some of the solutions you propose, I do have a sense of sort of déjà vu. I have heard it said before from the Department that we will have more fixed-price contracting. Then you run into the problems of doing highly sophisticated systems that contractors shrink from undertaking on a fixed-price basis.

More prototypes in competition—we have had that before. Sometimes it worked, sometimes it did not, but we tended to stray away from it. Cost analysis always comes up, is, I think, yet to realize its potential.

So I think you have a daunting task, not least of which is to take the procurement force and make it into an expert force.

I am a little underwhelmed by the sentence you used to describe where you hope to be in five years. I am not saying that this was even consciously designed that way, but it says in your testimony, "The five-year planned workforce will result in a properly sized, well-trained, capable, and ethical workforce."

I would like to hear you say one with an ethos of excellence, one that is rigorous and sharp and analytical and hard charging and bushy-tailed and all of these things, so that, you know, you bring to the task the kind of energy that is necessary to take on these large contractors.

It is a daunting task for a GS–12 or something like that to deal with the companies they have to deal with, and when the Packard Commission last looked at this, they decided the best way to get good personnel into the procurement system as soon as possible was go to uniformed military.

The one-word verb you did not use here was "recruit." How will you recruit the best and brightest to come work for the Defense Department on some of the biggest and most challenging systems that are being built in the country today? What is your pitch? What is your come-on?

Secretary LYNN. Well, we are actually having quite a bit of success at this point. Maybe a little bit is the economy. In terms of our recruiting efforts, we are recruiting in colleges, universities, in graduate schools, as well, as Mr. Assad indicated, you know, some

of the recruiting will come from contractors who are supporting the government at this point.

But the economy being where it is, the fact that we are in two conflicts, there is a great deal of patriotism in the country. I think we can offer an attractive position and that this is very, very important work, and, in the end, that is our pitch.

Mr. SPRATT. Well, this is really important work, it is very challenging work, because, in most cases here with these major systems, you are pushing the envelope, and if you could just get bright, young procurement types to come work for you for five years, that would be a plus, I think, to the quality of your workforce, if you get the right people to come.

One of the things that we have struggled with over the years, and I think has been true in the E ring of the Pentagon as well, is information systems. Sitting on top of this huge mountain down there at the Defense Department, how do you know what is happening out in the field? How do you know what is happening at the shop level? And one of the devices we devised years ago was the Selected Acquisition Report (SAR).

Are you satisfied today that you have the kind of management information systems you need to really take hold of this system and sit where you sit and run the system from that vantage point?

Secretary LYNN. Well, I think the management systems we have are very good, but, no, they are not perfect. It is difficult to get timely information, and it is particularly difficult—you mentioned the size of the Department. The biggest difficulty is the integration of all the information. There has been a lot of talk about auditable statements, and that was actually in the GAO report Chairman Skelton mentioned.

The challenge for the Department actually in getting auditable statements is less the information on the financial side of the equation, and it is all the information on the other sides—in the logistics area, in the medical area, in all of the various support areas—and integrating those into the financial network. That is the challenge. So integrating all that information into a system that provides leadership-level, management-quality information—that is the biggest challenge the Department has.

Mr. SPRATT. I worked in the office where the SAR was created, not to suggest it is the end-all, but it was at least an effort to finally get all this information together in manageable form, and I came back here 12 years later, and I pulled down a copy of the SAR just to see what it looked like, and it had not changed at all. And it finally occurred to me after that first year on this committee, the reason it had not changed is it really had not been used that critically.

And periodically we will have a system come before us that is in bad shape. You remember the Ajax or the Afton-Ajax mine attack program? Clear situation where a good management accounting system would have told us much, much sooner that there were problems in the system. They had one guy on the plant floor who was the nexus between the plant, the shop, and the Defense Department, and this guy's sole experience in procurement was working with repair work at Japan Air. You get some obvious cases like

that where anybody looking at the management structure would say, "Wait a minute. Here is a weak link."

One of the things that I proposed in the past—we never got it passed—was that somehow you would sit down before you enter EMD—engineering, manufacturing, development—and you write out the specific areas that you would want to watch. For example, on the AA, there were certain known vulnerabilities, known problem areas, which you would, I think, want to watch to see if problems were developing there and needed an early intercession.

Have you given any thought to that, to sitting down and saying, "We are not going to have the standard template for the SAR or for some other executive management reporting systems, but we are going to have one designed for every major system we have that goes to the particular things that we think need to be watched and watched carefully and closely."

Secretary LYNN. No, I think some kind of risk assessment, which is, I think, what you are talking about, is what are the high nails that are likely to cause us problems, and where are we on each of those. I think that makes sense.

Mr. SPRATT. One last question: The first bill filed in this subject area was Levin-McCain. The chairman will have a substitute to it, and comparing from the two, the Levin-McCain tends to emphasize multiple systems, multiple oversight, and the Chairman's would lean more towards having one identifiable, accountable individual who would be largely charged with the responsibility to a particular system.

Have you any wisdom to leave to us about these two approaches, about either of these two bills, that we should keep in mind as we mark them up?

Secretary LYNN. Not on that particular issue, no.

Mr. SPRATT. Okay.

Thank you, sir.

Mr. ORTIZ. The gentleman from New York, Mr. McHugh.

Mr. MCHUGH. Thank you. Thank you, Mr. Chairman.

Mr. Secretary, when you and I last got together, about an hour ago, we spoke about opportunity costs, Nunn-McCurdy breaches, and how you make those kinds of judgments. Certainly, I believe—and I think the rest of the members of this committee believe—that Congress has to be a part of that, which means transparency in data information is critical as well.

Back in the latter part of April, I wrote a letter to all the Joint Service Chiefs and others asking for, as we routinely do, their unfunded requirements (UFR) list so that, as we went forward, this committee could have that kind of information and judge and make judgments on tradeoffs that come about. As I said, every year of the 17 I have been here, we have made that request, and as far as I can recall, it has been met.

I have a memo issued on—the date I have on it is April 30. That is a stamp date, so I am not exactly sure when the Secretary of Defense put it out, but you were carbon copied, along with the secretaries of the military departments, the chairman of the Joint Chiefs, and Under Secretary of Defense, the comptroller, and it causes me some concern.

The Secretary of Defense wrote, "I understand"—this is to the service chiefs and those to whom I addressed the letter—"you received a request from Congress to provide your assessment of unfunded military requirements resulting from the fiscal year 2010 President's budget. I am told the provision of unfunded requirements list to the Congress is a longstanding practice that dates back over a decade. As you are aware, the existing statutory framework provides for members of the Joint Chiefs to make recommendations to Congress after first informing the Secretary of Defense."

"Accordingly, should you determine there are fiscal year 2010 unfunded requirements that are responsive to the request in Congress, I expect you to inform me of such a determination so we can schedule the opportunity for you to brief me on the details," signed by the Secretary of Defense.

Without getting into the possibility of the memo itself having a chilling effect, I want to ask you, because I assume, as the principal recipient of this, that you or one of the principal recipients had a chance to discuss it. Can you give me and this committee assurances that that is just a method of informing the Secretary of Defense?

We are not now, for the first time as far as I know, establishing the requirement that the UFR list goes through the Secretary of Defense for review and perhaps alteration?

Secretary LYNN. I think what you read was exactly what the Secretary intended, is the legislation says that the members of the chiefs are to provide Congress with their personal views when asked, but prior to that, they are to inform the Secretary. I think the Secretary wants to make sure he is informed prior to the submission of the list, but the advice that the chiefs would give would be their own.

Mr. MCHUGH. Thank you very much, Mr. Secretary. I appreciate your providing that assurance.

Mr. Chairman? I would yield back as soon as the Chairman is back. I yield back.

Mr. ORTIZ. Mr. Snyder is recognized—I just came back—and then Mr. Murphy.

Dr. SNYDER. I am sorry, Mr. Secretary, that I was not here. The Veterans' Committee is having a markup at the same time. So could you please summarize everything that has been said for the last hour and a half so that I can——[Laughter.]

Secretary LYNN. Sure.

Dr. SNYDER [continuing]. Get caught up?

I will ask you one repetitive question, if I might—well, a two-part question.

Number one, the bills that are pending before the House and the Senate—how big a piece of the total Pentagon spending will fall under their—well, for want of a better word—jurisdiction.

And, second, I would like to hear your comments. I think we have been told it is about 20 percent or so, but——

Secretary LYNN. Twenty, 25, I am told.

Dr. SNYDER. So then my follow-up question: Well, what happens to the rest of that?

And then my second question, I understand that you were asked about any comments about the differences between the Senate and the House bill, if you have any specificity there or recommendations.

Secretary LYNN. Well, the focus of the bills is on the acquisition side. That would be 20 or 25 percent. Equally important is the services side, and we are paying attention and trying to improve the oversight there as well.

The personnel systems themselves, which are quite a large part, do not have the same kinds of issues as we find in the acquisition and the services side, so that is not within the realm of what we are addressing.

With regard to the two bills, I mean, I think we find we like the direction of both bills, the focus on the front end, the focus on bringing more expertise into government, the effort to assign responsibility and accountability in the Department for the acquisition functions. We think those are all to the good.

We have specific comments, and I am happy to provide more for the record. For example, we feel that the Cost Analysis Improvement Group (CAIG), which is the independent cost arm of the Pentagon, should remain part of PA&E. That is, I think, the direction the House bill has. The Senate would make it a standalone. We think the limitations of making it a standalone office are that you have it doing only weapons systems costing when there are other cost estimation functions that are important as well.

Costing the alternative courses of action in our strategic review, the Quadrennial Defense Review, and our program assessments and our budget builds are also very important, and we want to make sure the expertise the CAIG has, which is the best in the building, probably the best in the government, goes to that broad array of responsibilities and not to narrow it down.

And I am happy to provide other comments for the record.

[The information referred to can be found in the Appendix on page 55.]

Dr. SNYDER. And I assume, assuming these versions will pass or some variant of them will pass the Senate and the House, that you all will be involved in the discussions that lead to a final conference.

Secretary LYNN. We would certainly be available for that.

Dr. SNYDER. Sure.

Thank you, Mr. Chairman.

Mr. TAYLOR. [Presiding.] The Chair thanks the gentleman.

The Chair now recognizes the gentleman from Texas, Mr. Conaway, for five minutes.

Mr. CONAWAY. I will not take five.

Mr. Secretary, you mentioned the problem with lengthy times of development and the fact that, as an example, and not to speak to it individually, but the F–22 1986 to 2006. Talk to us about your thoughts about how we should either in some way legislate a shorter timeframe or have some sort of ability to discipline ourselves on the length of time we allow for something to exist before we make hard decisions. Can you talk to us about what your thoughts are?

Secretary LYNN. I would be hesitant to legislate that. I think what you want to do is along the lines of what we have been talk-

ing about is set guidelines. There may be reasons to exceed those guidelines in certain instances, but what you want to do is try and pull them back into the closer timeframe so that you get more mature technology.

You do not spend excess time. You do not delay the delivery to the war fighter. But I think it is too difficult to foresee all of the different circumstances to put it in as hard a shell as legislation.

Mr. CONAWAY. Thank you, Mr. Chairman. I yield back.

Mr. TAYLOR. The Chair thanks the gentleman.

The Chair now recognizes the gentlewoman from California, Mrs. Davis, for five minutes.

Mrs. DAVIS. Thank you. Thank you, Mr. Chairman.

And, Secretary, welcome. We are glad you are here to think about these next moves that we are going to make in this area which are very important.

I wanted to ask about two areas. One is competition because we know that it has been cited on a number of occasions, GAO in their recent report, that that is an issue.

We have major contractors, not so many of them, who are bidding on the major systems. But we also have subcontractors. And there are many concerns out there that the bundling of contracts hurts the competition among some of our small businesses. Could you comment on that and whether you think that there should be greater recognition of that in the bill, if you think that there is language that should speak to competition, in a stronger way, I think?

And the other issue really is with the performance that you mentioned, past performance, and whether or not there should be a better depository of past performance so that we can check on the track records of businesses as those contracts are being decided. Do you see that in this particular legislation?

I know that my colleague, Mr. Andrews, has been so involved in this, is looking at, you know, down the line that we need to have some kind of depository like that so that we really can check on these past performances and, in many ways, it is the subcontractors in that regard, not necessarily the primes.

Secretary LYNN. Well, let me take your questions in reverse order.

With regard to past performance, there is a database that we use that is part of the contracting process that measures past performance on relevant programs. So that already exists. Mr. Assad is an expert on that, but I will ask him in a second if he has anything in addition.

On the competition, we do think more competition is a useful tool in terms of managing the acquisition process, and towards that end, we are proposing to make greater use of competitive prototyping, try and bring competition to bear at the front end of the process so we have the technologies that we are going to put into the weapons system more fully developed, and we have the competitive impulse to deliver the best product at the best price.

With regard to your bundling comment, I mentioned that we want to move away from the lead systems integrator concept, and one of the reasons is we think we bundled too much up into that. It needs to be done at a lower level, and I think that would address some of the concerns that you mentioned with regard——

Mrs. DAVIS. Do you think that the bill needs to spell out less bundling of contracts? How would you do that without it being terribly prescriptive?

Secretary LYNN. I do not have a proposal as to how to do that in legislation. As I say, the Secretary's proposal on Future Combat Systems comes directly from that impulse to move away from the bundling, and then that was probably the best example of a lead systems integrator contract. So we are moving in that direction. I do not have a legislative proposal to increase the speed.

Did you want more detail on the past performance database? Maybe Shay could——

Mrs. DAVIS. Yes, please. And for subcontractors.

Mr. ASSAD. Yes. In terms of subcontracts, ma'am, as part of our strategic sourcing initiatives, we are—in fact, one of the fundamental underpinnings of our strategic sourcing initiatives is more competition, is less bundling. We are not looking to bundle things together. We are just looking to align behaviors on how we go about doing it, which is, in fact, improving our ability to subcontract, especially with small business.

So I think that we are on track in terms of making sure that the organization fundamentally understands from a strategic sourcing point of view that that is where we are heading, which kind of is the overarching vision of how we are buying our goods and services.

With regard to past performance, the system that the Deputy Secretary referred to is called the Past Performance Information Retrieval System. What we are doing in that regard is we are looking at working with our brothers and sisters in the rest of the federal government because that is a federal government-wide system. How do we improve the timeliness of the information, and how do we ensure that there is a consistency between incentive and award fees being earned and, in fact, what is being said about contractors in the Past Performance System?

So those are two specific areas that we are looking to improve——

Mrs. DAVIS. Can I——

Mr. ASSAD [continuing]. With regard——

Mrs. DAVIS. Can I——

Mr. ASSAD [continuing]. To past performance.

Mrs. DAVIS [continuing]. Does that include the subs as well? I mean, does it cover all subs and——

Mr. ASSAD. It is primarily a prime contractor type of a system, but when we do our source selections, we very much get inputs on major subcontractors and their past performance. We do look at that.

Mrs. DAVIS. Do you see the system being able to encompass all the subs that it works with, that particular system, or do we need to respond in some other way?

Mr. ASSAD. I do not think that we could—if we got down to all the subs, that would be literally hundreds of millions of pieces of information, but I think we do need to look at our major subcontractors that we identify and perhaps working with the rest of the federal government to see if it is appropriate to include those in.

Mrs. DAVIS. Thank you, sir.

Thank you.

Mr. ORTIZ. [Presiding.] The Chair recognizes Mr. Murphy.

Mr. MURPHY OF PENNSYLVANIA. Thank you, Mr. Chairman.

Secretary Lynn, Mr. Assad, Ms. McGrath, thank you for your testimony for the past hour and 40 minutes and for your continued service to our country.

I served in Iraq six years ago with the 82nd Airborne Division in Baghdad, and there is no doubt that the situation on the ground over there has changed. In fact, when I was there with the 82nd, we had the top-of-the-line equipment. We had the M4 rifle. Most of us had the M16. Now everybody has the M4. So technology has changed. The weapons required in the fight have clearly changed. And our philosophy in the Armed Services Committee and the Department of Defense, obviously, is we do not want a fair fight. We want our troopers to have a technological advantage.

The GAO report states that for the Department of Defense's fiscal year 2007 portfolio of major weapons programs being developed, there is an average of a 21-month delay in delivering initial capabilities to the war fighter.

So, listening to the testimony today, Mr. Secretary, you know, as conditions in the theater have changed and one of these delayed programs suddenly becomes badly needed by the troops in the field, what does the Department of Defense need to have the flexibility and agility to rapidly get the weapons systems up to speed and ready for deployment?

Secretary LYNN. What you are talking about, I think, Congressman Murphy, is the balance between performance on one hand and cost and schedule on the other. And I think too often the system weights performance too highly, and that we need to give equal weight to the cost and the schedule. And I think you are talking there about the schedule, and we may need to spiral additional performance improvements into a later model. We may need to go with the 80 percent solution that we can get immediately versus going for the 99 percent exotic solution that we only have on PowerPoint slides.

So we need to fundamentally change the culture that makes these tradeoffs because it is not an unnatural thing, but there is a logic in the system now that constantly pushes toward those performance improvements and does not take sufficient account of the schedule and the cost implications of doing that.

Mr. MURPHY OF PENNSYLVANIA. Right. Mr. Secretary, roger that. I hear you, and I understand, you know, we do not want the perfect to be the enemy of the good. I got it.

But, you know, in earlier testimony, in, you know, your testimony today was, "It is difficult to get timely information in auditable statements." You talked about logistics, medical issues, you know, and that is a challenge. I think what we would like is what is the solution or what do you propose the solution is?

And what do you need from us to empower you because, you know, to go back to Gene Taylor's comment today, I mean, listen, you know, there is a different philosophy out there. The contractors, the shipbuilders, whoever it is, you know, they want, you know, the most money for the ship, where the Congress and the

taxpayers that we represent want the most ship for the money or the most, you know, weapons system for the money, and so that is what our focus needs to be, as your focus is.

So is there anything that you could articulate today, like what do you need? What systems do you need? What do you need from the Armed Services Committee and the Congress of the United States to empower you to get after this?

Secretary LYNN. I think the direction we need to go is to make sure that the technologies that we have and that we are putting into weapons systems are mature. So we need technology readiness assessments at each stage of the process so that we are not buying into technology that we cannot deliver in a timely fashion.

We need competitive prototyping in the developmental phase so that we put the contractors against each other to achieve the best possible product at the best possible price on the schedule, and we need cost estimates that are not just success oriented, but that take into account the kinds of risks in terms of development, in terms of production, and in terms of technology so that we understand going in what our best estimate is of what the costs are so that we do not later on find out that we are going to have to increase by 20, 50, or 100 percent the cost and, therefore, disrupt the entire program and possibly slow it down.

Mr. MURPHY OF PENNSYLVANIA. And, Mr. Secretary, these are metrics that I agree with you. And I think, you know, the technology readiness assessments the cost estimate better, just not success estimates, these are metrics that are music to my ears and my colleagues' ears.

I think, though, when you look at the GAO report, when it says, though, "The Department of Defense has not designated a senior management official at an appropriate level with the authority to be responsible and accountable for enterprise-wide business transformation"—and I know that it is business transformation, but, you know, where does the buck stop?

And we are looking for people to be on the hook here, both on the Department of Defense side, but also on the contractor side. And we need to hold folks' feet to the fire because our constituents who are in this economy are making sure that they are getting their bang for the buck.

Secretary LYNN. I am afraid the person you referred to is me. To assist me in that, the Congress has recently created the—I am the Chief Management Officer—position of Deputy Chief Management Officer. Ms. McGrath here is the senior career civilian in that office, and we are developing a slate of potential political appointees to put into that. So that would be kind of one organizational answer.

And then the other answer is the Under Secretary for Acquisition is the principal individual in terms of oversight of the weapons acquisition process itself.

Mr. MURPHY OF PENNSYLVANIA. I know my time is up, Mr. Chairman, but I would say we need to partner together in a bipartisan way with Democrats, Republicans, and you to articulate to the American public that we are getting after this, and that we are hitting these metrics, and that we are articulating those and the success stories and the failures as we move forward.

Thank you so much for your testimony today. I appreciate it.

Secretary LYNN. Thank you.

Mr. MURPHY OF PENNSYLVANIA. Mr. Chairman, I yield back.

Mr. ORTIZ. Thank you. I think the gentleman has raised some very, very good points, and if we can help through legislation to empower you, anything that we can do, but taxpayers' money is very sacred, and we want to be sure that they get their money's worth.

And I will have another question after Mr. Taylor.

Mr. Taylor from Mississippi.

Mr. TAYLOR. Mr. Lynn and the other guests, I want to thank you again for sticking around so long.

And I am going to get way down in the weeds, but I think it has been a long time, again, going back to your testimony, and I think you are exactly right that the lead systems integrators did not do our Nation any service. They did a great job of looking out for the contractors, but not for us. And so, again, I am in agreement with everything you are saying.

I am going to bet that anyone who bids on a ship for our Nation or a large aircraft has a computer-assisted design program, and they know every frame, every bulkhead, every piece of plating on that ship, every watertight door, every piece of piping. When they bid on it, they know everything that goes in there. They have a pretty good idea what it is going to cost per foot, per pound, whatever. They have a pretty good idea of how many linear miles of welds there are, et cetera, et cetera.

What I am asking you is, in your research, do we have that sort of information? I know we have some phenomenal research going on at David Taylor Model Basin and some other labs, but does anyone get down into the weeds and say, "You have this many miles of welds. You have this many pounds of aluminum. You have this many pounds of steel. You are buying this much plate. You are buying this much angle iron." Does anyone on our side of the equation in order to get the best price for the citizens get down into the weeds as far as that pricing?

And I am going to give you a for-instance, and, again, I appreciate that we have a new Administration, you are trying to turn this around, but in the past two years, the price of steel has been cut in half. In the past two years, the price of aluminum has been cut in half. In the past two years, the price of titanium is down by a third.

Now no one on the Navy acquisition side ever walked into my office and said, "Hey, we can get a better deal on ships or airplanes or whatever." It was my local salvage dealer that told me the price of all this stuff was down, not anybody in the Administration, not any of our vendors, and, again, you know, we are automatically growing eight percent in the budget to finish out the year. I think ten percent in next year's budget. We are automatically spending more money. But who in your department is just getting down in the weeds and trying to get us some savings on basic things like this?

Secretary LYNN. Well, the——

Mr. TAYLOR. And if that has not happened yet, I would hope to hear from you you are going to make that one of your priorities.

Secretary LYNN. Well, it is a priority, and let me answer that in two ways.

The CAIG, the independent cost arm, does the kinds of things that you are talking about. The way they do a cost estimate is they do it by analogy. So they look at the most comparable systems that have been developed. They look at the prices of the inputs. They look at the learning curves that have been involved in putting that kind of system together, and they try and estimate——

Mr. TAYLOR. Okay. Do they have a CAD? Do they have a computer-assisted drafting program?

Secretary LYNN. No, the CAIG would not, no, but that is not how they do a——

Mr. TAYLOR. Someone at David Taylor had that. Again, every mom-and-pop shipyard that is bidding for a project has one, and the question is: Why doesn't our Nation have one to see if we are getting a decent price?

Secretary LYNN. Go ahead, Shay.

Mr. ASSAD. Yes, sir. The specifics that you are talking about is what we call in the world of cost estimating and pricing, table negotiations—knowing the details of what it is that we are buying.

Included in the Secretary and the Deputy Secretary's and the Department's plan for workforce growth over the next 5 years is to grow 800 pricers. We are going to add 800 pricers to the workforce. Included in that 800, about 200 of those folks will be resident in the Defense Contract Management Agency to do the very specific kinds of things that you are talking about. That capability does not exist within the Department today.

At one point in time, frankly, 20 or 25 years ago, we did have those kinds of capabilities. I know because I was on the other side of the table dealing with very competent, capable government folks, and the fact is we are going to grow that capability. It is going to take us a while, but we are going to get to the point where we are going to be able to answer your questions in very, very specific detail.

We are growing an integrated information system within the Defense Contract Management Agency. All of our business clearances will be resident there, and we will have folks specifically expert in ships, aircraft, missiles, the kinds of products that we are buying so that we can get that information to our contracting officers and our prices in the field so they can be more effective at the table and get a better deal for the taxpayers.

Mr. TAYLOR. Mr. Assad, I am really pleased to hear you say that. What is the timeline that you have in mind for implementing this?

Mr. ASSAD. Well, we have a plan that is going to take us about five years because these are experienced people. So it is going to take a while to grow. We are going to bring a lot of young folks in, but it is going to take a while to grow that workforce. But the very first emphasis is on growing the integrated capability at DCMA.

Mr. TAYLOR. Thank you, Mr. Chairman.

Mr. ORTIZ. Thank you.

You know, we have been fighting this war—I think we are going on about eight years, and it takes about five, six years to develop weapons. This is a different war that we are fighting. We have not

fought a war like this. Do you see the necessity—or maybe you are not working on future weapons that we might be able to fight and give an advantage to our war fighters, to our warriors who are fighting this war. Is there something in the pipeline now that you know of?

Secretary LYNN. Yes. Yes, there is, Mr. Chairman. In the budget that we are going to submit to you tomorrow, there is an emphasis on bringing things forward that are going to help us in the war fight.

We are going to increase the ISR assets—Intelligence, Surveillance, and Reconnaissance assets—available to the war fighter. We are going to increase the unmanned aerial vehicles, the Predators and particularly the Reapers, that have been helping out so much in Afghanistan. We are going to increase the number of special operations forces by 2,500. Those forces are on the front lines of our effort in Afghanistan.

So, yes, we are proposing things that are going to be of immediate benefit to the conflict we are in. That is, frankly, one of the principal themes that the Secretary has in the budget that he constructed for submission to Congress tomorrow.

Mr. ORTIZ. And, you know, the reason I ask these questions is because I feel that sometimes we are preparing ourselves and preparing development weapons to fight a war that we will never fight. But now we have this war going on eight years, and I just pray to God that we will be able to find the right technology and the right equipment to support our warriors.

Secretary LYNN. Well, we need the right balance. I agree. I agree with you, Mr. Chairman. We certainly want to make sure—and we are steering more towards supporting the immediate war fights. That does not mean we want to give up the long term.

As I think one of the members of the committee indicated, it is not only whether there will be a near peer competitor, but we want to dissuade one from emerging. So we need to make sure our development programs are on that track as well.

But, frankly, the programs on that track have generally been quite strongly supported. The war fighter programs' more immediate needs we felt needed some additional impetus, and that is what we tried to put into this budget.

Mr. ORTIZ. Do I hear any further questions?

Mr. Secretary, thank you so much to you and your staff for your excellent testimony.

And hearing no further questions, this hearing stands adjourned.

Secretary LYNN. Thank you very much, Mr. Chairman.

[Whereupon, at 11:55 a.m., the committee was adjourned.]

A P P E N D I X

MAY 6, 2009

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

MAY 6, 2009

House Armed Services Committee
Chairman Ike Skelton
Opening Statement
Hearing on Acquisition Reform with Deputy Secretary of Defense Bill Lynn

May 6, 2009
"Ladies and Gentleman, welcome to today's hearing on The Department of Defense at High Risk: The Recommendations of the Chief Management Officer on Acquisition Reform and Related High Risk Areas. I should note up front that this hearing is a follow-up to our hearing on March 12 with GAO about their 2009 High Risk Update and helps satisfy the committee's oversight obligations under the Tanner resolution.

"Our witness is Deputy Secretary of Defense Bill Lynn who also has the distinction of being the Department's Chief Management Officer, a responsibility given to him largely as a result of GAO's recommendations. He has with him Mr. Shay Assad, Acting Deputy Under Secretary of Defense for Acquisition and Technology and Ms. Beth McGrath, Assistant Deputy Chief Management Officer. They will assist Secretary Lynn in answering our questions, but will not present statements.

"The focus of today's hearing is narrower than our earlier hearing with GAO. We will focus today on acquisition reform. However, Secretary Lynn, the committee expects that you will provide us with a full response to the findings and recommendations of GAO in its 2009 High Risk Update for the record. The committee is committed to addressing all of the Department's High Risk Areas and we will remain focused on all of these issues, not just this year but beyond, until we are able to reduce the risk in these areas to manageable levels.

"The focus on acquisition reform in today's hearing is more than timely. Tomorrow, the committee will mark-up H.R. 2101, the Weapons Acquisition System Reform Through Enhancing Technical Knowledge and Oversight Act of 2009. Ranking Member McHugh and I, along with our partners, Rob Andrews and Mike Conaway, the leaders of our Panel on Defense Acquisition Reform, introduced the WASTE TKO Act to match the good work of our colleagues in the Senate, Senators Levin and McCain. We believe our bill will help substantially improve the oversight of acquisition of major weapon systems.

"H.R. 2101 introduces three significant new concepts. Number one, we require the Secretary of Defense to designate an official as the Department's principal expert on performance assessment, who will give us unbiased assessments of acquisition programs. Number two, we create an intensive care unit for sick programs. Programs that are not meeting the standards for system development or that have had critical Nunn-McCurdy breaches will get additional scrutiny. Number three, we require the Department to set up a system to track the cost growth and schedule changes that happen prior to milestone B. It is before milestone B when 75% of a program's costs are actually determined.

"We will mark-up this legislation in committee tomorrow with a goal of moving it through the House as a stand-alone measure and completing conference with the Senate on it by Memorial Day. However, the committee, and especially our Panel on Defense Acquisition Reform, will continue to work on acquisition reform, this year and next, on the 80% of acquisition which lies outside the scope of H.R. 2101 and its Senate counterpart. We look forward, Secretary Lynn, to your testimony on the full range of acquisition issues today. Now let me turn to my good friend and colleague, John McHugh."

Statement of

The Honorable William Lynn

Deputy Secretary of Defense

U.S. Department of Defense

Before the House Armed Services Committee

May 6, 2009

Prepared for Submission

HOUSE ARMED SERVICES COMMITTEE
SUBMITTED STATEMENT – ACQUISITION REFORM
RAYBURN HOUSE OFFICE BUILDING
WEDNESDAY, MAY 6, 2009 – 10:00 AM

Mr. Chairman, Congressman McHugh, members of the committee:

Thank you for the opportunity to provide an overview of the Department of Defense's plan for implementing acquisition reform initiatives. As the Chief Management Officer of the Department of Defense, I have primary responsibility for ensuring the smooth functioning of the Department. This includes oversight of the weapons acquisition process – which technologies we use, which weapons systems we buy, and the business operations that underlie the whole process.

The President has talked about the urgent need for acquisition reform. He has stated that it is an important part of the overall attempt at reforming government practices, gaining efficiency and improving our national security. I know that this Committee shares the President's concern about how the Department makes acquisition decisions and is preparing legislation to address areas that need reform. I look forward to working with you and your counterparts in the Senate on these long standing issues.

Assessing the Problem

The first step in reforming our acquisition system is to have a firm grasp of the major problems. The problems start with the process where we establish the requirements for new weapons systems. Too often, we establish requirements that are at the far limit of the technological boundaries. We seek exotic and unproven solutions to warfighting needs. Sometimes these can lead to breakthrough developments that can revolutionize warfare. But far

more often the result is disappointing initial performance followed by cost and schedule overruns to correct those performance failures. Then, we repeat this cycle several times before we eventually deliver the weapons system years late, millions or billions of dollars over budget and still not at the performance levels that we originally sought.

A related problem is our difficulty in making tradeoffs between improved performance on one hand and cost and schedule parameters on the other. In what is often an admirable effort to get the best technology in the hands of the warfighter, we choose to reach for one last performance improvement. But the end result of this so-called "requirements creep" is that we delay getting any improved system to the warfighter and we pay so much for the capability that we displace other important priorities from the budget.

One of the critical reasons for some of our shortcomings in the acquisition process is the lack of critical skills in the acquisition workforce. Over the last ten years, defense contract obligations nearly tripled while our acquisition workforce fell by more than ten percent. More important than the raw numbers is the fact that the Department lacks sufficient technically trained personnel to conduct effective oversight. We need additional cost estimators, systems engineers, and acquisition managers. In the absence of these personnel, we have outsourced too many functions that should be performed inside the Department.

We also rely on overoptimistic cost estimates. These estimates are success-oriented. They assume that every step in the development process will go as planned. They do not include sufficient provision for unexpected technological, production, or other challenges. To produce weapon systems efficiently, it is critical to have budget stability. But it is impossible to attain that stability in our modernization budgets if we underestimate the cost of our weapons systems from the start.

Finally, the entire weapons development cycle is too lengthy. It can take as long as two decades to take a weapons system from concept development to full production. This means that systems that were developed to address one set of security threats do not arrive until the threat has changed, the adversary disappeared, or the technology has aged. At the same time, the lengthy development cycle means that the Department has to go outside the normal acquisition process for urgent warfighting needs, as was the case with the development of Mine Resistant Ambush Protected (MRAP) vehicles to meet the improvised explosive device (IED) threat in Iraq. It is important to keep the need for shorter timelines in mind as we seek to reform the acquisition process. Every additional process and review that we add to the acquisition cycle in an effort to reform it can undercut itself by lengthening the overall cycle time.

Acquisition Reform Initiatives

To address these problems, the Department is undertaking a far-reaching set of reforms. For some of these, we will be working with you on new legislative authorities. Others, we can accomplish with internal actions. Today, I would like to lay out the major areas where we seek to make progress.

1. People

I would like to start with our most important resource – people. In order for the acquisition system to function effectively, it must be supported by an appropriately sized cadre of acquisition professionals with the right skills and training to successfully perform their jobs. However, vacancies in key acquisition management positions, an over-reliance on contractor personnel, and the inability to utilize the specific competencies of our government employees

effectively have all contributed to the situation that we face today where both systemic and program specific problems lead to cost over runs and schedule delays.

To address these personnel deficiencies, we will increase the number of acquisition personnel by 20,000 positions over the Fiscal Year 2010 to 2015 Future Years Defense Program (FYDP). This will include over 9,000 contracting, cost estimating, pricing, and contract oversight positions at the Defense Contract Audit Agency and Defense Contract Management Agency – which will help ensure that DoD knows what it is buying and gets what it pays for. The remaining 11,000 new hires will come from the conversion of contractor positions to federal civilian positions. These positions will primarily be program management, systems engineering, logistics management, and business management positions. We will also be making significant increases in training and retention programs in order to bolster the capability and size of the acquisition workforce. This unprecedented five-year planned workforce initiative will result in a properly sized, well-trained, capable and ethical workforce.

2. Strengthening the Front End of the Process

We propose several steps to put greater discipline into the front end of the acquisition process. Each major program will be subject to a mandatory process entry point – the Materiel Development Decision Milestone – prior to Milestone A. This will ensure programs are based on approved requirements and a rigorous assessment of alternatives. The objective will be to balance performance needs with schedule and cost limitations.

Each major program will undergo Technology Readiness Assessments (TRAs) in support of certifications at all three major program milestones. These assessments would identify technology readiness issues prior to acquisition decision points, thereby focusing attention on

mitigation strategies, such as strengthening technology testing and development efforts or switching to a more mature technology. Also, TRAs can clarify ambiguities in system requirements and needed capabilities that might otherwise cause serious problems during program execution.

To reduce technical risk, our standard practice will be to conduct a Preliminary Design Review before Milestone B. At this point, independent reviews must certify the maturity of program technologies for a program to progress to the costly final phase of development – engineering and manufacturing. We will use competitive prototypes when possible and if they are cost effective. Programs will be required where possible to implement acquisition strategies requiring a technology development phase where two or more competing teams will produce prototypes of the system or key components. Consequently, technologies will have to be demonstrated and proven before engineering development is initiated.

While we ensure oversight, we must be attentive to not overburdening the process with reviews. The lead time to design and deliver capability is already too long. As a result, we will be mindful to not overburden ourselves with more "checkers" than those being "checked."

3. Improving Cost Estimating

Paramount to ensuring that we have programs that are more highly predictable is the need for effective cost analysis. To strengthen our cost analysis capability, we plan to expand the size and capabilities of the Department's independent cost arm – the Cost Analysis Improvement Group (CAIG). We will also modernize cost education and training programs. To strengthen our cost database, we will improve contractor data reporting of actual costs, earned value management, and pricing. To reduce the risk of cost overruns, we will establish a preference for

funding acquisition programs to the CAIG's estimate in the President's Budget Request and the FYDP. There is one important caveat: We should avoid separating the cost-estimating function from the Program Analysis and Evaluation (PA&E) organization. PA&E performs a wide variety of planning and programming functions that require accurate cost estimates. These functions extend beyond straight weapons system cost estimates to include strategic reviews like the Quadrennial Defense Review, program assessments, and FYDP analysis. All these functions require a strong cost analysis team integrated inside PA&E.

4. Executing Programs Properly

We also need to strengthen the execution phase of our weapons development program. Several initiatives will help in this regard.

First, we plan to explore greater use of fixed-price development contracts. In the past, we have far too often accepted an environment that defaulted to the use of cost-type contracts for development programs. There are risks in using fixed-price contract vehicles for development programs that involve cutting edge or exotic technologies. But if we succeed in reducing the technological risk of many programs through the strengthened front-end approach described above, we should be able to make greater use of fixed-price contracts in development programs. This may somewhat increase the initial development costs as contractors price in a greater degree of risk. But at the same time, it should make those cost estimates more predictable and cost overruns less frequent.

Second, to address the issue of "requirements creep," we will continue to create Configuration Steering Boards that were endorsed by the FY 2009 National Defense Authorization Act. These boards will provide a mechanism to preclude destabilizing

requirements changes and to match requirements with mature technology. Program managers will employ this forum to control requirements changes and seek moderation of requirements that become drivers of excess cost in system design.

Third, to align profitability with performance, we have several initiatives. Most contract fee structures – for example, incentive fees – will be tied to contractor performance. We will restrict the use of award fee contracts to those situations where more objective measures do not exist. We will also rigorously examine services contract strategies to ensure an alignment of fees earned and services provided. We will eliminate the use of unpriced contractual actions, whenever possible. And, we will ensure that the use of multiyear contracts is limited to instances when real, substantial savings are accrued to the taxpayer. We must also hold up our part of the bargain. Communication with our industry partners must be open and in a manner that clearly articulates our requirements and expectations. We must also demonstrate our commitment to a program through stable funding of our contracts.

The bottom line in the execution phase is that we need to match requirements to mature technologies, to maintain disciplined systems engineering integrated with testing and to focus on not repeatedly sacrificing cost and schedule for promises of improved performance. We will continue to use the portfolio management process where appropriate to ensure we have a balanced "horizontal" view of needed capabilities across the enterprise – not just a bottom-up, stovepipe view. Where weapons programs fail to meet these admittedly high standards, we need to be prepared to cancel them if necessary. We will utilize both the Nunn-McCurdy process as well as the annual budget review for this process. The difficult strategic and programmatic decisions that Secretary Gates made in preparing the FY 2010 budget submission reflected this tough-minded approach to acquisition reform.

Conclusion

DoD acquisition is not easy. It is an enormously complex and large undertaking. Acquisition reform is similarly complex and challenging. Since the end of World War II, there have been nearly 130 studies on acquisition reform. Many very smart people have tried; some with limited success. In this regard, we need to keep in mind the importance of not making the system worse in our efforts to achieve reform. This has happened in the past. For example, in the 1990s, there was a significant drawdown of the acquisition workforce under the guise of acquisition streamlining. The intent was to create a more streamlined, leaner acquisition corps. In retrospect, what occurred was that we outsourced a number of acquisition positions which were, or bordered on being, inherently governmental functions, and we inadvertently denied the Department needed technical and business talent that we now need to restore. This is not to say that we should not and will not seek improvements in our weapons acquisition systems – only that we need to be careful not to take away critical capabilities or add new burdens that lengthen the already too lengthy process.

With these lessons fresh in our minds, we must move forward and continue to improve our acquisition workforce, our procurement and acquisition processes, and the results we achieve on behalf of our warfighters and taxpayers. This Committee and the Senate have both formulated legislation aimed at improving our acquisition system. We agree with the strategic direction of both bills and we wish to work with the Congress to ensure that we get well-designed initiatives that can be effectively implemented. As the DoD Chief Management Officer, I am committed to improving the department's business operations and there is no doubt in my mind that significant improvement is achievable in this area.

Our economic circumstances require a change in the way we acquire military equipment

and services. The Department intends to stop programs that are not performing, significantly exceed their budget, or that spend limited taxpayer dollars to buy more capability than the nation needs. We will ensure that requirements are reasonable and technology is available to meet program cost and schedule goals affordably. We intend to estimate program costs more realistically, seek budget stability for the programs we initiate, staff our government acquisition teams adequately, and provide disciplined and effective oversight.

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WITNESS RESPONSES TO QUESTIONS ASKED DURING THE HEARING

MAY 6, 2009

RESPONSES TO QUESTIONS SUBMITTED BY MR. TAYLOR

Secretary LYNN. Direct responsibility for executing the EMALS program of record is the Program Manager for Aircraft Launch & Recovery Equipment (ALRE), PMA 251. He reports directly to Program Executive Officer for Tactical Aircraft (PEO TACAIR) to support delivery of this new technology within cost and schedule. PMA 251 will deliver fully tested systems to the Program Manager for the Future Aircraft Carrier, PMS 378, who will install EMALS into CVN 78-class carriers. Senior Navy Oversight is maintained by an Executive Committee, comprised of the Deputy CNO for Integration of Capabilities and Resources, Commanders of the Naval Sea Systems Command and Naval Air Systems Command, and the Principal Military Deputy for the Assistant Secretary of the Navy for Research, Development, and Acquisition (ASN(RDA)). This executive committee convenes quarterly for reviews and to provide guidance and assistance to PMA 251 and PMS 378. [See page 14.]

Secretary LYNN. The LCS program is subject to the same level of Navy/OSD budget review as any other ACAT 1D program. At Milestone A (MS A) on May 27, 2004, the Navy developed an independent cost estimate which was accepted by the OSD Cost Analysis Improvement Group (CAIG). The program cost estimates are updated periodically during program execution by NAVSEA 05C to reflect the latest return cost data, quantity profile, and acquisition strategy in support of the Navy POM/budget program review. At MS B, planned for FY11, the CAIG will update its independent cost estimate for the program. [See page 15.]

RESPONSE TO QUESTION SUBMITTED BY DR. SNYDER

Secretary LYNN. The Department of Defense and the Administration supported provisions in both the Senate (S. 454) and House (HR. 2101) bills that were included in the final engrossed version, including: Awarding DOD personnel for excellence in the acquisition of products and services (Sec. 301); articulating that the Joint Requirements Oversight Council seek input from the Combatant Commanders (Sec. 105); Director of Defense Research and Engineering assessing critical Major Defense Acquistion Program (MDAP) technologies (Sec. 104); requiring unit cost reporting for planned increments or spirals, a provision within the Critical Cost Growth in MDAPs section (Sec. 206).

The Department was also concerned with provisions in both the Senate and House bills that would dilute the authorities of the Under Secretary of Defense for Acquisition, Technology and Logistics, or that added duplicative or potentially burdensome layers of additional oversight, ultimately hindering the Department's ability to deliver necessary capabilities to the Warfighter.

The Department of Defense is pleased to work with Congress to effectively implement the reform initiatives in the Weapons Systems Acquisition Reform Act of 2009 (P.L.: 111–023). [See page 28.]

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