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THE DEPARTMENT OF DEFENSE AT HIGH RISK: RECOMMENDATIONS OF THE COMPTROLLER GENERAL FOR IMPROVING DEPARTMENTAL MANAGEMENT

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

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CONTENTS

CHRONOLOGICAL LIST OF HEARINGS

2009

Page

HEARING:

Thursday, March 12, 2009, The Department of Defense at High Risk: Recommendations of the Comptroller General for Improving Departmental Management 1

APPENDIX:

Thursday, March 12, 2009 29

THURSDAY, MARCH 12, 2009

THE DEPARTMENT OF DEFENSE AT HIGH RISK: RECOMMENDATIONS OF THE COMPTROLLER GENERAL FOR IMPROVING DEPARTMENTAL MANAGEMENT

STATEMENTS PRESENTED BY MEMBERS OF CONGRESS

McHugh, Hon. John M., a Representative from New York, Ranking Member, Committee on Armed Services 2

Skelton, Hon. Ike, a Representative from Missouri, Chairman, Committee on Armed Services 1

WITNESSES

Dodaro, Gene L., Acting Comptroller General of the United States; accompanied by Janet St. Laurent, Managing Director, Defense Capabilities and Management, Government Accountability Office; and Katherine Schinasi, Managing Director, Acquisition and Sourcing Management, Government Accountability Office 4

APPENDIX

PREPARED STATEMENTS:

Dodaro, Gene L., Acting Comptroller General of the United States 33

DOCUMENTS SUBMITTED FOR THE RECORD:

[There were no Documents submitted.]

WITNESS RESPONSES TO QUESTIONS ASKED DURING THE HEARING:

Mr. Skelton 67

Mr. Taylor 67

QUESTIONS SUBMITTED BY MEMBERS POST HEARING:

Mr. Murphy 72

Mr. Smith 71

THE DEPARTMENT OF DEFENSE AT HIGH RISK: RECOMMENDATIONS OF THE COMPTROLLER GENERAL FOR IMPROVING DEPARTMENTAL MANAGEMENT

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
Washington, DC, Thursday, March 12, 2009.

The committee met, pursuant to call, at 10:02 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. Ladies and gentlemen, welcome to our hearing on "The Department of Defense At High Risk: Recommendations of the Comptroller General."

Today, we focus on the issue of how well the Department of Defense (DOD) is doing at the routine business of managing its business operations, its finances, its investments and its contracts.

I would note that today's hearing fulfills one of the committee's responsibilities under H. Res. 40, the Tanner Resolution, which amended the House rules to require the standing committees of the House to perform additional oversight.

I use the phrase "routine business," but the truth is that the Department of Defense is almost certainly the largest and most complex organization in the world. Managing such an organization can never truly be just routine.

I might add that providing oversight to such an organization is also a significant responsibility. We must also today thank our witness, Gene Dodaro, the acting Comptroller General of the United States and the Government Accountability Office (GAO), which he leads, for taking on this task.

For the last 19 years, the GAO has annually reviewed the Federal Government's operations and published a list of those areas presenting the highest risk. Due in large part to the size and complexities of the Department of Defense, the DOD has been a significant presence on the list since its inception.

The Department has not been able to completely eliminate its risk in any of the areas identified by GAO over the years, nor has this committee been able to do so through its legislative or oversight activities.

That is not to say, however, that nothing has been done. In fact, a great deal has been done.

During the 110th Congress, this committee tackled many of the problems identified by the GAO. To cite a few, we codified the du-

ties of the Chief Management Officer (CMO) of the Department of Defense, a step recommended by the GAO.

We also enacted two significant pieces of acquisition reform legislation: the Acquisition Accountability and Improvement Act of 2007 and the Clean Contracting Act of 2008. And just last week, this committee established a panel on reform of the defense acquisition system to bring additional resources to its efforts in this area.

The committee has certainly not been alone in its efforts. Secretary Gates, former Deputy Secretary Gordon England, incoming Deputy Secretary Bill Lynn have also devoted a great deal of effort to these problems, and they have shown a lot of progress.

We must concede, however, that a tremendous amount remains to be done. It is unacceptable that only one significant organization within the Department of Defense, the Army Corps of Engineers, is able to reconcile its books with an outside auditor.

It is unacceptable that the Department has allowed a cost growth of $295 billion in its pending major weapons systems. It is unacceptable that the Department's business systems remain stovepiped and incapable of generating the decision quality information that senior leaders need.

We have not done enough, obviously.

Today, the acting Comptroller General will update us on the high-risk areas of the Department of Defense and, most importantly, provide us with his recommendations on how we can eliminate or mitigate these risks.

I would note for my colleagues that, in a few weeks, we will bring before this committee some of the senior managers of the Department of Defense, to hear their plans for addressing these problems.

Joining Mr. Dodaro are Ms. Katherine Schinasi. Pronounce it. Did I get it? Thank you. She is managing director for acquisitions and sourcing management. Ms. Janet St. Laurent—did I get that? All right. She is managing director for defense capabilities and management.

Before we hear from our Comptroller General friend, let me turn to my colleague, my friend, John McHugh——

Mr. MCHUGH. Thank you very much.

The CHAIRMAN [continuing]. The gentleman from New York.

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

Mr. MCHUGH. Thank you, Mr. Chairman. As always, you summed up the purpose of our getting together and our challenges very, very well.

Let me note that, as I considered today's hearing, as you noted, it has been the better part of two decades that GAO's good counsel has been presented to us about high-risk Federal Government programs. And also as you noted, Mr. Chairman, in that time, the Department of Defense regrettably has consistently made that roll.

And today, in fact, as we look at the current listing, the Department still has responsibility, at least in part, for about half of GAO's list of high-risk management programs.

But it seems to me that, even more disturbing than that is that, once a DOD program makes the list, it does not seem to ever get fully removed. And this is, I guess, remarkable. It is also, obviously, somewhat disturbing.

And it has to be an indication of one of two things. Surely, this is either DOD management, systems, and processes and their inherent risk, or DOD management is incapable of addressing the root causes.

It would appear this axiom holds true, regardless of a particular administration, regardless of the controlling party in Congress, but is a consistent theme.

But I think we would all be in dereliction of our duties were we to throw up our hands and simply accept as truth the Department cannot or will not address these challenges.

As you noted, Mr. Chairman, there have been significant efforts, both from the Department side, as well as from the oversight side here in this Congress. And yet, any kind of significant resolution evades us.

And at the end of the day, as I know you believe very strongly, Mr. Chairman, it is always the responsibility of this committee to assume a leadership role in advocating for reforms, particularly for those high-risk areas.

More importantly, we are really at a critical juncture here, as ongoing military readiness needs and fiscal pressures place DOD increasingly in a position where it cannot tolerate ineffective and inefficient management processes and technology.

To put it very bluntly, we cannot stand by and allow some in Congress, or in the Department, or anywhere, to cut programs supporting our military families or programs desperately needed to maintain and modernize our force in lieu of the concerted effort by both branches of government—the Administration as well as Congress—to boost efficiency of spending and to root out waste. And members of this committee do, I know. But we must stand as the vanguard against hasty and ill-conceived reductions to programs that some might try to cloak under the guise of reform.

We have to be realistic. Nearly half of the areas for which DOD is responsible require interagency solutions, thereby compounding the challenge.

I would add, as well, before we admonish DOD and other agencies too vociferously we should also examine how our own structure within the Congress impedes or fosters interagency solutions. And I would certainly be interested in any recommendations GAO might have on this score.

In the end, risk is inherent in any organization responsible for so many personnel, so many dollars, so many contracting actions and systems. And that is why GAO has recommended, DOD has adopted and Congress has codified, the role of the Chief Management Officer.

Currently, the Deputy Secretary of Defense (DEPSECDEF) serves as the CMO. The ability of the DEPSECDEF to take an active role in internal DOD management may be dependent on personality or circumstances. And how do we ensure that the management of the day-to-day DOD processes is not just an ad hoc duty?

Mr. Chairman, I want to thank you for having this hearing today. I am certainly grateful for the opportunity. I want to add my words of welcome and deep appreciation to our guests here today. GAO, certainly here in matters of defense, but across the board in government operations, has been often a guiding light in our efforts to do a better job with our charges. And we look forward to their comments today.

And let me note in conclusion that, I want to underscore that, although I strongly believe continued reforms of procurement and DOD's other business processes are essential, I have to break with those that might point to waste and mismanagement in the Department of Defense as grounds for tightening the defense budget.

Cuts in programs that suffer from cost overruns are warranted when they reform behaviors that lead to negative procurement outcomes. But employing across-the-board cuts, as some in Washington propose, is, in my judgment, a blunt instrument that does little to restructure the Defense Department's business practices.

And with that, Mr. Chairman, I yield back the balance of my time.

The CHAIRMAN. Thank the gentleman.

Mr. Dodaro, you are on.

As I understand it, the gentleladies with you will be here for questions, and you will—but you will have a formal statement. Am I correct?

Mr. DODARO. That is correct, Chairman.

The CHAIRMAN. Thank you.

STATEMENT OF GENE L. DODARO, ACTING COMPTROLLER GENERAL OF THE UNITED STATES; ACCOMPANIED BY JANET ST. LAURENT, MANAGING DIRECTOR, DEFENSE CAPABILITIES AND MANAGEMENT, GOVERNMENT ACCOUNTABILITY OFFICE; AND KATHERINE SCHINASI, MANAGING DIRECTOR, ACQUISITION AND SOURCING MANAGEMENT, GOVERNMENT ACCOUNTABILITY OFFICE

STATEMENT OF GENE L. DODARO

Mr. DODARO. Good morning, Mr. Chairman, Congressman McHugh, members of the committee. We are very pleased to be here today to discuss the status of DOD's high-risk areas.

As has been pointed out in our latest update, DOD represents approximately half of the 30 areas we currently have on the list.

I would note, however, that over the years since we have been doing this, in 1990, that we started out with the program focused largely on fraud, waste, abuse and mismanagement and those areas that were vulnerable to that. But over time, we also added areas in need of broad-based transformation to meet 21st century challenges. And so, DOD's areas on the list really represent both of those areas in terms of vulnerabilities and areas in need of transformation.

Now, I would like to highlight a few of those areas for you today, and then take questions on any of the areas as we enter into that period of the session.

First is in the weapons systems acquisition area, which has seen significant cost growth. The last time we updated our work in 2007,

we looked at the 95 programs in that portfolio. And over the original estimates that were in place for those programs, the cost growth was a total of $295 billion.

Forty-four percent of those programs had cost growth of over 25 percent from the original estimates. And also, importantly, the delay in the scheduled delivery time was up to 21 months, which was 4 months longer than just 2 months—or 2 years, excuse me—previously in 2005. So, the cost growth was up, and it was taking longer to deploy.

Now, the problem in the weapons systems area really has two dimensions at a strategic level. There are difficulties and not enough prioritization across the programs. And the process for determining and getting the requirements from the military commanders is fragmented. So, that part of the issue needs to be addressed, as well. It is still pretty much a service-by-service type of determination.

But also, at the individual program level, we consistently find that projects are moved forward without the maturity of the technologies that are under development, without application of sound systems engineering process with a good understanding of what the cost would be. The cost estimates continue to remain optimistic during the development period of time, and requirements keep getting introduced into the process as it moves forward, which further compounds the situation. So, there needs to be a more disciplined process in place.

Now, one area that we have been very pleased with, back in December 2008, DOD modified its policy guidance in this area and implemented a number of the best practices that we have been advocating for a period of time. So, we are very encouraged by that. If they follow those practices, that will ensure more disciplined development of these weapons systems acquisitions, and we think would go a long way.

This is the first time we have reported progress in this area since we have been tracking the high-risk areas, so we are very encouraged.

The big challenge for DOD will be to translate policy into practice. And that is what we will be looking at as we continue to review their efforts.

Now, similarly, in the contracting area, including service contracting, that is an area where DOD has grown a lot more reliant on contractors over a period of time. In fact, in the last five years in real terms, that contracting growth has more than doubled to about $387 billion, which includes about $200 billion in service contracting.

Now, that decision to attain more reliance on the contractors has not been one that has been a systematic, strategic decision. It is the result of the amalgamation of thousands of decisions that have been made across the Department to pursue additional contracting, often as a result of exigencies and the lack of the necessary means.

However, we found that DOD too often has turned to time and materials contracting, or undefinitized contracts, whereby the work proceeds without a final agreement, including costs, with the contractor. These are highly risky contracting vehicles to be used, and more risk is borne by the government.

But also, part of the equation here is that the amount of people that DOD uses to monitor and evaluate these contracts has not grown hardly at all. In fact, while the contracting has doubled in real terms over a four- or five-year period, the career contracting organization has grown less than one percent.

So, this formula of high-risk contracts and lack of people to oversee the contracts adequately is not a prescription for success. And we think it needs to change.

To DOD's credit, they have put in place stronger policies and procedures to deal with these issues. And if they use, like, for example, undefinitized contracts, we recommend they solidify the agreements within the 180 days required after that approach. And they are trying to better understand their contract workforce needs.

These activities need to be completed. And just like the weapons systems acquisition area, they need to be put into practice and consistently implemented across the Department.

Now, we are encouraged again here by some of the recent activities, but the proof will be in implementation going forward, which is one of the areas that we are concerned about in terms of the Department's track record in this regard.

Now, we are also encouraged by other developments in the contracting and acquisition area. I would like to commend, Mr. Chairman, you and this committee for establishing your panel on DOD acquisition reform. I think that is important.

And the Senate has introduced some legislation that we think will be helpful, as well. They have created also an ad hoc committee on contracting on the Homeland Security and Governmental Affairs Committee, on the Senate side.

I was very pleased to see the President come out and announce contracting reform, and directing Office of Management and Budget (OMB) to address a number of issues and implementation guidance to the agencies, and we will be monitoring that very closely. But we think it is long overdue and much needed, and hope that it really addresses the issue and gains traction in DOD and other agencies across government.

Now, a couple of other high-risk areas I would highlight quickly. One is supply chain management. This is an area in terms of being able to meet DOD's goal of getting the right items to the right people at the right time, whether they be spare parts or other support activities.

We continue to see that they are challenged by demand forecasting in this area. And that means that they have a lot of spare parts in inventory that are not needed to meet current requirements. In fact, over a four-year period of time, on average, on an annual basis, the Army and the Navy had about $11 billion of spare parts that were not needed to meet current requirements.

They developed a logistical road map to try to address the challenges in this area. And we think it was a good first step, but it does not address all the gaps that are needed. It does not have performance measures. And DOD has agreed that it needs some additional work going forward.

You mentioned, Mr. Chairman, the lack of the ability of any of the major military services to get an opinion on the financial statements there. We are encouraged, at least, that the Army Corps of

Engineers was able to move in that direction. But much more work in that area is needed. We are currently looking at DOD's plans to make improvements in this area.

But I would point out, one of GAO's other responsibilities is to audit the consolidated financial statements of the Federal Government. And the lack of progress in financial management in DOD is the single largest impediment to our ability to be able to give an opinion on the Federal Government's financial statements.

For 12 years now, we have had to disclaim an opinion, because of that issue, as well as problems with the Department of Treasury, and some other areas. So, this is a very critical area. It would be the underpinnings of also getting better cost information and have better reliable data, as well.

In the human capital area, 30 percent of DOD's personnel are going to be eligible to retire over the next few years. This is a huge challenge. We have looked at their plans. They have made some good progress in this area. But those plans continue to need to be refined to meet the legislative requirements that have been imposed on them.

In summary, there are some common issues here that we see across all the high-risk areas. There needs to be sustained leadership on the part of the Department. That has been lacking over a period of time. That needs to change, if there is going to be any progress made in these areas.

There needs to be good, strategic plans to address the root causes of the problems. The plans have to have interim milestones and measures, so you can track progress.

I mean, these are the things we look for when we decide to take an area off the high-risk list. You have got a commitment from your leaders, you have a good plan, and then you monitor and execute the plan in order to demonstrate progress. And that is the time where we consider taking some areas off the list.

So, in DOD's case, they have got some good intentions here and revisions to their policies, but they really have to deliver along these lines.

Now, important to that will be how they implement the new Chief Management Officer concept within DOD. Since the legislation has been passed, it really has not been implemented, because it came in the waning days of the prior administration.

And there are still some people currently—positions that are unfilled there at the Deputy Chief Management Officer level and at some of the Chief Management Officers of the services. And that needs to be clarified in terms of the roles and responsibilities of the Deputy Chief Management Officer, and how they relate to the Chief Management Officers in the services.

So, basically, you know, from an overall standpoint, some of the infrastructure is in place, and things are poised to make great progress. But a lot will depend on actions and implementation, and a lot of hard work that will have to be put forth by the Department.

Congressional oversight is imperative in this area. I applaud you for taking on this initiative and your future hearings. And that concludes my opening remarks. I would be happy to take any questions.

[The prepared statement of Mr. Dodaro can be found in the Appendix on page 33.]

The CHAIRMAN. Mr. Dodaro, thank you so much.

I think you will see some yeoman's work out of this committee this year. What we do hopefully will be very thorough, but also very effective. And we will not, I assure you, rush to judgment, but try to get it right the first time.

I have two questions before I ask my friend from New York.

Why is it the Army Corps of Engineers can balance its books, and not the rest of the Department of Defense?

My second question is, how do we get our arms around the medical issue, the high costs of the medical issue within, or across the board, in the various services?

Mr. DODARO. First, with regard to the Army Corps of Engineers, for many years, they have put a lot of effort into developing a good financial management system. And they were one of the leaders within the Department, even many years ago, in terms of developing that. And they made a commitment that they wanted to achieve that goal. And they have a lot of unique financial operations there, because of the revolving fund type issue that they have over there.

So, it was a matter of, they laid the foundation with some system development and good practices. But equally as important, if not more important, they made a commitment to get it done. And I think that is what is needed to be replicated throughout the Department.

They also are able to—you know, one of the bigger challenges—let me put it this way. One of the bigger challenges for the services is they need a lot of cooperation across the Department. Congressman McHugh mentioned the cooperation across the Department.

A lot of the information necessary for financial reporting is kept in some logistics systems, property systems, and others. And that needs to be brought together.

And this is an area where I think there has to be leadership by the chief management offices—and officer within a department to support—even the comptroller does not necessarily have all the data necessary to pull the systems together. It is really a Department effort.

The Corps of Engineers has somewhat of a more limited issue in that respect.

With regard to the medical services, I would ask Janet to comment on this. But I would say—I mean, this is an issue in the private sector. It is an issue in the government generally. The largest single cost driver in the Federal Government's budget right now is escalating health care costs. And a lot of that is being driven by new technologies and utilization that differs across the government.

We have issued a lot of reports on this and pointed to the need for the government to do this. So, I think, in that respect, DOD is not alone in trying to get a handle on this. And I think the efforts that have been announced to address health care reform generally are, I think, much needed.

Janet.

Ms. ST. LAURENT. Thank you very much, Mr. Chairman.

Again, as Gene mentioned, this is an overarching issue for the Federal Government. Within DOD, we have looked overall at the average cost of compensation for military personnel, and have issued a number of studies looking at both the active component and the reserve component, showing that those total costs are increasing.

And a large part of that increase is being driven by health care costs. So, we certainly agree that it is a key issue that has to be studied in more detail.

There are a number of options on the table. One would be, again, looking at plans to possibly increase or charge service members a fee for certain services. That would be an option. But overall, I think a lot of the increase is also focused on the pharmaceutical issues and the costs associated with the rising cost. And again, it is very much linked to the overall problem that the nation is facing.

We have not done specific work to look particularly at that issue with regard to DOD, however.

Mr. DODARO. And Mr. Chairman, we have also done work looking at the relationship between DOD and the Veterans' Administration (VA), and how they could leverage some of their purchasing power to help in this area. And I would be happy to provide a summary of that for the record.

The CHAIRMAN. It would be outstanding if you would do that.

Mr. DODARO. We will.

[The information referred to can be found in the Appendix on page 67.]

The CHAIRMAN. Mr. McHugh.

Mr. MCHUGH. Thank you, Mr. Chairman.

I do not want to be unfair here. But, Mr. Dodaro, you mentioned the weapons acquisition changes. And I believe your comments were roughly, "this is the first time since they were designated high risk that they have actually done some things to move forward."

As I look at the chart, they were designated in 1990. And in my opening comments, I talked about—as I believe the chairman did, as well—in all of the time that DOD programs have been designated high risk, not a single one has ever been undesignated high risk.

That seems pretty remarkable to me. I remember when the GAO put certain operations of the postal service on high risk. L'Enfant Plaza almost blew up trying—at least trying to do some things in a very proactive way to remove themselves. And I am sure that is the behavior in other agencies.

What is the problem with DOD?

I do not want to be unfair. Help me understand why, after nearly 20 years, they just now did something that acted toward the high-risk actions, because as I read your high-risk reports, it is pretty clear why they are there and what they need to do to get off.

Mr. DODARO. I think—and I will ask Katherine to add in the weapons systems area—we gave them credit for progress this year. We might have noted some other attempts that they made previously, Congressman, to be fair. And I will let her, since she has been following this for a number of years, add context to that area.

But I would say, overall, you know, one of the issues here is really senior leader commitment. I can tell you that I have received calls over the years from top agency officials, concerned they are on the list. They want to get off the list. They want to know what they need to do to be able to do that.

We have had some discussions with DOD over the years. But I have not had that type of discussion with them in that regard, and I think that is needed.

You know, in some other areas, too, the Congress has taken some steps to provide rigorous oversight. In some cases discussions have been taken as it relates to funding, and making sure progress is made in those areas.

So, I think there needs to be some incentives for the Department to move forward in that regard. And it has to come with the Congress.

We are prepared—and I am going to be outreaching to the Secretary and the Deputy Secretary, the Comptroller and all the new leaders that are put in place—to do what we can to give them advice on how to make progress in this area. I can assure you of that.

Mr. MCHUGH. Yes. I am not worried about you.

As a manager, I would have done something just to try to shut you up, frankly. But——

Mr. DODARO. Most——

Mr. MCHUGH. It is frustrating. But I assure you the chairman and I—and we had dinner the other night with Senators Levin and McCain, and as you noted very graciously, are very committed to this. And we are going to work.

And I don't know as I would place the word "incentive" quite what we may have in mind if we are met with a deaf ear, but we will take some steps. I look forward to that.

And I want to commend the Administration, the new Administration, that have been—and you noted again—for tackling this issue, because certainly from the DOD perspective, as you look at these high-risk designations, how long it has been, understand that the losses, as you put in your testimony, billions of dollars in bad procurement practices, et cetera, et cetera.

The Administration has targeted, I believe, $40 billion in savings in procurement areas. What a shock. They could find other people who had different opinions. And they ranged all over the map. I have no idea what the target out there reasonably might be, but GAO has talked about billions in savings.

Have you ever assessed the figure that could help the chairman and I kind of look at where we need to be in terms of savings and real return on tax dollars?

Mr. DODARO. We have not come up with figures beyond a couple that I mentioned earlier. I mean, there are pretty good figures regarding the spare parts that are developed that are unneeded. That is probably where we have the best baseline information. It is hard to predict in some of these other areas, because they are so unique in some of the developments.

And I have not looked at the Administration's figures yet. I am anxious to see what the details will be of how they will try to implement the reforms. But I do not think it is unreasonable to try

to set some targets that are reasonable, and there is some flexibility there.

But part of the issue with DOD is there are not interim targets. And that is part of the problem with the plan.

And we have seen this on large-scale developments. There is nothing quite like the weapons systems development areas, but in other big development efforts there is more incremental development and specific goals that are needed to be met before you move to the next phase.

And unless you do that, you never really get a handle on the issue that you are talking about. It might cost a little bit more up front, but it will save you long run, you know, more costs in the out years.

But I think the direction that you are headed is a good direction, and I would encourage you to continue to do that. We will do what we can to support you.

Mr. MCHUGH. Well, and I appreciate that. And I will just reiterate before I yield back, how much I know we all—but I certainly deeply am—deeply grateful for the great work that GAO does. And I suspect, Mr. Chairman, with your leadership, that as we go forward on procurement reform, we are going to be relying on these good folks even more.

This is a critically important challenge. And as important as it is, I look forward to joining with you in taking it on.

So, I would yield back, Mr. Chairman.

The CHAIRMAN. Thank you very much.

I think it is important as our committee approaches or attacks this problem, which we have looked at off and on through the years, to get it right. And to have to revisit it periodically is—we would like to get this behind us, but we have to get it right.

You know, Rome was not built in a day, so we will do our very best.

Mr. Johnson.

Mr. JOHNSON. Thank you. Thank you, Mr. Chairman. And I applaud the holding of this hearing to elucidate us on the——

The CHAIRMAN. Can you get just a little bit closer to the mike, please?

Mr. JOHNSON. Sorry.

The CHAIRMAN. And the witnesses do the same, because the acoustics in here are not very good.

Mr. JOHNSON. All right. Thank you, Mr. Chairman and Mr. Ranking Member, for holding this very necessary and timely hearing at a time when there are cries from Americans to reduce the amount that this country spends on defense.

And the areas of fraud, waste, and mismanagement, getting a handle on those can certainly yield some significant reductions in the amounts that the taxpayers are called upon to spend on defense—on the Department of Defense.

And I would like to—you know, it is very strange that, for the last 19, 20 years, that there has really been no meaningful changes in the high-risk areas that GAO has identified since then.

What are some of the reasons why the situation remains the same, after 20 years?

Mr. DODARO. I think, you know, basically—I mentioned some of the common denominators that we find across these departments. One is an inability to set the requirements properly up front, to take a disciplined approach to management, to have adequate follow-through and measures in the process.

But underlying it all is a culture and incentives that are relatively unique within the Department. And I think that that needs to be modified, to be able to address some of these issues.

I would ask——

Mr. JOHNSON. Does that culture include one of perhaps over-reliance on private contractors?

Mr. DODARO. Well, one of the recommendations that we have made is to ask for the Department to make a systematic assessment of where it should be contracting and where it should build in-house capabilities.

I think, given the magnitude, size and challenge facing the Department, contractors will always be important. The question is, you know, determining where you want to use contracting, and if you make that determination, that you have adequate acquisition workforce to manage the contractors well, so the government gets what it pays for—deliverables on time and support to the warfighters. That is really important.

But I would ask Katherine to make a couple of comments, because she has been traveling this road for a while.

Ms. SCHINASI. Thank you.

One of the most difficult things that the Department has been unable to do is translate its policies into practice.

Mr. JOHNSON. Could you pull that mike up a little bit?

Ms. SCHINASI. Yes.

Mr. JOHNSON. Thank you.

Ms. SCHINASI. The Department, even when it has good policies in place, translating those policies into practice does not happen very often.

So, the question that we ask is: Why? And what we find very often is that there are no consequences if you do not follow policies.

So, there is always an exception made to the policy. For almost every—certainly in the weapons system area—for every program that we look at individually, there is an exception made for that program. And then what you have is the opportunity cost that falls into other programs, so that overall, you are faced with a very difficult situation and come up with the numbers that we have seen, $295 billion in cost overruns.

But it is this basic lack of discipline and consequences for taking decisions and actions that do not follow the good policies that they have in place.

Mr. JOHNSON. Thank you.

What kind of consequences for these cost overruns, what kind of consequences would you deem appropriate and effective?

Ms. SCHINASI. There are very clear guidelines, some of which are legislatively mandated, about the kinds of information that you need before you make major investments in weapons systems. So, before you start a program, you have to understand that your technologies are mature. You have to understand that you can put together a design, and as you move forward through that process,

that you can produce an item at the quality and at the cost, and in the time that you need it.

So, there are very clear markers as to what you have to know before you make a decision to make a large investment. Those markers are not followed. And the decisions are made by the Department to continue to invest money, even when we do not know what the outcome of a program is going to be.

Mr. JOHNSON. But which——

Mr. DODARO. And I think—congressman, excuse me—I think there also have to be consequences for the contractors in this area. I mean, we did a study a year or two ago that Katherine led, that looked at the award fees that were given the contractors, even though some of the terms of the contract were not met in the manner in which they were laid out.

Now, the Department has moved, to its credit, to try to address that issue. But it is not only for the Department managers. There has to be some consequences for the contractors to incentivize them to perform consistently within time, on budget, as well.

Mr. JOHNSON. Thank you. And just one final thought.

If the DOD were a private corporation, it would have been bankrupted many years ago with this, facing these same challenges.

Ms. SCHINASI. But I think that is a very important point, because a private corporation is focused on putting a product into the field, and the Department is focused on starting a program. And those created two very different sets of incentives.

The CHAIRMAN. Mr. Bartlett.

Mr. BARTLETT. Thank you very much.

There is an old adage that says, what is everybody's business is nobody's business. I think of that as I walk through the Pentagon, through those halls, and see all of those names on the doors.

Dr. Parkinson noted that, no matter how small the British Navy got, the British Admiralty—I guess their equivalent of our Pentagon—got larger and larger.

I suspect both of these entities have grown, because things go wrong in administering contracts, and so forth. And so every time something goes wrong, we set up a new office to make sure that is not going to happen again.

Every one of these new offices functions kind of as a committee. And, of course, committee functions always revert to the lowest common denominator, which means that the output is always going to be mediocre. It will never be stellar when everybody has to agree, you have to reach a consensus.

It reminds me of our solution to mediocre teachers. We have a meticulously detailed curriculum, hoping that even a poor teacher will produce something in the classroom, because they have to follow a meticulously detailed curriculum.

I think that kind of thing happens in the Pentagon. We just add rules and rules and rules to make sure nothing goes wrong, and I think this stifles creativity.

Another problem I think is that, if you are going to advance in government, you cannot make a mistake. And the best way not to make a mistake is to never reach out and never to do anything. If you don't do anything, you do not make mistakes. And I think that is one of our big problems there.

Dr. Parkinson again noted that there are far too many of what he called the "abominable no-man" in our government. Somebody wants to do something a little bit out of the box. No, you cannot do that.

Dr. Parkinson also noted that, as institutions grew, more and more of their energies were exerted in internal communications. And depending upon the institution, they can reach a size when all of their energies are expended in internal communication, and nothing productive outside the organization happens.

Are we stuck with what we have got? Or can we kind of start again?

Mr. DODARO. Well, our recommendation to create a focused, dedicated chief management official over at the Department was an attempt to try to penetrate some of the issues that you mentioned, or things that could get built up over time. There are clearly stovepipes that need to be brought together.

That can only be done through top-level, dedicated leadership. And that is why we advanced this concept, and the Congress has acted. It was not entirely what we had recommended.

We recommended a dedicated, full-time chief management official that would transcend administrations, so you would not lose momentum in some of these more basic financial and business systems over time. But that is what—you know, we were trying to advance something to create a new dynamic that would focus on these activities.

As has been indicated here, this is one of the largest entities in the world. It has a lot of complexities associated with it. If you do not have dedicated, full-time management focused on it, and focused on it all the time, you are not going to create the type of changes that are needed.

Mr. BARTLETT. A number of years ago, one of our senior managers in government retired, so that he could speak freely. And he said that he thought that, if we simply took our government employees and marched them through a cutting gate and kept every tenth one—without any regard to whether they were good or bad—that our government would probably be more productive, because we were so ponderous, so much internal communications, that we were doing very little outside work.

Do you think there could be an element of truth in that?

Mr. DODARO. Congressman, you know, most of the people that I meet—and I have been in government service for a long——

Mr. BARTLETT. Sorry, but there are very good people. They are working very hard. They are very dedicated. It is not the people, sir. It is the system.

Mr. DODARO. Well, there is a lot of truth to that. And it is up to leaders to change the system when it needs change. And that is my assessment of the Department of Defense. And it is up to the leadership to change that.

Because there is no reason—I mean, we have the best military in the world, and when they are mission-focused on the military side, it gets done. On the business side, you do not have that same level of, you know, a sense of urgency and focus and clarity of what you want to achieve.

And if that type of commitment and energy and dedication that is on the military side can be focused on these business systems, this can be done. It is not an unsolvable problem.

Mr. BARTLETT. Thank you, Mr. Chairman, for calling this hearing. It is more important than our attendance would indicate. Thank you very much.

The CHAIRMAN. Dr. Snyder from Arkansas. Please.

Dr. SNYDER. Thank you, Mr. Chairman.

I actually feel some empathy for the Department of Defense on this. You know, we are talking about the 19 years or the 20 years. This is my 13th year here, and we still do not have a microphone system that works. [Laughter.]

I mean, you would think that would be something that would be readily fixable.

Mr. Dodaro, I wanted to ask, you mentioned the Levin-McCain bill. And the Chairman mentioned having their meeting the other night with Mr. Levin and Mr. McCain. And I think you thought that there were some good things in it.

One of the concerns I have about that bill is its overwhelming focus. I mean, it is a bill about hardware. It is not a bill about service contracts.

And I can see a possibility, if we do pass something a lot like that bill, there will be, as you talked about, the laser focus of the bill in the Congress will go on hardware. And, in fact, 60 to 65 percent of the money we are talking about is not spent on hardware, it is spent on service contracts.

And if we do something major this year, I hope that we will not neglect service contracts, because I think that has even, in my view, more looseness to it than some of the hardware issues.

Do you have any comment on that?

Ms. SCHINASI. As you know, the 2006 National Defense Authorization Act took a hard look at services and put a structure in place for the Department to be better managing its service contracts, just for the reasons that you stated.

We are now looking at how well that is happening. They have made some move toward improving the focus on service contracting. But whether or not the outcome has started turning around yet, that is something that we will be looking at.

But certainly, service contracting, in terms of dollars, has gotten more important over the years and needs the kind of attention that——

Dr. SNYDER. I think the attention of the public and the attention of the Congress, it is a lot easier to talk about Presidential helicopters or, I mean, something that we can see and touch. It is more difficult to talk about, okay, how much was this contract for the management of information technology supposed to cost, and why didn't it work?

I mean, a lot of us can get confused fairly quickly—not just members of Congress, but people who follow the money issues pretty closely. But in fact, that is where a lot of the money is. And I think we need to not forget that.

I wanted to ask about, if I might, Mr. Skelton mentioned the issue, we want to get it right. And I am not sure that we can get it right if—I am going to overstate what the chairman said, which

is the implication that somehow we will come up with a bill or an architecture that this will work, this is perfect. All we have to do is the President signs it, and everything is back to where we want it to be.

I do not think it is going to work that way. I mean, I think it is going to be a process that will just keep going on and on, that you will—I think workforce training, getting the right blend of workforce is going to be something we will work at. But that will not happen overnight.

That is years right there in terms—first of all, we have got to stop the bleeding, as you pointed out, losing a lot of senior people. We are going to have to be training people. We are going to have to train people in a way that we think things need to be done.

But talk about that, if you would, about the whole issue of how we go about doing the kind of reform that we think is necessary.

Mr. DODARO. I think, first of all, having an appropriate reform framework that goes to some of the root causes of the issues is a very important starting place. And I think some of those are outlined in the Senator McCain and Levin bill for those areas that are talked about. And I agree with you, it needs to be a broader focus.

Secondly, you have to have good management accountability in the legislation, so that that accountability then sort of cascades down through the Department. You need to be able to hold people accountable.

Thirdly, you need to have interim measures. You cannot, I believe, institute a large-scale reform that everybody knows will take a number of years to implement satisfactorily. But after six months, you should see some level of progress, after a year, another level of progress.

That is what is lacking, I think, at the Department, because you do not have these interim milestones that are reasonable, that could be negotiated. But you do not know if you are on track or not over a period of time.

So, I think a good legislative framework, followed by a very detailed implementation plan that the Congress understands and has realistic implementation milestones, is the only way that you are going to be able to achieve the progress over time and do it right, because a lot of these things are going to require mid-course corrections and refinements.

Dr. SNYDER. Thank you.

The CHAIRMAN. Mr. Coffman.

Mr. COFFMAN. Thank you, Mr. Chairman.

I had a meeting with the Secretary of Defense. He opened it up to all freshmen Members of Congress to go over to the Pentagon and to meet with him, as well as the Joint Chiefs of Staff.

And I asked him a question. I said, well, I expressed a concern that the United States had been engaged in counterinsurgency operations for a period of time, and that maybe our forces were being reoriented permanently in that direction, of light forces versus the heavier ground forces, air power, sea power, needed to effect a deterrence against our potential enemies.

And he bristled at that notion and said that he was focused on both fronts, on maintaining strategic deterrence as well as fighting two counterinsurgency wars.

But he went on to say something that I thought was very interesting about his view of the Congress of the United States, because he said, one of the difficulties that he confronted was that any time he had a discussion—these are his words—with a Member of the Congress of the United States, they always had a list in their back pocket of weapons systems produced in their district that they wanted implemented, according to him, his view.

What is your estimate of the Secretary's view of the role of Congress in weapons procurement? And is that an issue from your perspective that is problematic in procurement, in the weapons acquisition process?

Mr. DODARO. I think, you know, clearly, Congress has a role to play in reacting to and responding to the requests that the Department has put forward. Congress has the ultimate power of the purse, and they have decisions on how they want to allocate resources. So, in my view, it is a joint responsibility in these areas for people to be able to do that.

But part of the issue here, I think, as reforms are put in place, I think the Congress needs to decide how it will behave and act in order to support and encourage those reforms going forward. So, I think it is an area that ought to come under some debate and discussion within the Congress about how it will support and incentivize and support good management decisions within the Department.

And so, I think that is a very important point that needs attention.

Mr. COFFMAN. Thank you.

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

The CHAIRMAN. Mr. Ortiz.

No, excuse me. Mr. Marshall and then Mr. Ortiz.

Mr. ORTIZ. Thank you, Mr. Chairman.

The Government Accountability Office found that the Department of Defense actually unified or coordinated a command structure to plan for the management and execution of the return of material and equipment from Iraq. With less than 18 months left to redeploy combat forces from Iraq, does the logistic road map have enough support within the Department of Defense to facilitate the withdrawal by the date mandated by the Administration?

And I know that—the reason I asked this question is because I think we have more contractors in Iraq than we have troops. And when we talk about withdrawing the contractors and the equipment and our soldiers, we just want to be sure that what we do, that we do it right.

Maybe you can touch on that and see if there is enough support to be able to accomplish that by the date given by the Administration.

Mr. DODARO. This is a very important issue. I am going to ask Janet to talk about our report, because we looked at whether or not they had a, you know, a command structure, unified command structure and a plan in place to do this.

There is about $16.5 billion of equipment that is there. As you point out, there are a lot of contractors, and there are more than the military troops.

There are a lot of factors that need to be considered. You know, we studied the withdrawal for the first Gulf War back in the early 1990s. And even that, that had far less deployment, took about 15 months, I believe, during that period of time.

And so, there are a lot of issues here associated with cleaning, moving the equipment, getting the clearances from the countries in which we have to transport the material, environmental issues and other things. And we issued, I thought, a very good, early, thoughtful report on this. I will let Janet talk about it.

Mr. ORTIZ. That will be fine. Thank you.

Yes, ma'am.

Ms. ST. LAURENT. Thank you very much.

I agree that it is going to be a very complex effort to coordinate closely.

Since we issued our report, the Department has taken some steps to address some of the command issues. But, of course, there is going to be much more work that needs to be done, develop a more detailed plan for bringing equipment back out of Iraq.

It is going to require a lot of analysis to determine how much equipment should be brought back, what if any equipment should be left for the Iraqis, whether or not the equipment is in good enough condition to be refurbished, or whether it needs to be replaced. And then, just coordinating all of the mechanics of moving considerable quantities of equipment out of the country to the point that it has to be cleaned, meet up with United States Department of Agriculture (USDA) inspections is going to be very comprehensive.

Also, as you mentioned, the plan for removing U.S. combat forces and equipment needs to be closely coordinated with the plan for contractors. We think the plan for contractors is less mature at this point. We know the Department is working on developing some plans. But again, we need to see—would like to see—more detailed plans for the management of contractors and how it is going to be coordinated with the overall plans for drawdown.

Turning back to the logistics road map, this is a very broad, departmental-wide effort to improve logistics across the Department. And again, our observation there is that, that effort needs to be improved in a couple of respects.

It does not fully identify the most important gaps from a supply chain or logistics standpoint. So, we think the next iteration of it should identify more clearly what the priorities are.

It does not fully address the funding needs associated with the initiatives. Again, prioritize those.

And it is not clear how the senior leadership of the Department is going to use the road map to really manage and effect change, and a senior leadership focus on bringing about improvements in supply chain issues.

Mr. ORTIZ. See, it is not that I have anything against contractors or that I am against contracting, but let us do it when it makes sense.

In my opinion—because we have had other hearings—it has kind of had morale problems with the soldiers, too. Because when I talk to some of the soldiers who are about to get out of the military, they say, "You know what? I am going out, and I am going to do

security work for a private company, because I am being paid $40,000 a year, and I am going to get paid $150,000."

And then, lo and behold, they are kept in the military. They cannot get out. And this has happened sometime back.

So, me, as a member and chairman of the Readiness Subcommittee, I have no idea what criteria they use to hire contractors. I do not know what kind of pay scale they utilize to pay them.

And many times we found out through hearings that, instead of the services doing some of the work that they are supposed to do, some of this work is given to contractors, to where the contractors are doing the work that the service people should be doing.

So, I hope that we can correct that. And maybe you can elaborate on what needs to be done to correct something like this that has been happening for a long time.

Mr. DODARO. Yes, we made, and emphasize in our statement today, a fundamental recommendation to the Department, that they lay out and specify their criteria for making those decisions in a systematic way over time. And I would encourage the Congress to follow up with the Department, and make sure that that happens.

I think that is very important, and it will address directly your issue.

Mr. ORTIZ. Thank you so much. My time has run out.

Thank you, Mr. Chairman.

The CHAIRMAN. Mary Fallin, and then followed by Mr. Marshall.

Ms. FALLIN. Thank you, Mr. Chairman.

I have kind of a general question. As we are going through this process of meeting with various folks back home in our states and in our districts, there are a lot of people coming up to us as Members and saying, we have specific needs in our states—specific needs with the various branches of the military. And they are asking us for funding requests for those different projects.

And so, when you analyze the Department of Defense, the criteria, the systems and the decision-making, you talked a little bit about leadership knowing, you know, what is needed down below.

What recommendations do you have for us as Members of Congress when people come to us from our National Guard, from our Air Force or Army bases, or even from the private sector, or even from higher education, the universities with research and development, coming to us saying, these are things we believe will be beneficial for the Department of Defense, military branches, as far as those spending requests?

Have you found any good way for us to work through these things?

I know that we best know, I think, what our states need and what our local military branches need. But sometimes it seems to be that we fund things maybe they do not need at the top, or maybe the top does not know what the people down here need.

Have you got some good suggestions on that?

Mr. DODARO. I am going to ask Janet to elaborate on this. But the first suggestion I have is, I think the Congress has to have confidence in the Department's ability to take all the requirements, and in a thoughtful, consistent way set priorities, and present that back to the Congress.

Because there will probably never be a situation where everybody's wants are going to be able to be met or sustained over a period of time.

So, there has to be some priorities that are set within a coherent framework that is understandable and transparent to the Congress.

So, I think that—I would say that as a backdrop.

Now, Janet has done a lot of work in this area, particularly with the Guard and Reserve. I will let her comment.

Ms. ST. LAURENT. Another, I think, key piece of this is the notion of risk-based assessment, because, if you look at any one particular state—and I will use the example of National Guard—they may have equipment shortfalls, personnel shortfalls currently.

But I think it is more important to look across the Department and how they are managing risk, whether or not they are looking at the cumulative requirements, how they are balancing risk and then allocating their resources effectively.

And again, in some of our work, we have seen that that process is not necessarily occurring as well as it could be. And as a result, it does lead to issues, again, within particular states.

I think there has been progress made on the National Guard issue over the past few years. Congress has certainly appropriated significant additional amounts of money for equipment.

And the Department is also making strides in determining how to balance equipment across regions and across the country as a whole, to provide adequate capacity to have enough equipment here to deal with any potential homeland issues, and have a reserve, but then also to support forces that are going overseas.

Ms. FALLIN. I guess, Mr. Chairman, what I am trying to find out is, how do we establish that balance between what the Department of Defense needs, what the President wants, what people from our local communities are coming to us saying, this is what our states need, without us allocating resources that maybe are not in line with the priorities of the Department of Defense, be it having them know what our needs are back home.

So, sometimes I think there is a little bit of a disconnect between the two. And, of course, I see that as being our responsibility as members of this committee, is to take our needs to the committee, take our needs to the top leadership and say, these are some of the things we see back with our folks, back in our districts.

Mr. DODARO. I think a large part of this is really a communications issue, too.

In other words, I mean, you have issues, and your community has issues. What you need to be sure of is they have a vehicle to get their needs communicated to the Department, and that you have confidence that the Department will listen to those needs, make a decision, an informed decision, and communicate back to the Congress what its priorities are, and whether or not those needs are going to be included or not. And if not, why not?

And Congress would have to be satisfied with those decisions, or take action to provide a modification to the Department's proposal. And I think that is the way the process needs to work.

Ms. FALLIN. Thank you so much.

Mr. DODARO. You are welcome.

Ms. FALLIN. I yield back my time.

The CHAIRMAN. Thank you.

Mr. Marshall.

Mr. MARSHALL. Thank you, Mr. Chairman.

It is not at all uncommon in business—or government, for that matter—for efficiency experts, auditors, accountants, et cetera, to come in and look at a process, crank the numbers, what have you, and then make recommendations which the CEO, or the board, or the mayor says, "Thank you very much. I am not going to do that. I do not think that is a good idea. In fact, what you have asked me to do is going to cost us more money than any possible savings we could realize as a result of doing what you have requested."

That is just not an unusual event at all in business and in government. I have done it myself.

And when it happens, typically, those who reject the recommendation have very precise, clear reasons why they are going to reject the recommendation. "No, I am not going to add that person to trace those pennies, so that we know to a penny what has been spent, because we know it is within this realm, and that person—it is within a margin of error that is less than the cost of adding the person," for example.

I find myself wondering if—the Department of Defense, it reminds me of—it greatly reminds me of a book published by a Yale professor. I cannot remember his name at the moment. But the book is wonderful. The title is wonderful.

And actually, the title was the best part of the book, and it is "Beyond Human Scale." And it refers to organizations that get to a point, as my friend, Roscoe Bartlett, was trying to describe, that no individual within the organization truly understands how it works.

But I find myself wondering, are there apologists within the Department of Defense, or are there apologists outside of the Department of Defense, who have said to you all, "Look. You are asking this institution—obviously can approve—they need to head in the direction that you are suggesting. But the institution is a different kind of beast. It has got a different kind of mission. You all just do not understand this. You are trying to take one model and apply it to what is inappropriate."

Do you get any kind of feedback like that? If you are not getting feedback like that, it is just amazing to me that 20 years later, we are still talking about how to meet your goals.

What kind of feedback do you get from anybody? What sort of pushback do you get from anybody?

Mr. DODARO. Yes. I will ask both Katherine and Janet to give you a perspective on it, because we make a lot of recommendations to the Department of Defense. And from my vantage point, the reaction is quite mixed. In many areas they agree, they put in places.

I have just mentioned today many examples where they have implemented our recommendations by changing their policies, but the implementation of those policies is not consistently applied going forward.

So, I do not think, you know, we have run in—I am sure over time we have run into some disagreements, where they disagree with us. And I will ask them to give some examples. But it is not

a consistent type of issue. And certainly, in many cases, we are not asking or recommending things that we have not recommended in other departments and agencies, as well.

Katherine, and then Janet.

Ms. SCHINASI. Perhaps I will start.

It is true that we have mixed reactions. And I will give you a number of examples.

Most of the work we do on individual programs, the program manager is the advocate for that program. And his or her responsibility is to support that program through whatever process that it is put through. And so, many times we will get from the program office a different perspective than we have brought to the problem.

That said, however, when we raise those issues up to a higher level in the Department that has responsibility across many, many programs, we often hear a different story, because they are responsible for managing at a level that represents the Department's budget as a whole, not the individual program manager.

So, for example, we have heard from officials in the Department that they hope weapons acquisition never comes off the high-risk list, because they see that as a force for change. And they like us coming in and pointing out with sort of that independent, once removed view, what we are seeing, particularly because we are able to, in many cases, quantify the effect of those decisions that you talked about, when they say, "No, we are not going to do it. We have other reasons. You know, we do not like what you are saying. We are going to take another course."

Part of our responsibility is to come back and say, "Fine. But this, you know, this is the effect of making that decision."

So, it is a mix. It is a mixed response.

I would say, part of our optimism comes from the fact that, over the last five or six years, we have been much more in step with what the Department's top leadership——

Mr. MARSHALL. I am going to run out of time. It would be very helpful to me, perhaps to the committee, to have some concrete examples of that, that you think reflect fairly the difference of opinion between program managers and GAO with regard to how things should evolve. That would be very helpful.

Mr. DODARO. Sure. We would be happy to provide that.

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

The CHAIRMAN. Mr. Wilson.

Mr. WILSON. Thank you, Mr. Chairman.

I am Joe Wilson from South Carolina and appreciate very much your service and the extraordinarily difficult challenge. I am very grateful that I have three Michelin plants located in the district I represent. South Carolina is home to extraordinary French investments.

And a success story that you have been responsible for is the tire privatization program. And Michelin was successful in the competitive contract, working together with Goodyear as a subcontractor, providing the aviation and ground tires to the American military.

And there are specifics here that are extraordinary, that I think the American public would be reassured to know. And that is that aviation tires are provided with a delivery time of 3.3 days, with

the allowable standard of 9.2 days, and an on-time delivery of 98.9 percent of the time. And for ground tires, the delivery is 3.7 days with a standard of 8.8 days, and 94 percent delivery rate time.

Additionally the Defense Logistics Agency has indicated this saves the American taxpayers $170 million. And to me, it is very significant for the health and safety of our service members, but it also provides for protection and advancement of our industrial base here within the United States.

My question is that in July 2008, DOD released its Logistics Roadmap to guide improvement efforts in the area of logistics, including the supply chain management. Will the road map be effective in helping DOD to substantially improve supply chain management?

Mr. DODARO. The road map, from our perspective, was a good first step, but it will not be effective unless they make several changes. One is that the road map needs to address additional, significant gaps that we see that need to be addressed. It does not include performance measures, and it needs to. The Department has recognized some of these shortcomings and is beginning to work on them.

But I would ask Janet if she has any additional points.

Ms. ST. LAURENT. Yes. The road map, the current version of it, is also the latest version of a plan to improve supply chain and logistics issues. So, I think the challenge for the new administration in place is to make the further improvements on it that Gene talked about—identify the gaps, prioritize the gaps, identify the associated funding, identify the performance measures—and then move out to implement the most important aspects of the initiatives in that plan.

There have been numerous similar plans that preceded this current version of the Logistics Roadmap. So, that is why, again, this issue has been on our high-risk list for a number of years. And what really needs to happen at this point is the focus on achieving outcomes and being able to demonstrate within the next couple of years some key successes.

Mr. WILSON. And I appreciate your bringing up the successes.

Additionally, a concern all of us have are cost overruns. And it has been a situation where contractors are under-bidding, low-balling their cost estimates to receive the contract, so that they will have the contract. And then, from there, there are modifications to the contract, which are obviously much, much higher.

Is there some process where low-balling could be avoided or eliminated?

Mr. DODARO. You know, one of the issues in best practices is to have independent cost estimates along the way, so you have benchmarks against the bids that are in. And we think that is one suggestion that has a lot of merit.

Mr. WILSON. And I can see a real need for it, based on the Littoral Combat Ship (LCS), which was estimated to cost $220 million, and that bids were processed on that. But it has come back at half-a-billion.

And so, I hope with your expertise and efforts that this can be addressed about low-balling, under-bidding, and the reforms that are necessary.

And so, thank you again for your service.

Mr. DODARO. Thank you.

The CHAIRMAN. Thank you.

Mr. Kissell.

Mr. KISSELL. Thank you, Mr. Chairman.

I think this is an incredibly important subject matter. And normally, I really do ask questions without a lot of preamble. But I think today, as I sit and listen, I think preamble is what I need to do.

And Mr. Bartlett started out with an adage, and I am going to start with one, too. The last seven years before coming here, I was a high school social studies teacher. And as teachers tend to do, I had a little sign in my classroom. And one of the ones that I had that I called to attention a lot is, "Insanity is expecting different results, while continuing to do the same thing."

And as I sit here and listen today to the words of procedures, and lack of procedures, and a lack of consequences, and that certain issues are staying on the table for 20 years, it seems to me that we have a lot of doing the same thing while wanting results.

I also want to point out, which was mentioned earlier, and I was in a hearing earlier this week that this was greatly emphasized, were services are 60 to 65 percent of the expenditures.

And I happened to have another conversation this week with a gentleman who is in the construction business. They do $600–$700 million a year. But the complexity of bidding on Department of Defense contracts is so much that they just will not do it anymore. Which, in itself, tends to eliminate all but certain groupings.

So, all of that said, it obviously is very important, Mr. Chairman, and we do not want to do this in a way that is a knee-jerk reaction. But it seems to me that consequences has to be a very important part of what we are doing.

And before I taught, I spent 27 years in industry. And we always went to the people who did the job every day, to ask them for their opinions before we did anything. And sometimes I wonder, are we doing enough of talking to the people that make this work day to day.

And as Mr. Bartlett also said, are we having a system and supporting a system where we encourage them to hide?

And so, I am finally leading to a question. And I apologize for this rambling, but I think I just—it is important sometimes to kind of have an understanding of where this is coming from.

Do we have functioning and well-understood ways that people, when they see that these procedures are not being followed, where people can offer suggestions? Or is that part of the complex that we tend to cover up, so that we do not draw attention to people?

Mr. DODARO. I think that the issue that you are raising is an important one.

The people, the program managers, say, for the weapons systems, really do not have any ability to make any decisions in that process. And there needs to be, I think, probably greater incentive for them to raise some of the issues up through the system.

But I would ask Katherine to elaborate on that point. But I appreciate your prologue, and it was not rambling. Plus, my father is a social studies teacher, so I understand.

Katherine.

Ms. SCHINASI. I am not sure I have an answer for you, but I will agree. And one of the things that we try and do in our work is find success, and try and find people who are doing things to manage the system and manage the process, instead of letting the process manage them, and to highlight that, because it helps us to show things can be done differently, because some people have stepped up to do that. But we do not find that many examples.

Mr. DODARO. But I think your focus on saying that consequences are important is really a key element. But in implementing that, there has to be not only putting accountability and consequences, but you have to have a constructive, open line of communication there, because you could incentivize and make things worse, unless you have that ability to do what you are talking about, to have open disagreements, if you will, or people can raise issues up without fear of having problems.

Mr. KISSELL. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. I have remaining Mr. Taylor and Ms. Bordallo.

Mr. Taylor.

Mr. TAYLOR. Thank you, Mr. Chairman.

I want to thank our witnesses.

Mr. Dodaro—is that correct?

Mr. DODARO. That is.

Mr. TAYLOR. A couple of things I would like you to comment on. Mr. Wilson mentioned the LCS program, and it has got to be right up there amongst the poster children of just absolutely waste of taxpayer money—no effort to take advantage of any economies at any step, whether it is on acquisition, modernization.

It is like we are going to send the government a bill. We will send them a bigger bill. They are going to keep paying it, because we have got them where we want them.

Having said that, I have been lucky enough to serve at the city level, the state level, and now here. I know that cities and states very often require performance bonds on a project.

Whether it is a building, a highway, a sewer and water line, they see to it that whoever bids on that posts a performance bond. And that way, if the contractor fails to do it properly, if he fails to do it on time, that the city gets the money that they would have squandered, back.

I realize that there is a cost associated with a performance bond. But when a program like the LCS program is two-and-a-half times over the initial budget, even a 20 percent premium on the performance bond would have you way ahead at the end of the day.

My question to you is, has your organization—and I am not a fan of the insurance industry by any means, but there is a place for that industry—has anyone in your organization looked into when the last time we required that, and whether or not it would be worthwhile now?

Mr. DODARO. Let me just check.

Apparently, we do not have an answer for it that——

Mr. TAYLOR. Can I ask you to do that?

Mr. DODARO. We will look at it.

[The information referred to can be found in the Appendix beginning on page 67.]

Mr. TAYLOR. It is not just that program. It is the Coast Guard ruining the 110/123 conversions, 8 ruined ships, $80 million that Bollinger shipbuilding got to ruin 8 ships, so that you had the value of the 110s before they were ruined going on top of the $80 million. That is a lot of money squandered, that maybe a performance bond could have prevented.

The second thing I would ask you to look at is, I understand you are concerned about buying spare parts we do not need. I understand you are concerned about buying, historically, commodities we do not need.

But the world has changed so dramatically with things like computer-assisted drafting, where before—if it is done right—before you ever start an airplane, before you ever start a ship, you are going to know exactly how many pieces you are going to need, what shapes they are going to be, how many of them there are, where every single one of them is going to go.

I mean, I could take you to the Maersk shipyard or the Hyundai shipyard. And they literally, as a piece of steel is rolled into that yard, hit it with a barcode, and they will show you on the laptop exactly on that 1,000-foot ship where that one piece of steel is going to be, which machines it is going to pass over, in which sequence, as it is molded to the right shape.

So, you know, the idea of buying stuff we do not need does not have to happen.

The reason I say all this is, it has recently come to my attention that the price of aluminum is half of what it was two years ago. The price of steel is less than half of what it was two years ago. The price of titanium is down a third from two years ago.

Who, if anyone, in your organization is encouraging people, for us as a Nation, to be countercyclical in our acquisitions on those things we know we are going to buy? C–130s, DDG–51s—not the risky programs that may not survive, but the ones we know we buy every year.

Who in your organization is going to them saying, you know what? We need to be aggressive. We need to tie down some contracts right now, while these suppliers are desperate for work. We can get good prices, and we know we can get them. By the way, we can keep them in business, and we can save the taxpayers a lot of money.

Mr. DODARO. Yes, we—that is not a normal function we would do. I would talk——

Mr. TAYLOR. Well, Mr. Dodaro.

Mr. DODARO. Yes——

Mr. TAYLOR. I know it is not a normal function.

Mr. DODARO. Right, right.

Mr. TAYLOR. But these are not normal times, and you would hope that you are the organization that is providing some insight to the other organizations of how they ought to be doing things better.

Mr. DODARO. Right. Well, we can certainly raise the question to the Department, to see if it is looking at the issues that you are talking about, and making some decisions. We do not want to insert ourselves as a management function, Congressman.

But we can and we will follow up to see if they are considering these issues, and as part of their normal management process.

[The information referred to can be found in the Appendix on page 68.]

Mr. TAYLOR. Well, those are two things that I very much want to pursue.

Mr. DODARO. Okay.

Mr. TAYLOR. I am open-minded on both of them, so I am asking you to look into them and get back to us and say whether or not you think this would be a good idea, and for what reason—or whether or not you think it is a bad idea, and for what reason.

Mr. DODARO. Okay. We will do that.

Mr. TAYLOR. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Would you make your answer to both of those inquiries to the entire committee? We would appreciate that.

Mr. DODARO. Well, that is our normal procedure, Mr. Chairman. I would be happy to.

The CHAIRMAN. You bet. Thank you.

Ms. Bordallo.

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

I was not going to ask a question, but I came here, because I was very interested in the subject matter.

With the impending military buildup occurring in my area, on Guam, the movement of 8,300 Marines from Okinawa at the cost of $14 billion, I can see where many of the high-risk areas, at least—maybe not many, but a few of them—on your list would certainly be involved in our buildup.

And I want to bring up the fact that this is probably one of the largest military relocations of a base in the history of the military. And our chairman, Mr. Skelton, and several members here on the Armed Services Committee, just visited the area, both Guam and Okinawa.

And I would like to repeat what our chairman says. We want to do this, and we want to do it right.

So, I am curious. Are you aware of this buildup that is occurring? And things are already going on, contracting and that type of thing.

Could you give me some——

Mr. DODARO. Yes. We are well aware of it. We have been asked to do quite a bit of work as it relates to the Guam situation. I will let Janet talk about what we know, and what we are currently doing.

Ms. ST. LAURENT. We have three engagements going on right now, or studies, that are focused on various aspects of the buildup on Guam. And also, we are doing a lot of work worldwide to look at global reposturing.

But specifically, we have an engagement looking at the utilities issues and how the Navy is going to meet those needs, working with Guam, the government of Guam. And I think you are well aware of that one.

We are also monitoring and looking at the overall costs associated with the buildup, how those cost estimates are changing, all of the military players involved.

Again, as you mentioned, this is going to be a complex move involving all of the services. There is a joint effort being done by the services to do the planning in a coordinated fashion, and we are looking at how that is going.

And then third, we also have another effort underway that is focused on how the federal agencies are coordinating, again, with the government of Guam, to look at any further enhancements in infrastructure that may be needed, and how those issues are going to be addressed.

Ms. BORDALLO. All right. I do want to thank you. I am just concerned, because I have said over and over in this committee during hearings, that we are going to be monitoring this process as it goes along. And hopefully, contracting and all of that will be very transparent.

And I do not want to be sitting here later on and hear that there were all kinds of abuses with this move.

So, I want to thank you again.

And I want to especially thank our chairman here, who has been very interested in this movement. And as he says, and I say now, I quote him, let us do it, and let us do it right.

So, thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Certainly thank the gentlelady.

Is there any member that wishes to ask additional questions while we have this panel before us?

Are there any additional questions?

Well, we thank each one of you. And Mr. Dodaro, it is just excellent testimony, as usual. We look forward to your answers, specifically to Mr. Taylor's questions. And we look forward to working with you.

We have, as you know, and it has been mentioned earlier, a panel on acquisition reform. And I am sure we will call upon your expertise to be of assistance in that.

Without further ado, thank you.

[Whereupon, at 11:32 a.m., the committee was adjourned.]

A P P E N D I X

March 12, 2009

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

MARCH 12, 2009

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DOD'S HIGH-RISK AREAS

Actions Needed to Reduce Vulnerabilities and Improve Business Outcomes

Statement of Gene L. Dodaro
Acting Comptroller General of the United States

GAO-09-460T

March 12, 2009

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-09-460T, a testimony to before the Committee on Armed Services, House of Representatives

DOD'S HIGH-RISK AREAS

Actions Needed to Reduce Vulnerabilities and Improve Business Outcomes

Why GAO Did This Study

The Department of Defense (DOD) spends billions of dollars to sustain key business operations intended to support the warfighter. In January, GAO released its 2009 high-risk series update report for the 111th Congress. This series emphasizes federal programs and operations that are at high risk because of vulnerabilities to fraud, waste, abuse, and mismanagement and has also evolved to draw attention to areas associated with broad-based transformation needed to achieve greater efficiency, effectiveness, and sustainability. Of the 30 high-risk areas identified by GAO across government, DOD bears sole responsibility for eight defense specific high-risk areas and shares responsibility for seven other high-risk areas—all of which are related to its major business operations.

The Committee asked GAO to provide its views on (1) actions needed to achieve measurable outcomes in DOD's high-risk areas and (2) DOD's progress in strengthening its management approach for business transformation, including establishing the Chief Management Officer (CMO) position. GAO was additionally asked to highlight information regarding the high-risk area related to contract management at the Department of Energy's (DOE) National Nuclear Security Administration.

To view the full product, click on GAO-09-460T. For more information, contact Janet St. Laurent at (202) 512-4402 or stlaurentj@gao.gov or Paul Francis at (202)

What GAO Found

Longstanding weaknesses in DOD's business operations adversely affect the department's economy, efficiency, and effectiveness, and have resulted in a lack of adequate accountability. As a result, DOD continues to experience cost growth in many of these areas and wastes billions of dollars annually that could be freed up for higher priority needs. DOD's senior leadership has shown a commitment to transforming business operations, and taken many steps to address weaknesses. However, additional actions are needed to achieve and sustain progress.

Business Area	Impact on department and warfighter
Weapon Systems Acquisition	Major defense acquisition programs continue to take longer, cost more, and deliver fewer quantities and capabilities to the warfighter than planned. Compared to initial estimates, costs for DOD's fiscal year 2007 portfolio of 95 major programs grew by $295 billion or 26 percent. On average, current programs experienced a 21-month delay in delivering initial capabilities, reflecting a 5-month increase over fiscal year 2000 programs.
Contract Management	From fiscal years 2001 and 2008, DOD's obligations for contracts have more than doubled to $387 billion, but its workforce that manages and oversees contracts grew by only about 1 percent. As the largest civilian contracting agency, DOE spends about 90 percent of its budget on contracts. Weaknesses in contract management at both DOD and DOE, such as unsound business practices, inadequate numbers of oversight personnel, and the lack of training result in increased costs and risks.
Supply Chain Management	DOD has been unable to consistently meet its goal of delivering "the right items to the right place at the right time" to support the deployment and sustainment of its forces. Also, the military services have billions of dollars in excess inventory due to weaknesses in forecasting demand. For fiscal years 2004 to 2007, the Army and Navy held a combined annual average of $11 billion in inventory that was excess to requirements.
Financial Management	System deficiencies and other pervasive challenges in DOD's financial management operations impact its ability to control costs, ensure accountability, and measure performance, thus limiting DOD's ability to prevent and detect fraud, waste, abuse, and improper payments. To date, none of the military services have received favorable financial statement audit opinions.

Source: GAO

DOD has taken some steps to establish the CMO and other key positions, but still lacks some critical elements to strengthen its management approach. The National Defense Authorization Act for Fiscal Year 2008 codified the CMO position, created a Deputy CMO, directed that CMO duties be assigned to the Under Secretary of each military department, and required a strategic plan for business operations. DOD has yet to clearly define the roles, responsibilities, and relationships among key positions, including the Deputy CMO and military department CMOs. Also, its first plan, issued in July 2008, lacks clear goals, objectives, and performance measures. As DOD's approach continues to evolve, GAO remains open to the possibility of further progress. However, because of the roles and responsibilities currently assigned to key positions, it is still unclear whether DOD will provide the long-term sustained leadership needed to address significant challenges in its business operations.

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to be here today to discuss the Department of Defense's (DOD) high-risk areas and why further action is needed to enhance and sustain progress in transforming DOD's business operations. For almost two decades, we have reported on pervasive and longstanding weaknesses in DOD's business operations that affect its efficiency and effectiveness, leaving it vulnerable to billions of dollars of fraud, waste, and abuse annually. As a result, DOD continues to dominate our list of high-risk federal programs and operations, bearing responsibility, in whole or in part, for half of the 30 areas cited in our January 2009 high-risk series update report.[1] As table 1 indicates, eight of these fifteen areas are specific to DOD and seven are governmentwide areas that apply to DOD. Collectively, these high-risk areas relate to DOD's major business operations that are inextricably linked to the department's ability to perform its overall mission, directly affect the readiness and capabilities of U.S. military forces, and can affect the success of a mission.

Table 1: High Risk Areas Involving the Department of Defense

Defense-specific	Governmentwide areas that apply to DOD
DOD Approach to Business Transformation	Strategic Human Capital Management
DOD Weapon Systems Acquisition	Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures
DOD Contract Management	Managing Federal Real Property
DOD Supply Chain Management	Establishing Effective Mechanisms for Sharing Terrorism-Related Information to Protect the Homeland
DOD Financial Management	Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests
DOD Business Systems Modernization	Management of Interagency Contracting
DOD Support Infrastructure Management	Improving and Modernizing Federal Disability Programs
DOD Personnel Security Clearance Program	

Source: GAO.

DOD is entrusted with more taxpayer dollars than any other federal agency, representing a large part of the discretionary spending of the U.S. budget. For example, Congress provided DOD with about $512 billion in annual appropriations for fiscal year 2009 and recently passed the

[1]GAO, *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009).

American Recovery and Reinvestment Act[2] that contains nearly $12.6 billion for DOD for military construction, environmental restoration, and other purposes. In addition, since 2001, DOD has received about $808 billion in supplemental emergency funding for the Global War on Terrorism, including support for ongoing military operations. Given the growing longer-range fiscal imbalance facing our nation, DOD will increasingly have to compete for constrained resources and cannot afford to continue to conduct "business as usual" and miss opportunities to achieve greater efficiencies and free up resources for higher priority needs.

Common to all of DOD's high-risk areas is the need for sustained, senior level leadership and a more strategic decision-making approach to ensure that programs and investments are based on plans with measurable goals, clear objectives, validated requirements, prioritized resource needs, and performance measures to gauge progress. Because of the complexity and magnitude of the challenges facing the department in improving its business operations, we have long advocated the need for a senior management official to provide strong and sustained leadership. As a result of legislation passed in the 110th Congress[3], under the leadership of this committee and many others, DOD now has a Chief Management Officer (CMO) who is statutorily responsible and accountable for the department's overall business transformation efforts.

My testimony today will discuss (1) additional actions needed to achieve measurable outcomes in selected high-risk areas and (2) DOD's progress in strengthening its management approach for business transformation, including establishing the CMO position. In particular, I will focus my remarks on the defense-specific areas of weapon systems acquisition, contract management, supply chain management, financial management, and the defense-related aspects of the governmentwide areas of strategic human capital management, protecting technologies critical to U.S. national security interests, and protecting the federal government's information systems and critical infrastructure. As you requested, I will also highlight information regarding contract management challenges at the Department of Energy's (DOE) National Nuclear Security Administration (NNSA), which is also a high-risk area. Details on all of the

[2]American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5 (2009).

[3] National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181, §904 (2008).

high-risk areas involving DOD and DOE, as well as the rest of the federal government can be found in our *January 2009 High-Risk Series* update.

In preparing this testimony, we relied on our extensive body of work on DOD's and DOE's high-risk areas. This work was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Failure to Match Requirements with Technology and Other Resources Underlie Poor Weapons Program Outcomes and Undermine Accountability

Since fiscal year 2000, DOD has significantly increased the number of major defense acquisition programs and its overall investment in them. During this same time period, acquisition outcomes have not improved. For example, in last year's assessment of selected DOD weapon programs, we found that total acquisition costs for the fiscal year 2007 portfolio of major defense acquisition programs increased by $295 billion or 26 percent and development costs increased by 40 percent from first estimates—both of which are higher than the corresponding increases in DOD's fiscal year 2000 portfolio.[4] In most cases, the programs we assessed failed to deliver capabilities when promised—often forcing warfighters to spend additional funds on maintaining legacy systems. Our analysis showed that current programs experienced, on average, a 21-month delay in delivering initial capabilities to the warfighter, a 5-month increase over fiscal year 2000 programs as shown in table 2. Continued cost growth results in less funding being available for other DOD priorities and programs, while continued failure to deliver weapon systems on time delays providing critical capabilities to the warfighter. We are currently updating our analysis and intend to issue our assessment of DOD's current portfolio later this month.

[4]GAO, *Defense Acquisitions: Assessments of Selected Weapon Programs*, GAO-08-467SP (Washington, D.C.: Mar. 31, 2008).

Table 2: Analysis of DOD Major Defense Acquisition Program Portfolios

Fiscal year 2008 dollars

	Fiscal year		
	2000 portfolio	2005 portfolio	2007 portfolio
Portfolio size			
Number of programs	75	91	95
Total planned commitments	$790 billion	$1.5 trillion	$1.6 trillion
Commitments outstanding	$380 billion	$887 billion	$858 billion
Portfolio performance			
Change to total RDT&E costs from first estimate	27 percent	33 percent	40 percent
Change in total acquisition cost from first estimate	6 percent	18 percent	26 percent
Estimated total acquisition cost growth	$42 billion	$202 billion	$295 billion
Share of programs with 25 percent or more increase in program acquisition unit cost	37 percent	44 percent	44 percent
Average schedule delay in delivering initial capabilities	16 months	17 months	21 months

Source: GAO analysis of DOD data.

Note: Data were obtained from DOD's Selected Acquisition Reports (dated December 1999, 2004, and 2006) or in a few cases,data were obtained directly from program offices. Number of programs reflects the programs with Selected Acquisition Reports. In our analysis we have broken a few Selected Acquisition Report programs (such as Missile Defense Agency systems) into smaller elements or programs. Not all programs had comparative cost and schedule data, and these programs were excluded from the analysis where appropriate. Also, data do not include full costs of developing Missile Defense Agency systems.

Several underlying systemic problems at the strategic level and at the program level continue to contribute to poor weapon system program outcomes. At the strategic level, DOD does not prioritize weapon system investments and the department's processes for matching warfighter needs with resources are fragmented and broken.[5] DOD largely continues to define warfighting needs and make investment decisions on a service-by-service basis and assess these requirements and their funding implications under separate decision-making processes. Ultimately, the process produces more demand for new programs than available resources can support, promoting an unhealthy competition for funds that

[5]DOD has three major processes involved in making weapon system investment decisions, including the Joint Capabilities Integration and Development System for identifying warfighting needs; the Planning, Programming, Budgeting and Execution system, for allocating resources; and the Defense Acquisition System for managing product development and procurement.

encourages programs to pursue overly ambitious capabilities, develop unrealistically low cost estimates and optimistic schedules, and suppress bad news. Similarly, DOD's funding process does little to prevent programs from going forward with unreliable cost estimates and lengthy development cycles, which is not a sound basis for allocating resources and ensuring program stability. Invariably, DOD and Congress end up continually shifting funds to and from programs—undermining well-performing programs to pay for poorly performing ones.

At the program level, programs are started without knowing what resources will truly be needed and are managed with lower levels of product knowledge at critical junctures than expected under best practices standards. For example, in our March 2008 assessment, we found that only 12 percent of the 41 programs we reviewed had matured all critical technologies at the start of the development effort.[6] None of the 26 programs we reviewed that were at or had passed their production decisions had obtained adequate levels of knowledge. In the absence of such knowledge, managers rely heavily on assumptions about system requirements, technology, and design maturity, assumptions that are consistently too optimistic. These gaps are largely the result of a lack of a disciplined systems engineering[7] analysis prior to beginning system development, as well as DOD's tendency to allow new requirements to be added well into the acquisition cycle. This exposes programs to significant and unnecessary technology, design, and production risks, ultimately damaging cost growth and schedule delays. With high-levels of uncertainty about technologies, design, and requirements, program cost estimates and related funding needs are often understated, effectively setting programs up for failure.

When DOD consistently allows unsound, unexecutable programs to pass through the requirements, funding, and acquisition processes, accountability suffers. Program managers cannot be held accountable when the programs they are handed already have a low probability of success. Moreover, program managers are not empowered to make go or no-go decisions, have little control over funding, cannot veto new requirements, have little authority over staffing, and are frequently

[6]GAO-08-467SP

[7]"Systems engineering" translates customer needs into specific product requirements for which requisite technological, software, engineering, and production capabilities can be identified through requirements analysis, design, and testing.

changed during a program's development. Consequently, DOD officials are rarely held accountable for these poor outcomes, and the acquisition environment does not provide the appropriate incentives for contractors to stay within cost and schedule targets, making officials strong enablers of the status quo.

With regard to improving its acquisition of weapon systems, DOD has made changes consistent with the knowledge-based approach to weapons development that GAO has recommended in its work. In December 2008, DOD revised DOD Instruction 5000.02, which provides procedures for managing major defense acquisition programs in ways that aim to provide key department leaders with the knowledge needed to make informed decisions before a program starts and to maintain discipline once it begins. For example, the revised instruction includes procedures for the completion of key systems engineering activities before the start of the systems development, a requirement for more prototyping early in programs, and the establishment of review boards to monitor weapon system configuration changes. We have previously raised concerns, however, with DOD's implementation of guidance on weapon systems acquisition. At the same time, DOD must begin making better choices that reflect joint capability needs and match requirements with resources. DOD's investment decisions cannot continue to be driven by the military services that propose programs that overpromise capabilities and underestimate costs simply to start and sustain development programs.

Recent congressional actions, including efforts by your committtes reflect the need for achieving better acquisition outcomes. We commend this Committee for forming a special panel on Defense Acquisition Reform to address broad issues surrounding the defense acquisition process including how to evaluate performance and value in the current system, the root causes of system failures, the administrative and cultural pressures that lead to negative outcomes, and the reform recommendations of previous studies. The Senate Committee on Armed Services also has proposed legislation with provisions to strengthen DOD's acquisition processes including provisions to improve systems engineering, developmental testing, technology maturity assessments, independent cost estimates and the role of the combatant commanders, among other provisions.

DOD Continues to Face Longstanding Challenges Managing Service Contracts and Contractors

DOD Has Yet to Fully Assess Which Functions and Activities Should Be Performed by Contractors, Limiting Its Ability to Mitigate Risks

DOD relies increasingly on contractors to support its missions and operations. For example, DOD estimated that more than 230,000 contractor personnel were supporting operations in Iraq and Afghanistan as of October 2008. Officials have stated that without a significant increase in its civilian and military workforce, the department is likely to continue to rely on contractors both in the United States and overseas. Contractors can provide important benefits, such as flexibility to fulfill immediate needs. But, using contractors also comes with inherent risks, which must be mitigated through effective management.

DOD's reliance on contractors has not been the result of a strategic or deliberate process but instead resulted from thousands of individual decisions to use contractors in specific situations. DOD's longstanding guidance for determining the appropriate military, civilian, and contractor mix needed to accomplish the department's mission, focuses on individual decisions of whether to use contractors to provide specific capabilities and not the overarching question of what the appropriate role of contractors should be. We have repeatedly called for DOD to be more strategic in how it uses contractors.[8] Without a fundamental understanding of when, where, and how contractors should or should not be used, DOD's ability to mitigate the risks associated with using contractors is limited.

Our work has highlighted risks, which include differing ethical standards, diminished institutional capacity, potentially greater costs, and mission risks. For example:

- Contractor employees often work side-by-side with government employees, performing such tasks as studying alternative ways to acquire desired capabilities, developing contract requirements, and

[8]GAO, *Defense Management: DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight*, GAO-08-572T (Washington, D.C.:Mar. 11, 2008).

advising or assisting on source selection, budget planning, and award-fee determinations. Contractor employees are generally not subject, however, to the same laws and regulations that are designed to prevent conflicts of interests among federal employees.[9]

- Reliance on contractors can create mission risks when contractors are supporting deployed forces. For example, because contractors cannot be ordered to serve in contingency environments, the possibility that they will not deploy can create risks that the mission they support may not be effectively carried out. Further, if commanders are unaware of their reliance on contractors, they may not realize that substantial numbers of military personnel may be redirected from their primary responsibilities to provide force protection or assume functions anticipated to be performed by contractors, and commanders therefore may not plan accordingly. The Chairman of the Joint Chiefs of Staff has directed the Joint Staff to examine the use of DOD service contracts (contractors) in Iraq and Afghanistan in order to better understand the range and depth of contractor capabilities necessary to support the Joint Force.
- One underlying premise of using contractors is that doing so will be more cost-effective than using government personnel. This assumption may not always be the case. In one instance, we found that the Army Contracting Agency's Contracting Center of Excellence was paying up to 27 percent more for contractor-provided contract specialists than it would have for similarly graded government employees.[10]

DOD Continues to Face Challenges in Employing Sound Business Practices When Contracting for and Managing Service Contracts

Once the decision has been made to use contractors to support DOD's missions or operations, it is essential that DOD clearly define its requirements and employ sound business practices, such as using appropriate contracting vehicles. Our work, however, has identified weaknesses in DOD's management and oversight, increasing the government's risk. For example,

- In June 2007, we found significant use of time-and-materials contracts.[11] These contracts are considered high risk for the government because

[9]GAO, *Defense Contracting: Additional Personal Conflict of Interest Safeguards Needed for Certain DOD Contractor Employees*, GAO-08-169 (Washington, D.C.: Mar. 7, 2008).

[10]GAO, *Defense Contracting: Army Case Study Delineates Concerns with Use of Contractors as Contract Specialists*, GAO-08-360 (Washington, D.C.: Mar. 26, 2008).

[11]GAO, *Defense Contracting : Improved Insight and Controls Needed over DOD's Time-and-Materials Contracts*, GAO-07-273 (Washington, D.C.:June 29, 2007).

they provide no positive profit incentive to the contractor for cost control or labor efficiency and their use is supposed to be limited to cases where no other contract type is suitable. We found that DOD underreported its use of time-and-materials contracts; frequently did not justify why time-and-materials contracts were the only contract type suitable for the procurement; made few attempts to convert follow-on work to less risky contract types; and was inconsistent in the rigor with which contract monitoring occurred.

- In that same month, we reported that DOD needed to improve its management and oversight of undefinitized contract actions, under which DOD can authorize contractors to begin work and incur costs before reaching a final agreement on contract terms and conditions, including price.[12] The contractor has little incentive to control costs during this period, creating a potential for wasted taxpayer dollars. We found that the government's federal procurement data system did not track undefinitized contract actions awarded under task or delivery order contracts. Moreover, we found that the use of some undefinitized contract actions could have been avoided with better acquisition planning, that DOD frequently did not definitize the undefinitized contract actions within the required time frames thereby increasing the cost risk to the government, and that contracting officers were not documenting the basis for the profit or fee negotiated, as required.

In response to GAO's recommendations relative to time-and-materials contracts and undefinitized contract actions, DOD has taken actions to limit risk to the government under both circumstances.

Our previous work has also demonstrated that better collection and distribution of information on contract management could limit risks. For example:

- Our 2008 review of several Army service contracts found that contracting offices were not documenting contract administration and oversight actions taken in accordance with DOD policy and guidance. As a result, incoming contract administration personnel did not know whether the contractors were meeting their contract requirements effectively and efficiently and therefore were limited in their ability to make informed decisions related to award fees, which can run into the millions of dollars.[13]

[12]GAO, *Defense Contracting: Use of Undefinitized Contract Actions Understated and Definitization Time Frames often Not Met*, GAO-07-559 (Washington, D.C.: June 19, 2007).

[13]GAO-08-360.

- In addition, several GAO reports and testimonies have noted that despite years of experience using contractors to support deployed forces in the Balkans, Southwest Asia, Iraq, and Afghanistan, DOD has made few efforts to systematically collect and share lessons learned regarding the oversight and management of contractors supporting deployed forces. As a result, many of the management and oversight problems we identified in earlier operations have recurred in current operations.

Workforce Issues Continue to Limit DOD's Ability to Provide Adequate Contract Oversight and Management

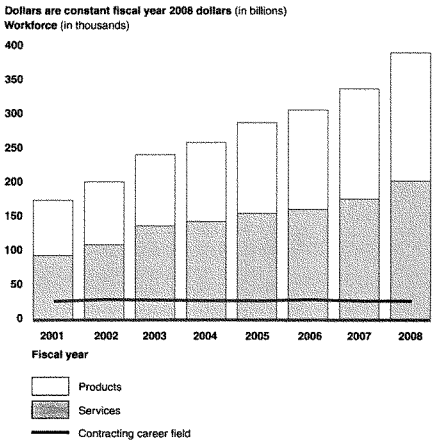
Properly managing the acquisition of contractor services requires a workforce with the right mix of skills and capabilities. Individuals and organizations involved in the acquisition process include not just the contracting officers who award contracts, but also those military and civilian officials who define requirements, receive or benefit from the services provided, and oversee contractor performance, including the Defense Contract Audit Agency (DCAA) and the Defense Contract Management Agency (DCMA).

We and others have raised questions whether DOD has a sufficient number of trained acquisition and contract oversight personnel to meet its needs. For example, the increased volume of contracting is far in excess of the growth in DOD contract personnel. Between fiscal years 2001 and 2008, DOD obligations on contracts when measured in real terms, have more than doubled to over $387 billion in total, and to more than $200 billion just for services. Over the same time period, however, DOD reports its contracting career field grew by only about 1 percent as shown in figure 1. In 2008, DOD completed an assessment of its civilian contracting workforce to provide a foundation for understanding the skills and capabilities of its current workforce and to determine how to close any gaps. DOD has not yet completed its assessments of the competencies and skills in the rest of its acquisition workforce. To facilitate improvements to DOD's acquisition workforce, the National Defense Authorization Act for Fiscal Year 2008 required DOD to establish and dedicate funding to an Acquisition Workforce Development Fund.[14] DOD is in the process of implementing this fund and has focused its efforts in three key areas:

[14]Pub. L. No. 110-181, § 852 (codified at 10 U.S.C. § 1705). The fund is financed by an amount equivalent to a portion of the military services' and defense agencies' expenditures for certain types of service contracts.

(1) recruiting and hiring, (2) training and development, and (3) retention and recognition. We are currently assessing DOD's ability to determine the sufficiency of its acquisition workforce and its efforts to improve its workforce management and oversight and will be issuing a report in the spring.

Figure 1: Changes in DOD's Contract Obligations and Contracting Workforce, Fiscal Years 2001 through Fiscal Year 2008



Source: GAO analysis, Federal Procurement Data System-Next Generation, DOD.

Having too few contract oversight personnel presents unique difficulties at deployed locations given the more demanding operational environment compared to the United States because of an increased operational tempo, security considerations, and other factors. We and others have found significant deficiencies in DOD's oversight of contractors because of an inadequate number of trained personnel to carry out these duties and the lack of training for military commanders and oversight personnel. As we testified in 2008, limited or no pre-deployment training on the use of contractor support can cause a variety of problems for military commanders in a deployed location, such as being unable to adequately

plan for the use of those contractors and confusion regarding the military commanders' roles and responsibilities in managing and overseeing contractors.[15] Lack of training also affects the ability of contract oversight personnel to perform their duties.

While performing oversight is often the responsibility of military service contracting officers or their representatives, DCAA and DCMA play key roles in the oversight process. DCAA provides a critical internal control function on behalf of DOD and other federal agencies by performing a range of contract audit services, including reviewing contractors' cost accounting systems, conducting audits of contractor cost proposals and payment invoices, and providing contract advisory services to help assure that the government pays fair and reasonable prices. To be an effective control, DCAA must perform reliable audits. In a report we issued in July 2008, however, we identified a serious noncompliance with generally accepted government auditing standards at three field audit offices responsible for billions of dollars of contracting.[16] For example, we found that workpapers did not support reported opinions and sufficient audit work was not performed to support audit opinions and conclusions. As a result, DCAA cannot assure that these audits provided reliable information to support sound contract management business decisions or that contract payments are not vulnerable to significant amounts of fraud, waste, abuse, and mismanagement. The DCAA Director subsequently acknowledged agencywide problems and initiated a number of corrective actions. In addition, DOD included DCAA's failure to meet professional standards as a material internal control weakness in its fiscal year 2008 agency financial report.[17] We are currently assessing DCAA's corrective actions and anticipate issuing a report later this spring.

Similarly, DCMA provides oversight at more than 900 contractor facilities in the United States and across the world, providing contract administration services such as monitoring contractors' performance and management systems to ensure that cost, performance, and delivery

[15]GAO, *Military Operations: Implementation of Existing Guidance and Other Actions Needed to Improve DOD's Oversight and Management of Contractors in Future Operations*, GAO-08-436T (Washington, D.C.: Jan. 24, 2008).

[16]GAO, *DCAA Audits: Allegations That Certain Audits at Three Locations Did Not Meet Professional Standards Were Substantiated*, GAO-08-857 (Washington, D.C.: July 22, 2008).

[17]DOD, *Fiscal Year 2008 Agency Financial Report, Department of Defense* (Washington, D.C.: Nov. 17, 2008).

schedules comply with the terms and conditions of the contracts. DCMA has also assumed additional responsibility for overseeing service contracts in Iraq, Afghanistan, and other deployed locations, including contracts that provide logistical support and private security services. In a July 2008 report, we noted that DCMA had increased staffing in these locations only by shifting resources from other locations and had asked the services to provide additional staff since DCMA did not have the resources to meet the requirement.[18] As a result, it is uncertain whether DCMA has the resources to meet its commitments at home and abroad.

DOD Has Taken Some Steps to Address Service Contract Management and Oversight Challenges in Response to GAO Recommendations

GAO's body of work on contract management and the use of contractors to support deployed forces has resulted in numerous recommendations over the last several years. In response, DOD has issued guidance to address contracting weaknesses and promote the use of sound business arrangements. For example, in response to congressional direction and GAO recommendations, DOD has established a framework for reviewing major services acquisitions; promulgated regulations to better manage its use of contracting arrangements that can pose additional risks for the government, including time-and-materials contracts and undefinitized contracting actions; and has efforts under way to identify and improve the skills and capabilities of its workforce. For example, we reported in November 2008 that DOD has been developing, revising, and finalizing new joint policies and guidance on the department's use of contractors to support deployed forces (which DOD now refers to as operational contract support) and has begun to develop training programs for non-acquisition personnel to provide information necessary to operate effectively on contingency contracting matters and work with contractors on the battlefield.[19]

As the department moves forward, it needs to ensure that guidance is fully complied with and implemented. Doing so will require continued, sustained commitment by senior leadership to translate policy into practice and to hold decision makers accountable. In addition, at the

[18]GAO, *Rebuilding Iraq: DOD and State Department Have Improved Oversight and Coordination of Private Security Contractors in Iraq, but Further Actions Are Needed to Sustain Improvements*, GAO-08-966 (Washington, D.C.: July 31, 2008).

[19]GAO, *Contract Management: DOD Developed Draft Guidance for Operational Contract Support but Has Not Met All Legislative Requirements*, GAO-09-114R (Washington, D.C.: Nov. 20, 2008).

departmentwide level, DOD has yet to conduct the type of fundamental reexamination of its reliance on contractors that we called for in 2008.[20] Without understanding the depth and breadth of contractor support, the department will be unable to determine if it has the appropriate mix of military personnel, DOD civilians, and contractors. As a result, DOD may not be totally aware of the risks it faces and will therefore be unable to mitigate those risks in the most cost-effective and efficient manner.

DOE's National Nuclear Security Administration Has Yet to Take Significant Action to Address Contract and Project Management Challenges

Contract and project management challenges are not unique to DOD. DOE manages over 100 construction projects with estimated costs over $90 billion and 97 nuclear waste cleanup projects with estimated costs over $230 billion. DOE is the largest civilian contracting agency in the federal government, spending about 90 percent of its budget on contracts. It has about 14,000 employees to oversee the work of more than 93,000 contractor employees. While other DOE program offices have recently made progress, the National Nuclear Security Administration (NNSA), which is responsible for maintaining the safety and reliability of the nuclear weapons stockpile, remains on our High-Risk List for continued weaknesses in contract and project management.[21] As the largest component organization within DOE, the NNSA has an annual budget of approximately $9 billion for the management and security of the nation's nuclear weapons, nuclear nonproliferation, and naval reactors programs. For the past 2 years, we have been reporting on the lack of sufficient action by NNSA as well as specific projects that continue to face contract and project management challenges. For example, on March 4, 2009, [22] we testified on, among other things, significant cost overruns and schedule delays on five of NNSA's largest construction projects.[23] These construction projects experienced cumulative cost increases of nearly $6 billion above the initial cost estimates. These projects also experienced cumulative schedule delays in excess of 32 years above initial estimates. Though some of the cost and schedule delays can be tied to increased cost

[20]GAO-08-436T.

[21]DOE's Office of Environmental Management also remains on the High-Risk List.

[22]GAO, *Department of Energy: Contract and Project Management Concerns at the National Nuclear Security Administration and Office of Environmental Management*, GAO-09-406T, (Washington, D.C.: Mar. 4, 2009).

[23]GAO, *Department of Energy: Major Construction Projects Need a Consistent Approach for Assessing Technology Readiness to Help Avoid Cost Increases and Delays*, GAO-07-336 (Washington, D.C.: Mar, 27, 2007).

of materials and labor, most of these cost and schedule increases were the result of poor performance on the part of NNSA and its contractors. Specifically, we have found NNSA in some instances:

- failed to follow its own project guidance,
- produced internal cost and schedule estimates for projects that are not credible,
- conducted insufficient and ineffective project reviews,
- relied on technologies without assessing their readiness, and
- lacked sufficient federal staffing and expertise for project management oversight.

We have made a series of recommendations to strengthen DOE's and NNSA's contract management, which collectively call for the agencies to take the following actions:

- ensure that project management requirements are consistently followed,
- improve oversight of contractors, and
- strengthen accountability for performance.

DOE and NNSA have generally agreed with our recommendations and, over the last 2 years, have been working to better understand the underlying weaknesses in contract and project management and develop appropriate corrective actions to address the weaknesses. As part of the Office of Management and Budget initiative for federal agencies to develop detailed corrective action plans for high-risk areas, DOE obtained input from headquarters and field officials, including NNSA officials, with contract and project management expertise to develop a root-cause analysis of NNSA's weaknesses. DOE then used this analysis to develop a corrective action plan and performance measures to assess progress.

However, we continue to believe that further improvements are needed. For example, as of the end of fiscal year 2008, NNSA had still not implemented any of the 21 recommendations we had made in January 2007 that were aimed, in part, at improving NNSA contractor oversight and project management.[24] More recently, in a March 2, 2009, report issued to

[24]GAO, *National Nuclear Security Administration: Security and Management Improvements Can Enhance Implementation of the NNSA Act*, GAO-07-428T (Washington, D.C.: Jan. 31, 2007); and *National Nuclear Security Administration: Additional Actions Needed to Improve Management of the Nation's Nuclear Programs*, GAO-07-36 (Washington, D.C.: Jan.19, 2007).

this Committee's Strategic Forces Subcommittee, we found that NNSA and DOD have not effectively managed the project cost, schedule, and technical risks for programs to extend the lifetimes of two warheads in the nuclear weapons stockpile.[25] We are concerned that weaknesses, such as these, if left unaddressed, will impact NNSA's plans to modernize its infrastructure and create a smaller, more responsive nuclear weapon's complex as NNSA and DOD have recently proposed.[26] This effort, known as Complex Transformation, is expected to require tens of billions of dollars over several decades to complete.

The administration is placing greater emphasis on the need to address contracting related challenges governmentwide. President Obama has just issued an executive memorandum directing, in part, the Director of the Office of Management and Budget—in collaboration with the Secretary of Defense, the Administrator of the National Aeronautics and Space Administration, the Administer of General Services, the Director of Personnel Management, and the heads of any other agencies that the Director of the Office of Management and Budget determines appropriate— to develop and issue government-wide guidance to assist agencies in reviewing, and creating processes for ongoing review of existing contracts in order to identify contracts that are wasteful, inefficient, or otherwise unlikely to meet the agencies needs, and to formulate corrective action in a timely manner. Congress is also emphasizing the need to address government-wide contracting related challenges. For example, in the National Defense Authorization Act for Fiscal Year 2008, Congress created the Commission on Wartime contracting to study federal agency contracting for the reconstruction, logistical support of coalition forces, and the performance of security functions, in Iraq and Afghanistan. The Senate Committee on Homeland Security and Governmental Affairs also recently announced the creation of a new Ad Hoc Subcommittee on Contracting Oversight.

[25]GAO, *Nuclear Weapons: NNSA and DOD Need to More Effectively Manage the Stockpile Life Extension Program*, GAO-09-385 (Washington, D.C.: Mar. 2, 2009).

[26]GAO, *Nuclear Weapons: Views on NNSA's Proposal to Transform the Nuclear Weapons Complex*, GAO-08-1032T (Washington, D.C.: July 17, 2008).

Systemic Supply Chain Management Problems and Inadequate Plans Lead to Challenges in Meeting Warfighter Supply Requirements

Supply chain management continues to be on our high-risk list as a result of weaknesses in the DOD's management of supply inventories and responsiveness to warfighter requirements. The availability of spare parts and other critical supply items that are procured and delivered through DOD's supply chain network affects the readiness and capabilities of U.S. military forces, and can affect the success of a mission. DOD reported spending approximately $178 billion on its supply chain in fiscal year 2007. While DOD has taken a number of positive steps toward improving its supply chain management, such as consolidating certain inventories in regional hubs and improving transportation management of military freight, it has continued to experience weaknesses in its ability to provide efficient and effective supply support to the warfighter. Consequently, the department has been unable to consistently meet its goal of delivering the "right items to the right place at the right time" to support the deployment and sustainment of military forces.

For example, the military services continued to have billions of dollars worth of spare parts that were in excess of current requirements, representing a significant portion of their inventories. For example, in our most recent reviews of inventory management, we found that, the Army and Navy, over a 4-year period from fiscal years 2004 to 2007, averaged an annual total of $11 billion in inventory value (in constant fiscal year 2007 dollars) that exceeded current requirements. The Navy's portion of the total—$7.5 billion—represented about 40 percent of the average annual value of its total inventory ($18.7 billion). The Army's portion—$3.6 billion—represented 22 percent of the average annual value of its total inventory ($16.3 billion).[27] A major cause for the services' excess inventories was weakness in demand forecasting. Moreover, we noted a lack of metrics and targets focusing on the cost efficiency of inventory management.

[27]GAO, *Defense Inventory: Army Needs to Evaluate Impact of Recent Actions to Improve Demand Forecasts for Spare Parts*. GAO-09-199. (Washington, D.C.: Jan. 12, 2009), and *Defense Inventory: Management Actions Needed to Improve the Cost Efficiency of the Navy's Spare Parts Inventory*. GAO-09-103. (Washington, D.C.: Dec. 12 , 2008). The Army data includes items managed by the Aviation and Missile Command and the Tank-automotive and Armaments Command.

In addition, DOD had not instituted a coordinated management approach to improving distribution and supply support for joint military operations,[28] and faced challenges in achieving widespread implementation of key technologies aimed at improving asset visibility.[29] We have also reported that DOD, as it looked ahead to drawing down its forces from Iraq, lacked a unified or coordinated command structure to plan for the management and execution of the return of material and equipment from Iraq, worth approximately $16.5 billion. While the U.S. Central Command has recently taken steps to refine and solidify a theater logistics command to address these weaknesses, corrective actions have not yet been fully implemented.

DOD has recognized the need for a comprehensive, integrated strategy for transforming logistics and in July 2008 released its Logistics Roadmap with the intent to provide a more coherent and authoritative framework for logistics improvement efforts, including supply chain management. However, we found that the road map was missing key elements that would make the information more useful for DOD's senior leaders.[30] First, it did not identify the scope of DOD's logistics problems or gaps in logistics capabilities. Second, it lacked outcome-based performance measures that would enable DOD to assess and track progress toward meeting stated goals and objectives. Third, DOD had not clearly stated how it intended to integrate the roadmap into DOD's logistics decision-making processes or who within the department was responsible for this integration.

DOD has generally concurred with our recommendations, and in some cases has committed to take action or has taken action. For example, when DOD updates the Logistics Roadmap later this year, DOD plans to remedy some of the weaknesses we identified. To successfully resolve key supply chain management problems, DOD needs to:

[28]After we reported on DOD's efforts to improve joint theater logistics, DOD in July 2008 revised joint doctrine to, among other things, better define the joint deployment and distribution enterprise, incorporate U.S. Transportation Command's role as the department's Distribution Process Owner, and introduce joint logistics imperatives. However, we have not determined the extent to which the revised doctrine has resulted in a more coordinated approach to improving joint theater logistics.

[29]GAO, High-Risk Series, An Update, GAO-09-271.

[30]GAO, *Defense Logistics: Lack of Key Information May Impede DOD's Ability to Improve Supply Chain Management.* GAO-09-150. (Washington, D.C.: Jan. 12, 2009).

- sustain top leadership commitment and long-term institutional support for the Logistics Roadmap and demonstrate progress in achieving the objectives in the road map;
- address the elements missing from its Logistics Roadmap, to ensure that the road map provides a comprehensive, integrated strategy for guiding supply chain management improvement efforts;
- conduct systematic evaluations of demand forecasting used for inventory management to identify and correct weaknesses and establish goals and metrics for tracking and assessing the cost efficiency of inventory management;
- develop and implement a coordinated and comprehensive management approach to guide and oversee efforts across the department to improve distribution and supply support for U.S. Forces in a joint theater;
- collect cost and performance data on the initial implementation of asset visibility technologies, analyze the return on investment for these technologies, and determine whether they have received sufficient funding priority; and
- take steps to fully implement DOD's recent initiative to establish a unified or coordinated chain of command over logistics operations in support of the retrograde of equipment and materiel from Iraq, and correct incompatibility weaknesses in the various data systems used to maintain visibility of equipment and materiel while they are in-transit.

Achieving and sustaining progress will require commitments and a coordinated management approach at the highest level of the department as well as the military services and other DOD components.

Weaknesses in Financial Management Adversely Affect DOD's Ability to Effectively Manage and Account for Its Resources and Assets

Efficient and effective management and accountability of DOD's hundreds of billions of dollars worth of resources require timely, reliable, and useful information. However, DOD's pervasive financial and related business management and system deficiencies continue to adversely affect its ability to control costs; ensure basic accountability; anticipate future costs and claims on the budget; measure performance; maintain funds control; prevent and detect fraud, waste, and abuse; and address pressing management issues. To date, while the U.S. Army Corps of Engineers, Civil Works has achieved a clean audit opinion on its financial statements, none of the military services have. For many years, DOD has annually acknowledged that long-standing weaknesses in its business systems and processes have prevented auditors from determining the reliability of DOD's financial statement information. We also have previously reported that a weak overall control environment and poor internal controls limit DOD's ability to prevent and detect fraud, waste, abuse, and improper

payments. For example, before awarding contracts or making purchases from the General Services Administration's Federal Supply Schedule, contracting officers and other agency officials are required to check the Excluded Party List System to ensure that a prospective vendor is not prohibited from doing business with the federal government. However, in February 2009, we reported that failure to follow contract award procedures resulted in DOD's contracting officers making awards to debarred or suspended companies.[31]

Over the years, DOD has initiated numerous efforts intended to improve its financial management practices. In response to a congressional mandate, DOD issued its Financial Improvement and Audit Readiness (FIAR) Plan in December 2005, which it updates twice a year, to outline its strategy for addressing its financial management challenges and achieving clean audit opinions. In addition, DOD has taken steps toward developing and implementing a framework for addressing its long-standing financial management weaknesses and improving its capability to provide timely, reliable, and relevant financial information for decision making and reporting, a key defense transformation priority. This framework includes a Standard Financial Information Structure and Business Enterprise Information System, intended to provide standardization in financial reporting. DOD's efforts should help to improve the consistency and comparability of its financial information and reporting; however, a great deal of work needs to be done. In particular, data cleansing, improvements in policies, processes, and controls; as well as successful system implementations are needed to improve DOD's financial management and reporting.

We are in the process of reviewing the department's September 2008 FIAR Plan to determine if there are any areas where improvements are needed to enhance the plan's effectiveness as a management tool for guiding, monitoring, and reporting on the department's efforts to identify and resolve its financial management weaknesses and achieve financial statement auditability. We will provide the Committee a copy of the report when it is issued. Key to successful transformation of DOD's financial management operations will continue to be:

[31]GAO, *Excluded Parties List System: Suspended and Debarred Businesses and Individuals Improperly Receive Federal Funds*. GAO-09-174 (Washington, D.C., Feb. 25, 2009).

- development and sustained implementation of a comprehensive and integrated financial management transformation strategy, within an overall business transformation strategy, to guide financial management improvement efforts,
- prioritization of initiatives and resources, and
- monitoring of progress through the establishment and utilization of cascading performance goals, objectives, and metrics.

Opportunities Exist to Build on Recent Progress to Strengthen DOD's Civilian Human Capital Strategic Plan

We designated strategic human capital management as a high risk area because of the federal government's long-standing lack of a consistent approach to human capital management and the continuing need for a governmentwide framework to advance human capital reform. Like other federal agencies, DOD also faces challenges in managing its human capital, particularly with its civilian workforce. With almost 30 percent of its total civilian workforce (about 670,000) becoming eligible to retire in the next few years,[32] DOD may be faced with deciding how to fill numerous mission-critical positions—positions that involve developing policy, providing intelligence, and acquiring weapon systems. Having the right number of civilian personnel with the right skills is critical to achieving the department's mission.

In recent years, Congress has passed legislation requiring DOD to conduct human capital planning efforts for the department's overall civilian workforce and its senior leaders. Specifically, the National Defense Authorization Act for Fiscal Year 2006[33] requires DOD to develop a strategic human capital plan, update it annually through 2010, and address eight requirements. The National Defense Authorization Act for 2007[34] added nine requirements to the annual update to shape DOD's senior leader workforce.

In February 2009, we reported while DOD's 2008 strategic human capital plan update, when compared with its 2007 plan, showed progress in addressing the National Defense Authorization Act for Fiscal Year 2006

[32]This figure represents data as of December 31, 2008.

[33]National Defense Authorization Act for Fiscal Year 2006, Pub. L. No. 109-163, §1122 (2006).

[34]John Warner National Defense Authorization Act for Fiscal Year 2007, Pub. L. No. 109-364 (2006).

requirements, it only partially addressed each of the act's requirements.[35] For example, DOD identified 25 critical skills and competencies—referred to as enterprisewide mission-critical occupations, which included logistics management and medical occupations. The update, however, did not contain assessments for over half of the 25 occupations, and the completed assessments of future enterprisewide mission-critical occupations did not cover the required 10-year period. Also, DOD's update only partially addressed the act's requirements for a plan of action for closing the gaps in DOD's civilian workforce. Although DOD recently established a program management office whose responsibility is to monitor DOD's updates to the strategic human capital plan, the office, at the time of our review, did not have and did not plan to have a performance plan that articulates how the legislative requirements will be met. Until such a plan is developed, DOD may not be well positioned to design the best strategies to meet its civilian workforce needs.

Regarding plans for DOD's senior leader workforce, DOD's 2008 update and related documentation addressed four of the nine requirements in the fiscal year National Defense Authorization Act for Fiscal Year 2007, but only partially addressed the remaining five. For example, DOD's update notes that the department has not completely addressed the requirement to assess its need for senior leaders. Although DOD recently established an executive management office to manage the career life cycle of DOD senior leaders, as well as the National Defense Authorization Act for Fiscal Year 2007 requirements, this office, at the time of our review, did not have and did not plan to develop a performance plan to address the national defense authorization act requirements. Until DOD develops a performance plan to guide its efforts to strengthen its human capital strategic planning, it may be unable to design the best strategies to meet its senior leader workforce needs.

[35]GAO, *Human Capital: Opportunities Exist to Build on Recent Progress to Strengthen DOD's Civilian Human Capital Strategic Plan*, GAO-09-235 (Washington, D.C.: Feb. 10, 2009).

Ensuring Effective Protection of Technologies Is Critical to U.S. National Interests

We designated the effective protection of technologies critical to U.S. national interests as a high risk area due to weaknesses GAO identified in the effectiveness and efficiency of government programs designed to protect such technologies. The U.S. government approves selling DOD weapon systems and defense-related technologies overseas for foreign policy, security, and economic reasons and has a number of long-standing programs to identify and protect critical technologies from reverse engineering and illegal export. These include the anti-tamper program,[36] militarily critical technologies program, and the export controls systems for defense-related and dual-use items. DOD is responsible for implementing several of these programs and is a key stakeholder in others. We have identified actions specific to DOD, including that it needs to:

- develop and provide departmentwide guidance to program managers in how to implement anti-tamper protection[37],
- develop an approach to identify and catalogue technologies that best meet the needs of U.S. government programs that control militarily critical technologies[38], and
- resolve disagreements with the Department of State on export control exemption use and guidelines.[39]

While actions at the agency level can lead to improvements, agencies have yet to take action to address our major underlying concern, which is the need for a fundamental re-examination of current government programs and evaluate the potential of alternative approaches to protect critical technologies.

[36]The purpose of this program is to establish anti-tamper techniques on weapon systems when warranted as a method to protect critical technologies.

[37]Defense Acquisitions: *Departmentwide Direction is Needed for Implementation of the Anti-tamper Policy.* GAO-08-91.(Washington, D.C.: January., 2008).

[38]GAO-08-91.

[39]Defense Trade: *Clarification and More Comprehensive Oversight of Export Exemptions Certified by DOD Are Needed.* GAO-07-1103. (Washington, D.C.: Sept. 19, 2007).

The Federal Government, Including DOD, Faces Challenges in Protecting Information Systems and Critical Infrastructures

Federal agencies, including DOD, face challenges in protecting the security of information technology systems—commonly referred to as cybersecurity, including those systems that support our nation's critical infrastructures (e.g., power distribution system, telecommunications networks). Long-standing, pervasive security control weaknesses continue to place national, federal, and DOD assets at risk of inadvertent or deliberate misuse, financial information at risk of unauthorized modification, sensitive information at risk of inappropriate disclosure, and critical operations at risk of disruption. Well publicized computer-based attacks against information technology systems in the United States and other countries show these threats pose a potentially devastating impact to federal systems and operations and the critical infrastructures.

To address the threats, the President in January 2008 began implementing a series of initiatives—called the Comprehensive National Cybersecurity Initiative—aimed primarily at improving the security of DOD and other information technology systems within the federal government. More recently, in February 2009, the new President initiated a review of the government's overall cybersecurity strategy and supporting activities with the goal of reporting its finding in April 2009. We currently have work under way for this Committee's Subcommittee on Terrorism and Unconventional Threats and Capabilities to assess the interagency Comprehensive National Cyber Initiative and its results. We are also examining the progress DOD has made in developing its organizational structure, policies, plans, doctrine, and capabilities for cyber defensive and offensive operations.

DOD Has Made Progress in Establishing Key Management Positions for Business Transformation, but Critical Actions Are Still Needed

Without sustained leadership and comprehensive strategic planning, DOD's ability to achieve and sustain measurable progress in addressing high-risk areas and thereby improving its business operations is at risk. We have long advocated that DOD establish a Chief Management Officer (CMO) to be responsible and accountable for the department's business transformation and a strategic planning process to direct its efforts and measure progress. DOD's senior leadership has shown a commitment to transforming business operations and taken many steps to strengthen its management approach, both in response to congressional requirements and on its own accord. For example, the Secretary of Defense designated the Deputy Secretary of Defense as CMO of the department in May 2007. The National Defense Authorization Act for Fiscal Year 2008 subsequently

codified the position, created a Deputy CMO, directed that CMO duties be assigned to the Under Secretary of each military department, and required DOD to develop a strategic management plan for business operations.[40] In 2008, DOD issued its first Strategic Management Plan, which it characterizes as a first step toward providing Congress with the comprehensive plan required by law and as a primer for incoming officials that describes newly established and existing structures and processes within DOD to be used by the CMO for delivering effective and efficient support to the warfighter.[41] DOD also issued directives broadly defining the roles and responsibilities of the CMO and Deputy CMO,[42] established a DCMO office, and named an Assistant Deputy CMO to lead the stand-up of the office prior to the nomination and filling of the Deputy CMO position. Prior to these actions, DOD had established various management and governance entities that, in addition to the CMO and Deputy CMO, will comprise the management framework for business transformation, such as the Defense Business Systems Management Committee and the Business Transformation Agency.

While DOD has taken several positive steps, it still lacks critical elements needed to ensure successful and sustainable transformation efforts. Specifically, it has not fully or clearly defined the authority, roles, and relationships for some positions and entities. For example, the Deputy CMO position has not been assigned clear decision making authority or accountability for results, and the position appears to be advisory in nature. Therefore, it is unclear how the creation of the Deputy CMO position changes the existing structure of DOD's senior leadership. It is also unclear how the Deputy CMO will work with other senior leaders across the department who have responsibility for business operations and who are at the same level or even higher, such as the various Under Secretaries of Defense and the military department CMOs. The roles and relationships of various governance entities are similarly unclear.

In addition, DOD's first Strategic Management Plan lacks key information and elements of a strategic plan. For example, it does not clearly define business operations; does not contain goals; objectives; or performance

[40]Pub. L. No. 110-181 §904 (2008).

[41]Department of Defense, *Strategic Management Plan*, July 28, 2008.

[42]Department of Defense Directive 5105.02, *Deputy Secretary of Defense* (Feb. 18, 2009) and Department of Defense Directive 5105.82, *Deputy Chief Management Officer (DCMO) of the Department of Defense* (Oct. 17, 2008).

measures; and does not assign accountability for achieving desired results in its transformation efforts. Therefore, the plan cannot be used to link resources to performance, measure progress, or guide efforts of the military components. DOD plans to update its Strategic Management Plan in July 2009 and every 2 years thereafter as required by the National Defense Authorization Act for Fiscal Year 2008.[43]

We recognize that DOD has only recently established the CMO position and that DOD is in the early stages of implementation for several of its improvement efforts. To help DOD proceed with its efforts, the new administration needs to move quickly to nominate and fill key leadership positions that are currently vacant. These positions include the Deputy CMO and military department CMOs. Moving forward, DOD needs to further:

- define and clarify the roles, responsibilities, and relationships among the various positions and governance entities within DOD's management framework for business transformation, and
- develop its strategic management plan and implement a strategic planning process that will allow DOD to measure progress, establish investment priorities, and link resource needs to performance.

Because of the complexity and long-term nature of DOD's business transformation efforts, we have repeatedly advocated the need for the CMO to be a separate, full-time position with significant authority, experience, and a set term. As DOD continues to develop its approach and carries out planned additional actions, we remain open to the possibility of further progress and that these efforts will have a positive impact. However, because of the current statutory requirements and the roles and responsibilities currently assigned to key positions, it is still unclear whether DOD will provide the long-term sustained leadership needed to address these significant challenges in its business operations.

Concluding Observations

DOD and DOE have recognized they face challenges in the selected high risk areas we have outlined today and have taken some steps to address these challenges. However, the current fiscal climate presents an imperative for both agencies to refocus management attention and commitment at the highest levels and to aggressively take additional actions to achieve greater progress in the key business areas that underpin

[43]Pub. L. No. 110-181 §904 (2008).

the ability to achieve mission success. As DOD moves forward, among other things, it will need to continue to reform its approach to acquiring major weapon system programs, fundamentally reexamine its reliance on contractors as well as take action to better size and train its contractor workforce, and develop and implement viable strategies for managing its supply chain and improving its financial management. For DOE's NNSA, it is important that actions be taken to improve contract and project management in order to reverse the historical trend of schedule delays, cost growth, and increased risks in its major projects.

As DOD and DOE compete for resources in a constrained fiscal environment, they can no longer afford to miss opportunities to achieve greater efficiencies and free up resources for higher priority needs. Furthermore, because of the complexity and magnitude of the challenges facing DOD in transforming its business operations, it will need strong and sustained leadership, as well as sound strategic planning to guide and integrate its efforts. The new Deputy Secretary of Defense has been given the unique opportunity to set the precedent going forward as DOD's statutory Chief Management Officer. It will be important within the first year of this administration, that the Deputy Secretary of Defense clearly articulate the department's expectations for this position, clarify the roles, responsibilities, and relationships among all individuals and entities that share responsibility for transforming DOD's business operations, and establish a strategic planning process to guide efforts and assess progress across the department.

Mr. Chairman and Members of the Committee, this concludes my statement. I would be happy to answer any questions you may have at this time.

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WITNESS RESPONSES TO QUESTIONS ASKED DURING THE HEARING

MARCH 12, 2009

RESPONSE TO QUESTION SUBMITTED BY MR. SKELTON

Mr. DODARO. Over the past several years, we have performed work on issues related to the cost of pharmaceuticals, including the relationship between DOD and VA. (In submitting my written responses for the record, I will also provide copies of any products cited in my response.) For example, in May 2000, we testified that VA and DOD could save millions of dollars by expanding their use of joint contracts for pharmaceuticals (See GAO/T–HEHS–00–121). In a subsequent report in May 2001, we found that VA and DOD had made important progress in leveraging joint purchasing power for pharmaceuticals by expanding the number of joint pharmaceutical contracts (See GAO–01–588). At the time, most of their joint contracts were for generic drugs. We concluded that more significant cost reductions could be realized through joint procurement of high-cost brand name drugs, although we noted that DOD and VA faced challenges to do so. We recommended, among other things, that VA and DOD include information on ongoing and planned joint contracts in an annual report to the Congress, which they did most recently in February 2009.[1] This report notes that there were 59 VA and DOD joint national contracts for the first three quarters of fiscal year 2008, resulting in $115 million in cost avoidance.

We also reported in June 2005 on a pilot program for DOD to use VA's mail order pharmacy to dispense outpatient refill prescriptions (See GAO–05–555). We noted that DOD's costs were much higher when beneficiaries used retail pharmacies than when they used military treatment facility pharmacies or mail order options. In addition, we concluded that DOD could achieve cost savings at very high levels of beneficiary satisfaction by delivering drugs to beneficiaries using the VA's mail order pharmacy rather than military treatment facility outpatient refill operations. In 2008, we reported that DOD's drug spending had more than tripled from fiscal year 2000 to fiscal year 2006, and that retail pharmacy spending drove most of this increase. We noted that the growth in retail spending reflected the fact that federal pricing arrangements, which generally result in prices lower than retail prices, were not applied to drugs dispensed at retail pharmacies during this time. However, we noted that future growth in retail pharmacy spending may slow as the National Defense Authorization Act for Fiscal Year 2008 required that federal pricing arrangements be applied to drugs dispensed at retail pharmacies.[2] We recommended that DOD monitor the effect of federal pricing arrangements for drugs dispensed at retail pharmacies along with ongoing efforts to limit pharmacy spending to determine the extent to which they reduce the growth in retail pharmacy spending, and to identify, implement, and monitor other efforts as needed to reduce the growth in retail pharmacy spending (See GAO–08–327). DOD stated that it concurred with these recommendations. [See page 9.]

[The GAO reports referred to above are retained in the committee files and can be viewed upon request.]

RESPONSES TO QUESTIONS SUBMITTED BY MR. TAYLOR

Mr. DODARO. Although we have not done audit work looking at performance bonds on DOD contracts, we are familiar with the use of this tool. Just like many cities and states, the federal government provides for the use of performance bonds on construction contracts. In this regard, the Miller Act requires performance bonds for any construction contract exceeding $100,000.[3] The bond is intended to assure fulfillment of the contractor's obligations under the contract by providing for payment of a penal amount to the government in the event of nonperformance. In general, the penal amount of the performance bond is equal to the amount of the contract.

The FAR provides, however, that agencies generally should not require performance bonds for other than construction contracts. The exceptions to this general pro-

[1] VA/DOD Joint Executive Council, *Annual Report Fiscal Year 2008,* (Washington, D.C.: Feb. 2009).

[2] Pub. L. No. 110–181, § 703(a)(2), 122 Stat. 3, 188 (codified at 10 U.S.C. § 1074g(f)).

[3] 40 U.S.C. §§ 3131 to 3134 (2007).

hibition for the most part involve situations in which the government is providing property or other assets to the contractor early in the performance of the contract.

The rationale for the general prohibition on the use of performance bonds outside the construction area is based on a number of factors. First, unlike construction contracts that are structured around well-defined specifications, contracts for weapon system development such as for the Littoral Combat Ship often lack fixed objective specifications. Second, the length of time for which a surety is willing to issue a bond is typically less than two years, far shorter than most weapon system development projects. Third, the cost of obtaining a performance bond would be reflected in the contract price paid by the government. This means the government would be paying higher prices on all contracts requiring a bond even though only a small percentage of the contractors might fail to perform to contract requirements. And finally, the government has other means available to it to ensure good contract performance. Chief among these is the requirement in the FAR that the government do business only with responsible contractors. For all contracts, the contracting officer must make an affirmative determination that the prospective contractor has adequate financial resources, is able to meet schedule, has a satisfactory performance record, and is otherwise equipped to perform all contract requirements. [See page 26.]

Mr. DODARO. We have contacted the cognizant office within the department, the Director, Defense Procurement and Acquisition Policy, within the office of the Undersecretary for Acquisition, Technology and Logistics. We have conveyed Congressman Taylor's concern over the issue of countercyclical purchases of materials when they are in the best interests of the government, as well as the need to be aggressive in taking advantage of such opportunities. The Director replied that this issue has been discussed within the department and that he is taking steps to have the Defense Contract Management Agency pursue countercyclical purchases. He noted that enhancing the Defense Contract Management Agency's capacity in this area is one component of the department's overall workforce initiative. [See page 27.]

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

MARCH 12, 2009

QUESTIONS SUBMITTED BY MR. SMITH

Mr. SMITH. Many of the systems on your list are software-intensive IT systems. In your analysis, did you find common characteristics that typify high-risk IT efforts from more successful programs?

Mr. DODARO. One of the more formidable challenges to addressing the business systems modernization high risk area is ensuring that the thousands of DOD business system programs and projects and IT services employ acquisition management rigor and discipline. This is because our work has shown that DOD has implemented acquisition management controls on large business system investments to varying degrees of effectiveness. In the last year, our reviews of major defense business system acquisitions have disclosed patterns of system-specific management weaknesses, including:

- not economically justifying investments on the basis of reliable estimates of future costs and benefits, which increases the risk that the department is not pursuing the most cost effective solutions for satisfying its business mission needs;
- not pursuing investments within the context of an enterprise architecture, which increases the risk of system implementations that are duplicative and not well integrated;
- not adequately defining and controlling system requirements, which increases the risks of producing a system that cannot be effectively tested and does not meet expectations;
- not proactively managing acquisition risks, which results in potential cost, schedule, and performance problems becoming actual problems; and
- not sufficiently testing system functions and performance, which increases the chances of developed and deployed capabilities not performing as intended and not meeting users operational needs.

Until DOD addresses these characteristics of "at risk" acquisitions, it will be severely challenged in its ability to ensure that its system investments are the right solutions for addressing its business needs, that they produce expected capabilities and mission benefits, and that stakeholders are satisfied.

Mr. SMITH. Because the time cycle for technology development and refresh are so different, major automated information systems have different developmental needs compared to traditional hardware acquisition programs. Do you feel that the new DOD 5000 acquisition directives adequately address the specific challenges for IT systems? If so, what changes would you recommend?

Mr. DODARO. Based on our prior work, DOD has taken some action consistent with our recommendations, but additional steps are needed to address the challenges for IT systems. (In submitting my written responses for the record, I will also provide copies of the cited products). Specifically, in 2004, we reported that DOD's 5000 acquisition directive and guidance were consistent with some, but not all, key acquisition practices for IT systems (See GAO–04–722). Specifically, while the policies and guidance largely incorporated the best practices that are relevant to any business systems acquisition, they did not incorporate key best practices that relate to acquiring commercial component-based business systems. For example, they included the requirement that acquisitions be economically justified on the basis of costs, benefits, and risks. However, they did not address basing any decision to modify commercial components on a thorough analysis of the impact of doing so, and they did not address preparing system users for the business process and job roles and responsibilities changes that are embedded in the functionality of commercial products. Moreover, they did not contain sufficient controls to ensure that DOD organizations appropriately follow the best practices that are incorporated in the department's policies and guidance.

DOD has since revised its 5000 acquisition guidance to incorporate some of these practices. For example, they now provide for conducting an analysis of lifecycle costs and benefits before modifying commercial components. However, they do not yet incorporate provisions for measurement and verification that the best practices provided for are appropriately followed. Moreover, DOD's Business Transformation

Agency, which is responsible for leading and coordinating, among other things, acquisition of business systems across the department, has recognized the need for an acquisition management approach that reflects the unique characteristics of major automated information systems. Specifically, it has drafted a lifecycle management methodology, referred to as the Business Capability Lifecycle that provides an approach for acquiring business systems. However, this methodology has been in draft for about two years and has yet to be approved or fully implemented. Our May 2009 report reiterates existing recommendations and includes new recommendations to address the business systems modernization high risk area (See GAO–09–586). These recommendations are aimed at strengthening institutional controls and ensuring that these controls are implemented on each and every business system investment.

For example, at the institutional level, DOD still needs to:

- extend (federate) DOD's corporate business enterprise architecture and related transition plan to its component organizations and ensure that it reflects the department's complete investment portfolio; and
- evolve the department's corporate and component business system investment management processes and ensure that they are institutionalized at all levels of the organization.

At the program-level, DOD still needs to ensure that the thousands of DOD business system modernization and IT services programs and projects employ program management rigor and discipline, to include:

- economically justifying investments on the basis of reliable estimates of future costs and benefits;
- pursuing investments within the context of an enterprise architecture; and
- adequately conducting key acquisition functions, such as requirements management, risk management, test management, performance management, and contract management.

DOD has largely agreed with GAO's recommendations aimed at improving these institutional and program-specific controls and described either commitments or actions being planned or under way to address them.

[The GAO reports referred to above are retained in the committee files and can be viewed upon request.]

QUESTIONS SUBMITTED BY MR. MURPHY

Mr. MURPHY. Why are contractors who have a track record of providing substandard services because of the failure to maintain a well-trained and stable workforce continuing to receive additional government contracts?

Mr. DODARO. The federal government has tried for many years to find a way to give appropriate weight to firms' track record in selecting firms for new contracts. Today, agencies are required to consider past performance in selecting contractors, but, as discussed below, it is only one of a number of factors they consider. In addition, while a seemingly simple concept, using past performance information in source selections can be complicated in practice. Further, we recently identified several underlying problems that limit the usefulness of information in the government's past performance database for governmentwide sharing.

The government contracting process provided under the Federal Acquisition Regulation (FAR) requires consideration of contractor performance at multiple points:

- *Source selection:* Past performance is required to be an evaluation factor in selecting contractors, along with factors such as price, management capability, and technical approach to the work.[1] Although past performance must be a significant evaluation factor in the award process, agencies have broad discretion to set the precise weight to be afforded to past performance relative to other factors in the evaluation scheme.
- *Responsibility determinations:* Prior to the award of a contract the contracting officer must make an affirmative determination of responsibility regarding the prospective contractor. One of the factors a contracting officer must consider in making this determination is the prospective contractor's ability to perform the

[1] Agencies are required to consider past performance in all negotiated procurements above the simplified acquisition threshold of $100,000 and in all procurements for commercial goods or services.

contract. This includes, for example, whether the prospective awardee has a satisfactory performance record on prior contracts.

- *Surveillance under the current contract:* Once a contract is awarded, the government monitors a contractor's performance throughout the life of the contract. This record of performance will generally be one of the evaluation factors considered by the government when evaluating and awarding future contracts.
- *Debarment:* To protect the government's interests, agencies can debar, that is preclude, contractors from receiving future contracts for various reasons, including serious failure to perform to the terms of a contract.

DOD has issued additional guidance on the use of past performance data during contract award and what systems will be used to store and retrieve past performance data. For example, DOD offers instructions on using past performance in source selection and contractor responsibility determinations through the Defense Federal Acquisition Regulation Supplement and related Procedures, Guidance, and Information. DOD's Office of Defense Procurement and Acquisition Policy also made available a guide that provides more detailed standards for the collection and use of past performance information, including criteria applicable to various types of contracts.

We recently assessed federal agencies' use of past performance information and the challenges that hindered the systematic sharing of past performance information.[2] We found that the lack of accountability or incentives at agencies to document assessments in the government's past performance information system, a lack of standard evaluation factors and rating scales across agencies, and a lack of central oversight to ensure the adequacy of information fed into the system limited the usefulness of information for governmentwide sharing. We made several recommendations to the Office of Federal Procurement Policy aimed at improving the sharing and use of past performance information in contract award decisions. We also recommended that the agencies we reviewed establish management controls and appropriate management review of past performance evaluations to improve management and accountability for documenting contractor past performance information. The Office of Federal Procurement Policy and the agencies agreed with our recommendations. In addition, most of these agencies outlined plans or actions to implement our recommendation on management controls and reviews of past performance.

Mr. MURPHY. In your opinion, do you believe that by incorporating measures that allow procurement officers to evaluate the treatment of those employees that will be performing the contract we can obtain contracts that better service the needs of the government and the American people?

Mr. DODARO. Contracting officers are to consider a number of factors such as price, quality of the product or service, and past performance when awarding government contracts. As part of the quality of the product or service the government considers one or more non-cost evaluation factors such as technical excellence, management capability, and personnel qualifications. Contracting officers have broad discretion in the selection of evaluation factors used in assessing the relative merit of competing proposals for contracts for the procurement of goods and services, and a contractor's treatment of its employees can thus be used as an evaluation factor. In addition to evaluation factors, which are set out in a solicitation and used in the selection of the apparent winner of the competition for a contract, another issue relevant to your question is the determination of "responsibility." Before an apparently successful firm can actually be awarded the contract, the contracting officer must determine that the firm is "responsible," a term of art that means, among other things, that the contractor:

- has adequate financial resources to perform the contract, or the ability to obtain them;
- be able to comply with the required or proposed delivery or performance schedule, taking into consideration all existing commercial and governmental business commitments;
- has a satisfactory performance record;
- has a satisfactory record of integrity and business ethics;
- has the necessary organization, experience, accounting and operational controls, and technical skills, or the ability to obtain them;
- has the necessary production, construction, and technical equipment and facilities, or the ability to obtain them; and

[2] GAO, *Federal Contractors: Better Performance Information Needed to Support Agency Contract Award Decisions,* GAO–09–374 (Washington, D.C.: April 23, 2009).

- is otherwise qualified and eligible to receive an award under applicable laws and regulations.

A contractor's treatment of its employees is not a required evaluation factor nor is it necessarily considered by contracting officers in responsibility determinations. We have not done work that assessed the merits of the use of such a factor either in source selection or responsibility determinations.

Mr. MURPHY. Do you believe that by encouraging the selection of responsible contractors who employ a stable and well-trained workforce, the procurement process would better serve the needs of the government and the American people?

Mr. DODARO. In general, the selection of responsible contractors who employ a stable and well-trained workforce can help contribute to meeting the needs of the government and the American people. The stability and training of the contractors workforce are, however, not the only criteria used in selecting contractors, as explained above. Moreover, the government's selection of qualified contractors is just one of many factors associated with the performance of a successful acquisition. Other factors include, for example (1) the development of well-defined requirements; (2) the use of an appropriate contract type; (3) selection of a responsive and responsible contractor; and (4) proper government oversight of contractor performance. We have reported on DOD's contract management challenges in these four areas, which contribute to unmet expectations and continue to place the department at risk of potentially paying more than necessary for contracted services.

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