Testimony

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Witness Statement of

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Chairman Levin, Ranking Member Inhofe and distinguished members of the committee, I appreciate the opportunity to testify today. I look forward to sharing with you a status of the Department's current efforts to improve our complex acquisition system, as well as exchange ideas for potential additional actions, including statutory actions that would improve the productivity and effectiveness of defense acquisition of products and services.

Continuous Incremental Improvement

The history of so-called "acquisition reform" spans multiple decades and includes multiple statutory and regulatory initiatives intended to improve the system but quite often, only minimally impact results. I have lived a great deal of this history. The data on major programs shows remarkably consistent behavior decade to decade. The approach I am taking is not one of acquisition reform; it is not revolutionary. I've seen too many management fads and slogan based programs that failed to address the fundamentals of what it takes to develop and field a new product. Improving defense acquisition is a long hard tedious job that requires attention to the hundreds of factors that affect acquisition results.

The Department is following a process of continuous incremental improvement that focuses on the areas in which the most progress can be made. This process attacks the problem of improving acquisition on multiple fronts simultaneously and it is constantly evolving as we learn from our experience, study the evidence of the impact of our changes, and make adjustments. This is what we have been doing for almost four years now under the label of "Better Buying Power," a phrase coined by my predecessor, then Under Secretary Carter, when I was his Principal Deputy. We are now two years into implementing the second set of continuous improvement initiatives known as Better Buying Power 2.0 or BBP 2.0, and I have just begun to think seriously about what the next iteration BBP 3.0, will look like. I can tell you, however, that it will be an incremental evolutionary adjustment to the current set of initiatives, and that most if not all of the initiatives put in place under BBP 1.0 and 2.0 will continue. The hard part of bringing change to the Pentagon is not announcing new policies; it is following up to ensure that those policies are actually implemented, understanding their impact, and making any needed adjustments. Time and constancy of purpose are essential if this process is to be successful.

Today I will discuss some of the many acquisition initiatives we've put in place, or that are in progress, to meet our national security needs, and I will also address some implementation challenges we face given the current budget environment. I will share with you my focus areas to improve acquisition outcomes, provide more effective incentives to industry, and deliver the products and services our taxpayers and servicemen and women expect and deserve.

1. BETTER BUYING POWER – STATUS UPDATE

We are now four years since Dr. Carter and I began work on the first iteration of Better Buying Power (BBP), the set of policies we promulgated as part of then Secretary Gates

efficiency initiatives in 2010. In the intervening years I've released the second iteration of BBP and I've also recently made some statements in public that BBP 3.0 may be on the horizon. Has all this made a difference? I believe it has, although I'm also certain that we have ample room for additional gains in productivity and other improved outcomes. The whole concept of Better Buying Power is of a commitment to continuous incremental improvement; improvement based on experience, pragmatism, and analysis of the evidence (i.e. data).

When I introduced the second iteration of Better Buying Power, we had already made a number of adjustments (continuous evolutionary improvements) to the initiatives in the first iteration. Under 2.0, most of the BBP 1.0 initiatives continued, either under the 2.0 label or just as good best practices we may not have emphasized under BBP 2.0. Where changes were made, this was clearly articulated in 2.0. For example, the overly restrictive guidance on fixed price incentive contract type (never intended to be as proscriptive as it may have been interpreted to be) was changed to emphasize sound decision-making about the best contract type to use in a given circumstance. We also relaxed the model constraints on time to re-compete service contracts, which proved too restrictive.

In general, BBP 2.0 moved us in an incremental way from the set of model rules that characterized BBP 1.0, to a recognition that in the complex world of defense acquisition, critical thinking by well informed and experienced acquisition professionals is the key to success – not "one size fits all" the rules. This is equally true of the acquisition of contracted services for maintenance, facility support, information technology, or anything else we acquire from industry, as it is for the various aspects of the large programs and that we normally associate with defense acquisition.

BBP 2.0 intentionally labeled, "A Guide to Help You Think," is bookended by two critical areas: affordability and increasing the professionalism of our workforce, with middle sections focused on cost control, incentivizing industry, increasing competition, among others. I won't cover every initiative in BBP 2.0, but in general here is where I think we are in improving defense acquisition, and where I think we still need to go on these initiatives.

<u>Achieving Affordable Programs:</u>

We have a history of program cancellations and dramatic reductions in inventory objectives; the goal of the first bookend, affordability, is to ensure we do not start programs that we cannot afford – with heavy emphasis on long term capital planning and enforcing affordability caps. Over the past four years we have continuously increased the number of major programs with assigned affordability targets (MS A or before) or caps (MS B) as programs come through the milestone review process. I recently reviewed the status of compliance, and in all but two or three cases, programs with caps have remained under their caps to date. The few that need to act immediately to reduce costs have estimates that are very close to their caps.

To date, we have been successful in applying the caps. The affordability analysis process is also detailed in the new Department of Defense Instruction (DODI) 5000.02, and in most cases is followed by Service programming communities who execute the long term budget analysis needed to derive caps on sustainment and production. For smaller programs that are a fraction of the considered capability portfolio, assigning a cap can be problematic, but it still needs to be done to instill discipline in the requirements process.

Looking forward however, the Department has a significant problem in the next decade affording certain portfolios; strategic deterrence, shipbuilding, and tactical aircraft are examples. This situation will have to be addressed in the budget process, but we are making reasonable progress in the acquisition system in constraining program cost, especially for unit production cost, which is easier to control than sustainment. Never the less, we have challenges particularly in understanding long term affordability caps outside the five year planning cycle, especially under sequestration level budget scenario.

Controlling Cost Throughout the Acquisition Life Cycle:

The implementation of 'should cost based management' is another area that is well under way. "Should cost" challenges every manager of contracted work to identify opportunities for cost reduction, to set targets to achieve those reductions, and to work vigorously to achieve them. Managers at all levels should be requiring that these steps be taken and rewarding successful realization of cost savings. I am seeing more of the desired behavior as time passes.

Although I am optimistic about these accomplishments, I still see cases where implementation appears more token than real. We also have work to do in understanding and teaching our managers the craft of doing "should cost" for our smaller programs (e.g. ACAT III's, Services, etc) - this remains a work in progress. Overall, "should cost" as a single measure alone, if fully implemented, will cause fundamental change in how we manage our funds.

The letter the Under Secretary of Defense for Financial Management (Comptroller) and I signed two years ago laying out our expectations for major program obligation rate reviews is still operative; your job is not to spend your budget, it is to control costs while acquiring the desired product or service and to return any excess funds for higher priority needs. The chain of command still has to learn how to support that behavior instead of punishing it. For major program "should cost" realization, the saved funds will continue to remain with the Service or Agency, preferably for use in the program that achieved the savings. The practice of Should Cost helped develop a critical skill for our workforce. The ability to perform strategic analysis on major defense acquisition programs, set target cost goals, and execute accordingly – without fear of being punished for not spending the money – makes huge dividends for the Department.

We are also gaining ground with regard to cooperation between the requirements and acquisition communities. My own partnership with the VCJCS and the JROC is intended to set the example in this area. We meet frequently to discuss issues of mutual concern and to

reinforce each other's roles in the requirements and acquisition systems. The use of affordability caps and expanded use of Configuration Steering Boards or "provider forums" is strengthening the linkage to the requirements communities. There is an ancient debate about which comes first, requirements or technology. The debate is silly; they must come together. It cannot be a one time event in a program, but continuous. Requirements that are not feasible or affordable are just so many words. A program that doesn't meet the user's needs is wasted money.

The BBP 2.0 program to increase the use of defense exportability features in initial designs is still in the pilot stage. This concept is sound, but the implementation is difficult because of some of the constraints on our budgeting, appropriations, and contracting systems. Support for US defense exports pays large dividends for national security (improved and closer relationships), operationally (built in interoperability and ease of cooperative training), financially (reduced US cost through higher production rates), and industrially (strengthening our base). This initiative will continue on a pilot basis, but hopefully be expanded as the implementation issues are identified and adjudicated.

Incentivize Productivity & Innovation in Government and Industry:

Through our research, the Business Senior Integration Group quickly found that in order to effectively incentivize our system, we needed to focus our attention on professional judgments about the appropriate contract type, as opposed to emphasizing one type over others. As we analyze the data on major programs, it shows that in general we get this right, particularly with regard to choices between fixed price and cost plus vehicles. We are still in the process of providing updated guidance in this area. One thing is clear from the data; where fixed price is used, there is benefit to greater use of fixed price incentive vehicles, especially in production contracts and even beyond the initial lots of production. We are increasing the use of fixed price incentive contracts in early production – and it is paying off.

We have begun to monetize the value of performance above threshold levels, however this practice is still in its early phases of implementation. Requirements communities usually express a "threshold" level of performance and a higher "objective" level of performance, without any indication of how much in monetary terms they value the higher level of capability. It represents a difficult culture change for our operational communities to have to put a monetary value on the higher than minimum performance levels they would prefer – if the price were right. The Air Force Combat Rescue Helicopter was the first application of this practice and it is in the process of being applied more widely across the Department. Forcing Service requirements and budget decision makers to address the value they place on higher performance (which has nothing to do with the cost) is leading to better "best value" competitions where industry is well informed about the Department's willingness to pay for higher performance, innovation is encouraged, and source selections can be more objective.

One of the strongest industry inputs we received in formulating the BBP 2.0 policies was that the "lowest price, technically acceptable" (LPTA) form of source selection was being misused and overused. We provided revised policy guidance that, like other contracting techniques, LPTA should be used with professional judgment about its applicability. This technique works well when only minimal performance is desired and contracted services or products are objectively defined. LPTA does simplify source selection, but it also limits the government's ability to acquire higher quality performance. We seek continued feedback from industry, but I believe we have been successful in reducing the use of LPTA in cases where it isn't appropriate.

Instituting a superior supplier incentive program that would recognize and reward the relative performance levels of our suppliers was a BBP 1.0 initiative that we have had great difficulty implementing. I'm happy to report that the Navy pilot program has completed the evaluation of the Navy's top 25 contracted service and product suppliers. The evaluation used the Contractor Performance Assessment Rating System (or CPARS) data as its basis. Major business units within corporations were assessed separately. The Navy is providing results divided into top, middle, and lower thirds. Business units or firms in the top third will be invited to propose ways to reduce unneeded administrative and overhead burdens. The Superior Supplier Program will be expanded DoD wide over the next year. We expect this program to provide a strong incentive to industry to improve performance and tangible benefits to our highest performing suppliers. Finally, we expect to build on this Navy pilot and expand it to the other services.

BBP 2.0 encouraged the increased use of Performance Based Logistics (PBL) contract vehicles. These vehicles reward companies for providing higher levels of reliability and availability to our warfighters. If the business deal is well written and properly executed, then PBL does provide cost savings and better results. The data shows that we have not been able to expand the use of PBL for the last two years and that prior to that the use was declining. Declining budgets as well as the budget uncertainty itself, and therefore contract opportunities are part of this story, as is the fact the PBL arrangements are harder to structure and enforce than more traditional approaches. Those factors, combined with the imposition of sequestration, furloughs, and a government shut down last year are likely to have suppressed the increased use of PBL. This area will receive additional management attention going forward; we are going to increase the use of this business approach.

Another major input to BBP 2.0 received from industry concerned the large audit backlog with the Defense Contract Audit Agency (DCAA). The backlogs both delay contract close out payments and extend the time before new awards can occur. Pat Fitzgerald, the DCAA Director, has worked very closely with the acquisition community. Pat is a regular participant in the monthly Business Senior Integration Group meetings that I chair to manage BBP implementation. Under Pat's leadership, DCAA is well on the way to eliminating most of the incurred cost audit backlog and expects to effectively eliminate the areas with the most excessive

backlog over the next year. This is being accomplished despite all the workforce issues the Department has been forced to deal with.

Strengthening discretionary research and development by industry was an early BBP initiative. I am concerned that industry is cutting back on internal research and development as defense budgets shrink. This is an area we have tried to strengthen under BBP. We have made good progress in providing an online forum for industry to understand the Departments' technology needs and internal investments, and for industry to provide research and development results to government customers. If company R&D isn't being conducted, then these steps certainly can't substitute for doing the actual research. We will be tracking these investments carefully going forward, and I will be working with defense company Chief Executives and Chief Technology Officers to review their investment plans.

The wisest course for industry is to continue adequate investments in R&D so as to be positioned for the inevitable future increase in defense budgets. Now is the time for all of us to invest in research and development. This requires discipline and commitment to the long term as opposed to short-term performance, however. Most of the Chief Executives I have discussed this with share this perspective; they recognize that the Department needs industry partners who are in this for the long term with the Department.

Eliminate Unproductive Processes and Bureaucracy:

I would like to be able to report more success in this regard, but I am finding that bureaucratic tendencies tend to grow and to generate products for use within the bureaucracy itself, together with the comfortable habits of years and even decades are hard to break. This is all even more true, in my opinion, within the Services than it is within the Office of the Secretary of Defense. On the plus side, however, we are making progress and I have no intention of stopping this effort.

I have taken steps to reduce the frequency of reviews, particularly reviews at lower staff levels. Whenever possible we are combining OSD and Service reviews or using senior level in depth reviews without preceding staff reviews and briefings. I have also instituted an annual consideration of major programs for delegation to the Services for management. Where the program risk has been significantly mitigated and/or all major Department investment commitments have already been made, I am delegating programs for Service oversight. I am also looking for opportunities to conduct pilot "skunk works" type oversight of programs which will, among other features, substitute in depth but short on scene reviews for the numerous formal documents with attendant staffing process that are normally required to support milestone decisions. I have also set firm and short time spans for staff review of some key documents so that issues are identified quickly and elevated rather than debated endlessly at the staff level.

Our efforts to increase the role and primacy of the acquisition chain of command are also making progress, but have additional room for improvement. A full day workshop the Service

Acquisition Executives and I recently conducted with all the Department's Program Executive Officers was very effective in communicating our priorities and in obtaining feedback on Better Buying Power and other initiatives. That feedback will be very helpful as we adjust our policies going forward. I also recently conducted a half day workshop with our Program Executive Officers and Program Managers who manage and direct the Department's business systems. This is an area where I feel strongly that we can reduce some of the burdensome overhead and bureaucracy associated with these programs. I will need the support of the Congress to achieve this, however.

Time is money, and reducing cycle time, particularly long development times and extended inefficient production runs would improve the Department's productivity. I have reviewed the data on development timelines and they have increased, but not on the average by outrageous amounts; the average increase in major program development time over the last few decades is about 9 months. Much of this increase seems to be driven by longer testing cycles, brought on by the growth in the number of requirements that have to be verified, and by the increased complexity and size, and therefore development time, of the software components of our programs. We are still collecting data and analyzing root causes of cycle time trends, but the most debilitating one is obvious; budget cuts in general and sequestration cuts in particular are forcing the Department to adopt low production rates, in some cases below the theoretical minimum sustaining rate. Lowering production rates is stretching out our production cycle time and raising unit costs almost across the board.

Promote Effective Competition:

Competition works. It works better than anything else to reduce and control costs. Unfortunately the current data shows that the Department is losing ground in the percentage of contracted work being let competitively each year. The erosion is not huge, and I believe that decreasing budgets which limit new competitive opportunities are a major root cause. The Air Force launch program provides an example; we were moving aggressively toward introducing competition when budget cuts forced the deferral of about half the launches scheduled for competition. This is an area that I will be tracking closely and managing with the Service Acquisition Executives and agency heads in the coming months to try to reverse the recent trend.

Under BBP we have recognized that for defense programs, head to head competition isn't always viable, so we are emphasizing other steps or measures that can be taken to create and maintain what we call "competitive environments." Simply put, I want every defense contract to be worried that a competitor may take his work for DoD away at some point in the future. As I review programs, I ask each Program Manager and Program Executive Officer to identify the steps they are taking to ensure the existence of a competitive environment for the efforts they are leading.

Open systems provide one opportunity to maintain competition below the prime level and to create a competitive environment for any future modifications or upgrades. Open systems and government "breakout" of components or subsystems for direct purchase are not necessarily in the interest of our primes, so careful management of interfaces and associated intellectual property, especially technical data rights, is key to achieving competition below the prime level and for future upgrades. Industry has a right to a fair price for intellectual property it has developed, but the government has many inherent rights and can consider the intellectual property implications of offerings in source selection. Our principal effort in this area has been to educate and train our workforce about how to manage this complex area. This is an effort that will bear fruit over time and in which I believe reasonable progress is being made. As we mature our practice in this area we need to also guard against overreaching; industry cannot be forced or intimidated into surrendering valid property rights, but the government has to exercise its rights and protect its interests at the same time as it respects industry's. Further, we in government must have strong technical and programmatic capabilities to effectively implement open systems. The Long Range Strike Bomber program is applying modular open systems effectively in its acquisition strategy and provides a good example of how this balanced approach can work – again if there is strong technical leadership by the government.

Small businesses provide an excellent source of competition. Due in no small part to the strong leadership of the Department's Office of Small Business Programs Director, Mr. Andre Gudger, we have made great progress over the last few years. We have improved our market research so that small businesses opportunities are identified and we have conducted numerous outreach events to enable small businesses to work more effectively with the Department. While much of our effort has been directed toward increasing the amount of Department work placed with small businesses, this has been done with the recognition that work allocated to small businesses will be provided through competition, and competition that involves firms without the overhead burdens of our large primes. At this time the trends in our small business awards are positive, despite the difficulties of the last few years and I have strong expectations for our performance this fiscal year.

The Department continues to emphasize competitive risk reduction prototypes - when the business case supports it. This best practice isn't called for in every program; the risk profile and cost determine the advisability of paying for competitive system level prototypes. The available data shows that when we do acquire competitive risk reduction prototypes we have to work harder on the government side to ensure that the relevant risk associated with the actual product we will acquire and field is really reduced. BBP 2.0 reinforces this maxim, and I believe we have been correctly applying it over the last few years. This is one of many areas where simply "checking the box" of a favored acquisition technique is not adequate; real understanding of the technical risk and how it can best be mitigated is necessary. It is also necessary to understand industry's perspective on these prototypes; industry cares much more about winning the next contract than it does about reducing the risk in the product that will be developed or

produced under that contract. Competitive prototypes are successful when government acquisition professionals ensure that wining and reducing risk are aligned. The data shows that in many past cases they were not aligned.

Improve Tradecraft in Acquisition of Services:

We have increased the level of management attention focused on acquisition of services under both BBP 1.0 and 2.0. I still see this as the greatest opportunity for productivity improvement and cost reduction available to the Department. I have assigned my Principal Deputy, Alan Estevez, to lead the Department's initiatives in this area. He is working with the Senior Service Acquisition Managers that we established under BBP 1.0 in each of the Military Departments. We have also now assigned senior managers in OSD and in each of the Military Departments for all of the several major categories in which we contract for services: knowledge based services, research and development, facilities services, electronics and communication, equipment related services, medical, construction, logistics management and transportation.

Our business policy and practices for services are improving. A counterpart to the often revised DOD Instruction for Programs, DODI 5000.02, has been completed in draft and will soon be implemented. We have begun the process of creating productivity metrics for each of the service categories and in some cases for sub-areas where the categories are broad and diverse. We are also continuing efforts begun under BBP 1.0 to improve our ability to conduct effective competition for services, including more clearly defined requirements for services and the prevention of requirements creep that expands and extends the scope of existing contracts when competition would be more appropriate. Services contracting is also an area in which we are focusing our small business efforts.

Services are often acquired outside the "normal" acquisition chain by people who are not primarily acquisition specialists - they are often acquired locally in a distributed fashion across the entire DoD enterprise. Services are also often paid for with Operation and Maintenance (O&M) funds where specific efforts have much less visibility and therefore less oversight. The results achieved as a result of acquisition practices for service procurements are often not as evident to management, nor as well publicized as the results for weapon system. We are working to correct this by strengthening our business management (not just contract management) in these areas and to identify and encourage best practices, such as requirements review boards and the use of tripwires.

In summary, I believe that we have made a good start at addressing the potential improvements that are possible in contracted services, but we have more opportunity in this area than in any other.

Improve the Professionalism of the Total Acquisition Workforce:

Increasing efficiency in our system is not possible without the other bookend to BBP 2.0. That is, improving the professionalism of the total acquisition workforce – which includes people who work in all aspects of acquisition; program management, engineering, test and evaluation, contracting and contract management, logistics, quality assurance, auditing, and many other specialties. All of these fields require high degrees of professionalism. I am proud of our workforce; it is highly professional, but there isn't a single person in the workforce, including me, who can't improve his or her professional abilities.

Defense acquisition professionals have a special body of knowledge and experience that is not easily acquired. No one should expect an amateur without acquisition experience to exercise professional judgments in acquisition without years of training and experience it takes to learn the field. Like other highly skilled professions such as attorneys, physicians and military officers, our expertise sets us apart.

Our workforce must deal with complexity. The problems we solve are not simple—we are entrusted to develop and field some of the most complicated and technically advanced systems in military history. It is an illusion to believe that defense acquisition success is simply a matter of applying the right, easily learned "check-list" approach to doing our jobs. There are no silver bullets that apply to all situations.

It is not enough to know acquisition best practices; acquisition professionals must understand the "why" behind the best practices—that is, the underlying principles at play. Many of our products consist of thousands of parts and millions of lines of code. They must satisfy hundreds of requirements, and take several years to bring into production. Managing and understanding complexity is central to our work.

The addition of this major category in BBP 2.0 was the most significant adjustment to BBP 1.0. The specific initiatives included several measures to enhance our professionalism. Under the Defense Acquisition Workforce Improvement Act the Department created three levels of acquisition proficiency. I don't believe that the standards for these levels as currently defined or implemented are adequate for the key leader acquisition positions that carry our highest levels of responsibility. We are in the process of creating and implementing higher standards for these positions. That process should conclude within the next year. As part of this initiative we are conducting a pilot program to establish professional qualification boards. The pilot is being conducted by the Developmental Test and Evaluation community under the leadership of DASD(R&E) for Developmental Testing, David Brown. These boards will help to establish a culture of excellence in our acquisition career fields and DoD-wide standards for our key leaders.

We are also taking steps to better define the qualification requirements for all our acquisition specialties. These qualifications will rely more heavily on specific hands on work experience than we've had in the past. Finally we have taken steps to more fully recognize and

reward our top performers. At my level this includes spotlight awards as well as our standard periodic awards. We are making a particular effort to recognize the contributions of teams as well as individuals and to recognize exceptional performance in the full range of defense acquisition activities. Recognition is key to growth and incentivizing our workforce to push themselves further. Without our *people,* the Department of Defense would not be able to procure and field next generation capabilities that keep us ahead of potential adversaries.

I am increasingly concerned about the adverse effect budgetary uncertainty and precipitous cuts mandated through sequestration have on our workforce. There is a culture in the Pentagon and the military that getting the job done is what matters. We do not have a workforce of "clock-watchers." Instead, the professional men and women that comprise our military and civilian workforce worry about getting the job done: whatever it may take and however long they may have to work, because our nation's security depends on their efforts. However, continued budgetary uncertainty coupled with years of pay freezes and last summer's unavoidable sequestration related furloughs, has taken a toll on the overall morale of our workforce. I am deeply concerned that if we are unable to achieve and maintain budget stability, we will demoralize our workforce even further and erode the cadre of acquisition professionals that we have worked hard to recruit, train and retain.

Relatedly, in the coming years, the Department faces challenges of a graying workforce. This is particularly prominent within the acquisition community, where seasoned and experienced Program Executive Officers (PEOs) and Program Managers (PMs) are retiring in record numbers and newly-hired junior members of the workforce are not yet properly trained and qualified to take on the roles of PEOs and PMs. This will result in a "bathtub" effect for the readiness of the workforce for 2020-2030.

Right now 21,000 members of our workforce are eligible for retirement, and 25,000 more soon will be. Those approaching retirement represent 50% of our workforce. Behind them – "the bathtub" – the mid-career workforce with low year groups – represent only 22% of our workforce – they were largely hired during the significant downsizing efforts in the 1990s. We must learn from the 1990s and be strategic now, even in a period of downsizing. Investing in our future leaders is essential for acquisition success.

A final area of concern is what I call the "revolving door." Defense acquisition requires expertise in design and engineering, contract management, logistics, the sciences and other highly-technical professional fields. Recruiting essential talent from industry requires a significant easing of limitations on the revolving door between industry and government. Similarly, allowing government civilians to work in industry as part of their career broadening experience will promote greater integration between both public and private sectors. To allow for greater flexibility between government and industry workforce exchanges, legislative changes may be required.

I am focused on doing everything I can to promote the professional development of the total acquisition workforce. Over the past four years, we have been able to build our workforce utilizing the Acquisition Workforce Development Fund, but the underlying concern remains: budgetary instability will result in decreased morale and lack of critical skill retention – skills that we may not be able to recover.

If there is one legacy I would like to leave behind it is a stronger and more professional defense acquisition workforce than the one I inherited from my predecessors. The tide would seem to be against me because of events like pay freezes, sequestration, furloughs, shutdowns, and workforce reductions- all brought about by the current budget climate. However, if there is one thing that has impressed me during my 40 plus years in defense acquisition, most of it in government, it is the dedication, positive attitude, resilience, and desire to serve the taxpayer and our servicemen and women well that characterizes this country's acquisition professionals. We all owe a lot to these people and they, together with our industry partners, are the reason we currently have the best-equipped military in the world.

2. Measuring Performance and the Impact of Improvement Initiatives

I believe strongly in the use of data to support decisions. Historically, we have not tried to measure the impact of acquisition policies or to track the performance of acquisition organizations. We are making progress at measuring and understanding our performance. Last year I published the first edition of the "Annual Report on the Performance of the Defense Acquisition System." The next report should be published shortly. Each year we will try to expand the data set with relevant information about all aspects of defense acquisition performance. We will also add analysis that will help us understand the root causes of good and poor results and that correlates the results we are seeing with our policies. We need to make decisions and track our performance via data and robust analysis, not anecdote or opinion. It isn't always easy to look in the mirror, and some government institutions or industry firms may not like what the report reveals, but the road to improvement has to begin with an understanding of where the problems lie.

Overall, the first annual report gives us an initial historical baseline of cost, schedule, and technical performance against which we can compare recent results and set improvement objectives. This gives us both a sense of what the Department normally can achieve (i.e., the central tendency across multiple programs) and how varied our performance tends to be (i.e., the number and range of outliers). While we will never be able to eliminate cost or schedule growth entirely, these measures challenge us to improve both the norm while understanding and reducing the high outliers.

Our analysis of the data shows that we have more work to do in aligning profitability with performance. This year's Annual Report on the Performance of the Acquisition System will provide the data. In most cases we get it right – good performance leads to higher profits

and poor performance leads to lower profits. In some cases, however there is no discernable impact of performance on margins, and in a few cases profit actually moves in the opposite direction from performance. In addition to getting the correlation right we also need to make the correlation stronger and to tie increased rewards to real accomplishments. We want win-win business deals, but we aren't always obtaining them. As this work moves forward, my greatest challenge is identifying the relationships between the factors the Department can affect-policies, contract terms, incentives, workforce skills-and the outcomes I am trying to achieve. These analyses are essential steps in that process.

Information Technology Acquisition:

One area we are heavily focused on is improving outcomes with information technology (IT) acquisitions. We are evolving our approach to IT acquisition, which in some form is a part of virtually every program the Department acquires. Consistent with Section 804 of the FY2010 NDAA, DoDI 5000.02 includes guidance to adopt a modular, open-systems methodology with heavy emphasis on "design for change" in order to adapt to changing circumstances consistent with commercial agile methodologies.

To acquire IT successfully, one must start with well-defined requirements (or capabilities.) The Department has worked to condense timelines, increase collaboration between communities, and improve processes to deliver the right capabilities to the warfighter in operationally relevant timelines. The Chairman of the Joint Chiefs has modified the Department's Joint Capability Integration Development System (JCIDS) by instituting a major change for Information System (IS) requirements development that introduces the "Information Technology (IT) Box," enabling the delegation of authorities to specifically support the more rapid timelines necessary for IT capabilities through the Defense Acquisition System processes. The four sides of the "IT Box" include the organization that will provide oversight and management of the product; the capabilities required; the cost for application and system development; and the costs for sustainment and operations.

Finding the expertise and skill sets required to develop and acquire capabilities for IT, particularly business systems, is a challenge for the Department. We are working to address the IT workforce issues. We established a Functional area for IT acquisition that includes the appropriate IT acquisition training into the Defense Acquisition University training curriculum. I will continue to work closely with the Department's Chief Information Officer (DoD CIO) to implement IT Policy including the transition to the Joint Information Enterprise architecture and standards and with the Department's Chief Management Officer (DCMO) to execute to the Business Enterprise Architecture. The Department recognizes the distinct challenges associated with acquiring IT capabilities and we are taking proactive steps to improve our processes to manage these programs for them. I am currently very focused on improving the acquisition of Defense Business Systems, most of which I had until recently delegated to the DCMO as acquisition Milestone Decision Authority.

Concerns Looking Forward

1. INEFFICIENCY CAUSED BY BUDGET UNCERTAINTY AND TURMOIL

All of our efforts to improve acquisition outcomes are efforts to swim against the current of inefficiency caused by constant budget uncertainty and turmoil. As Secretary Hagel made clear when he testified about our budget submission, we have to restore balance to the Department. Until that occurs we will be underfunding readiness and modernization. This means that development programs will be stretched out inefficiently and that production rates will be well below optimal for many programs. All of this is hugely inefficient. The uncertainty about whether or not sequestration will be imposed makes it impossible to determine where the balance between force structure, readiness and modernization lies. In this environment the tendency is to hang on to assets that the Department may not ultimately be able to afford. As Secretary Hagel has indicated, we need a certain level of funding to sustain the force that is necessary to execute our national security strategy and we need to remove the threat of sequestration so that our planning can be on a sound basis.

2. BUDGET CUT IMPACTS ON THE INDUSTRIAL BASE

I am concerned about the health of the industrial base as we continue to experience an uncertain budget climate. The Department continues to make this issue a top priority; at the most senior level, the Deputy's Management Action Group has met to specifically review industrial base budget implications and the Deputy and Secretary have taken action to ensure that we are doing everything possible to protect the critical companies and personnel that make up this important part of what I consider our "total force structure." We are in the process of losing 10s of thousands of engineers and skilled production workers from our industrial base.

3. EROSION OF TECHNOLOGICAL SUPERIORITY DUE TO CUTS IN RESEARCH AND DEVELOPMENT

Over the past several decades, the United States and our allies have enjoyed a military capability advantage over any potential adversary. During Operation Desert Storm in 1991 we demonstrated how the impact of U.S. technological superiority, in the form of technologies such as precision weapons, stealth, wide area surveillance, and networked forces, led to a dominant U.S. military capability. That was over twenty years ago.

Today we are seeing that other nations' advances in technologies, designed to counter this US overmatch, are bearing fruit. This is true in areas like electronic warfare, air-to-air missiles, radio frequency and optical systems operating in non-conventional bandwidths, counter-space capabilities, longer range and more accurate ballistic and cruise missiles with sophisticated seekers, improved undersea warfare capabilities, as well as in cyber and information operations. While the US still has significant military advantages, US superiority in some key warfare domains is at risk.

I believe that it is essential for us to remember three facts about research and development investments. *First, our technological superiority is not assured.* It takes active investments in both government and industry to keep our critical capabilities superior to those of potential adversaries. I believe we have come to assume technological superiority is a given; it is not. *Second, research and development is not a variable cost.* The number of items we would like to procure or the size of our force has nothing to do with how much research and development we should fund. It takes as much research and development to buy one production asset as it does to buy 1000s. Despite this fact we have a tendency to cut research and development proportionately to other budget accounts that do represent variable costs. *Third, time is not a recoverable asset.* It takes a certain amount of time to develop a new weapon system. Once that time is lost it can never be recovered. Today the Department of Defense is being challenged for technological superiority in ways I have not seen for many years. Our ability within the Department to respond to that challenge is severely limited by the current budget situation. While we try to resolve the issue of the future size of the Department, so we can plan effectively and execute our budgets efficiently, we are losing time, an asset that we can never recover.

LEGISLATIVE INITIATIVE

In the process of re-writing the Department's document that governs the acquisition process, DoDI 5000.02, one fact became strikingly apparent to me: our system, over time, has accumulated levels of unnecessary statutory and regulatory complexity that is imposed on our program managers and other professionals. The page after page of DODI 5000.02 tables listing these requirements made it clear to me that simplification is needed. The layers of well-intended statutory requirements and piles of regulation make the task of managing an acquisition program harder than it needs to be.

The Department is currently in the process of comprehensively reviewing such statutes and regulations and developing legislative proposals to simplify the existing body of law while maintaining the overarching intent – in essence simplifying the existing structure without sacrificing the underlying intentions. The DoD team, led by Mr. Andrew Hunter, is working closely with Congressional leadership and staff on this project. We realize that our goal is shared with the Congress, particularly the two defense authorization committees, and appreciate the bipartisan support we have received for this project.

The main body of work is scheduled to be finalized in time for congressional review and inclusion in the Fiscal Year 2016 National Defense Authorization Act. We also anticipate submitting some proposals based on our early insights to inform the proposed Fiscal Year 2015 National Defense Authorization Act. Potential candidates for FY15 include: an alternative Milestone B certification for preliminary design review programs where no technology development is required, streamlining Clinger-Cohen Act compliance reviews for programs

undergoing acquisition program reviews, and eliminating duplicative system sustainment plans among others.

Conclusion.

I want to thank this Committee for its continuing support over the years. Legislation such as the Defense Acquisition Workforce Development Fund and the Weapons Systems Acquisition Reform Act have been valuable and important contributors to improved defense acquisition outcomes. I believe that steps like these, plus the various measures that Dr. Carter and I initiated under the first iteration of Better Buying Power, and that I have expanded upon and continued are in fact making a difference. I believe the evidence supports the assertion that we are making progress. Equally clearly, however, there is still ample room for improvement and much more hard work for us all to do.