Statement of Moshe Schwartz
Senior Fellow, National Defense Industrial Association
Hearing of the Readiness Subcommittee of the Senate Armed Services Committee on
The Defense Acquisition System

March 20, 2024

Chairwoman Hirono, Ranking Member Sullivan, members of the subcommittee, thank you for inviting me to discuss the defense acquisition system. The views expressed below are my own and are not necessarily those of the National Defense Industrial Association.

Our defense acquisition system takes too long to deliver capability, costs more than it should, and often does not access or fails to adopt the most cutting-edge capabilities industry has to offer. In addition, our defense industrial base is shrinking. These are serious problems. In this testimony I would like to make five points.

(1) Workforce is the key to successful acquisition.
Better acquisition cannot be achieved through multiple audits, more regulation, or legislative fiat. Rather, giving a few capable people the authority to do their job, putting them in positions to succeed, holding them accountable, and minimizing red tape is the recipe for better acquisition. But that is not what we do. Instead of empowering people to take responsibility and make good management decisions that will deliver better systems faster, we measure them on compliance and process.

In 2021, a GAO report found that the six agencies reviewed—including the Department of Defense—all relied "primarily on process-oriented metrics…when managing their procurement organizations.[1]" In other words, compliance took precedence over common sense; process was more important than performance. If we empower the workforce and focus on outcomes, we can hold people accountable. As one Program Executive Officer said when expressing frustration over the multiple layers of approval processes: I was hired to make decisions. If you don't like my decisions, fire me, but let me do my job.

As part of empowering the workforce, we should simplify the approval processes. For example, there are a variety of statutes and regulations that focus on supply chains and the industrial base that are all written just a little differently, without any discernable policy reason for doing so. The exceptions are different, the waiver standards are different, and the officials who can approve a waiver are different. Often, the official with the authority is so senior that the approval process is very time-consuming. Such convoluted requirements add bureaucracy, increase costs, delay delivery, and increase confusion as to who makes what decisions.

---

[1] Government Accountability Office, *Federal Contracting: Senior Leaders Should Use Leading Companies' Key Practices to Improve Performance*, July 27, 2021.

(2) We need to streamline the acquisition rules and regulations.
There are just too many acquisition rules, and the rules are overly complicated. In a recent poll conducted by NDIA, companies were asked "What is the most pressing issue facing the defense industrial base?" Thirty percent of those polled cited the burden of the acquisition process and paperwork, which ranked higher than concerns over budget stability, workforce, inflation, or any other issue. Respondents also indicated that it is much more difficult to do business with DoD than with other agencies. Specifically, 18 percent of respondents said it was "very difficult" to do business with DoD, compared with 10 percent for other government agencies and 8 percent for nongovernment agencies. These regulations are driving some businesses to leave the defense industrial base and others not to enter in the first place.[2]

Commercial companies seeking to enter the defense market must ensure that their supply chains, software and hardware content, sourcing, cybersecurity, accounting systems, and pay scale meet unique DoD and government-wide requirements. Conforming to these requirements can be time-consuming and require significant up-front investment. Streamlining the procurement process and making it easier to work with DoD is critical. When acquisition processes that are not overburdened by regulation have been used, such as Other Transaction Authority, the results have generally been positive. Some of these government-unique regulations also drive up the cost of goods and services.

Some will argue that streamlining is code for repealing necessary oversight. On the contrary. Done right, streamlining will increase accountability by clarifying lines of authority, as well as shortening timelines and improving outcomes, without undermining oversight. This is the approach industry takes: fewer regulations, more consistently applied, by an empowered workforce.

We should encourage using commercial buying processes. We should look at the thresholds, such as the Simplified Acquisition and Certified Cost and Pricing thresholds, to ensure that the cost and delay of imposing the requirements on relatively lower dollar thresholds do not outweigh the potential savings these requirements could generate. We should take a holistic approach to oversight, ensuring that regulations aimed at solving specific problems don't have unintended consequences to the overall acquisition system that cause more harm than good. Excessive regulation prevents DoD from deploying capabilities faster, accessing more advanced capability, and maintaining a vibrant defense industrial base.

(3) DoD needs to modernize its IT systems and improve its use of data.

---

[2] National Defense Industry Association, *Vital Signs 2023: Posturing the U.S. Defense Industrial Base for Great Power Competition*, February 2023.

Deputy Secretary of Defense Hicks called data "a strategic asset" that "is essential to preserving military advantage.[3]" Data analytics can improve all aspects of procurement, from estimating costs and fostering more competition, to writing contracts and implementing predictive maintenance. The data managed by DoD's IT systems too often are insecure, unreliable, and incomplete. Many IT systems are unable to transfer data or communicate with other systems, preventing data sharing within the organizations. DoD's IT and business systems are hampering its ability to leverage data and need to be modernized.

- First, DoD is using too many outdated systems. A recent IG report found that DoD plans to spend more than $725 million in the next four years on systems that the Comptroller's office stated "can and should" be retired.[4] And that is only for financial systems.

- Second, DoD faces cultural and bureaucratic challenges in adopting modern IT systems, as exhibited in the stalled effort to replace the Defense Travel System with a modern and proven commercial IT solution. Successful IT modernization requires a culture change in the Department.

Until these twin challenges are solved, DoD will not have the secure, reliable, and complete data sets that are a prerequisite for realizing the promise of AI: AI is only as good as the data it is fed. DoD is working hard to improve its data architecture. Just a few weeks ago, the Defense Logistics Agency awarded a contract to adopt commercial supply chain and business network capabilities to help identify contractors and drive efficiency. Such efforts can dramatically improve acquisition. DLA's effort is a positive step, but more—substantially more—needs to be done.

(4) Operations and maintenance matter.
Sometimes, our focus on the procurement of a weapon system, and on driving down early procurement costs, has negative long-term effects. Seventy percent of the life-cycle cost of weapon systems is operations and maintenance, yet we are not investing in them sufficiently. This trend is significantly hurting readiness.[5] Investing more in the system acquisition phase to improve maintainability, and in the operations and support phase through initiatives such as predictive maintenance, will result in long-term cost savings and increased readiness. It is cheaper to maintain weapon systems that we already have than to buy more systems to make up for readiness gaps that arise from inadequate maintenance.

(5) We can be smarter in helping small businesses.

---

[3] Office of the Deputy Secretary of Defense, "Memorandum on Creating Data Advantage," May 5, 2021.
[4] Department of Defense, Office of Inspector General, *Audit of the DoD's Plans to Address Longstanding Issues with Outdated Financial Management Systems*, January 19, 2024.
[5] Defense One, *Fewer Than 1/3 of Navy's Amphibious Ships Are Ready to Deploy*, March, 2023; Government Accountability Office, *MILITARY READINESS: Improvement in Some Areas, but Sustainment and Other Challenges Persist*, May 2, 2023.

The federal government's small business strategy dates back to 1953, when President Dwight D. Eisenhower signed the Small Business Act, which established the Small Business Administration. Both Congress and President Eisenhower recognized the need to give small businesses a fair opportunity to compete for government contracts. As a former General, Eisenhower also had personal experience that reinforced the importance of small businesses to national security. DoD has significantly benefited from its small business efforts. However, even though DoD consistently meets its small business targets, the number of small businesses working with DoD is declining. The targets and set-asides are often an end in themselves rather than a catalyst for expanding small business participation or identifying critical capabilities.

DoD and Congress can take other approaches to expand small business participation. For example, small businesses generally do not have the resources to build or maintain Secure Compartment Information Facilities, creating a barrier to entry. Allowing businesses to access underutilized SCIF space—or establishing new SCIFs in excess GSA facilities—could help small and other businesses, increase competition, and provide new capabilities to the Department.

Thank you for the opportunity to share these thoughts. I look forward to your questions.