

**RECORD VERSION**

Testimony Statement of  
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*Current State of Defense Acquisition and Associated Reforms*

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Chairman McCain, Ranking Member Reed, distinguished members of the Committee, thank you for the opportunity to testify today on defense acquisition and reform efforts. I am pleased to be joined today by Secretary Esper, Secretary Wilson, and Assistant Secretary Geurts.

Our Nation's security is underpinned by the quality of the men and women who serve in our Armed Forces, and it is our collective responsibility - the Department leadership working closely with the Congress - to ensure the superiority of the weapon systems that our men and women in uniform train and deploy with as they conduct the business of our Nation around the world. Too, in the course of developing and fielding these weapon systems, it is our responsibility to uphold the highest standards of efficiency and effectiveness as we commit the resources entrusted to us by the taxpayer.

Arguably, the weapon systems that the Department delivers to the warfighter today are the finest in the world. Inarguably, however, the current pace at which we develop advanced capability is being eclipsed by those nations that pose the greatest threat to our security, seriously eroding our measure of overmatch. Additionally, the increasing cost of our major weapon systems has placed at risk our ability to acquire and sustain these systems at the level required by our fighting forces.

The National Defense Authorization Acts (NDAA) for Fiscal Years (FY) 2016 and 2017 have provided the direction and the tools for the Department to reverse these trends; specifically, to advance the capabilities required to restore our overmatch, speed the rate at which we field these advanced capabilities, and improve the overall affordability of our fighting forces' weapon systems. Secretary Mattis has placed priority on implementing these provisions alongside other Department-wide reforms and practices required to improve the lethality and readiness of our military.

As reported to Congress in August, 2017, the Department is moving forward with restructuring the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) (USD(AT&L)) to form the two new Under Secretary offices for (Acquisition and Sustainment (A&S)) and (Research and Engineering (R&E)). We are currently conducting the detailed planning necessary to ensure that the roles and responsibilities of the two Under Secretaries have been clearly delineated and that personnel and processes are aligned to ensure that the objectives of the reorganization are met.

As described in detail in the report to Congress, the new USD(R&E) will set the technology strategy for the Department, solve our critical technical warfighting challenges, retire risk and speed the development of our most advanced capabilities through increased prototyping, experimentation, and exploitation of technologies made available through non-traditional sources. The new USD(A&S) will focus on improving the affordability and timely delivery of

Defense procurement through the life cycle of our weapon systems, serve as principal advisor to the Secretary and the Services on acquisition policy and its execution, provide a joint, cross-domain view to ensure the integration and interoperability of the Department's high end capabilities, and guide related investment decisions. Pending the series of Senate confirmations for the principals to be assigned to the new organization, we are on schedule to stand up USD(R&E) and USD(A&S) on February 1, 2018.

This reorganization, the most significant change to Defense Acquisition since the Goldwater-Nichols Act, must be accomplished in-stride as we continue to execute the vast array of developmental activities, service contracts, and Major Defense Acquisition Programs that comprise the \$300 billion annual investment portfolio that is aligned under the current USD(AT&L) organization. Accordingly, we will be deliberate in ensuring clear accountability as we transition from the current to the future organization.

In advance of formally standing up the new organization, the Department has commenced implementing processes which support the intent of the reorganization within the Department's fiscal year 2019 budget deliberations. In particular, the Department is shaping its modernization strategy in the future years defense program consistent with the same objectives Congress envisions for the new USD(R&E). We look forward to discussing these modernization initiatives and the accompanying prototyping and experimentation efforts that will speed their development in conjunction with the submission of the FY2019 budget.

Beyond the reorganization, however, there are significant new authorities and tools provided by Congress aimed at improving the way we do business, which need to be placed into policy and practice across the Department. In total, 139 provisions supporting acquisition reform efforts have been enacted across the FY2016 and FY2017 NDAs. Of these, the Department's implementation is nearly 50% complete. Across the board, the Department is revising the DoD 5000 Instruction series governing the Defense Acquisition System, issuing new instructions for the acquisition of Business Systems and services, and initiating Defense Federal Acquisition Regulation System cases to codify the new rules, in accordance with governing authorities provided by Congress. Commensurate with these changes, the Defense Acquisition University is updating its instructional materials to ensure the prevailing policies are embedded in the practices of our acquisition leaders and program managers. I have placed priority on working closely with Service Secretaries and their Acquisition Executives to accelerate completing the implementation of these provisions to ensure that the Department reaps the benefits they offer to Defense Acquisition as soon as possible.

An important example is the "Designation of Milestone Decision Authority" provided by Section 825 of the FY2016 NDAA, which delegates decision-making from OSD to the Services. I have completed my review of MDA designation for the current 87 Major Defense Acquisition

Programs and have issued further delegation such that the Service Acquisition Executives hold authority for 73 of these programs. I will continue to review these programs and work towards further delegation, as appropriate, to meet the objectives of establishing greater accountability and improving the timeline and affordability of our most critical defense programs. I intend to ensure similar progress on the equally important Sections 804 and 806 of the same Act, to provide the Services the authorities they need to press forward with their rapid prototyping and fielding initiatives. I look forward to updating the Committee of progress in these areas in the weeks ahead.

Consistent with this emphasis on placing decision authority for major programs in the hands of the leadership that will be accountable for their execution, I have placed priority across the Defense Acquisition System on reducing the time required to award contracts once the requisite funds are authorized and appropriated by Congress. Having reviewed data measuring the typical lead time following validation of a warfighter requirement until awarding the resulting major weapon systems contract, I've concluded that we have the ability to reduce this procurement lead time by as much as 50 percent; significantly reducing our costs while accelerating our timelines for fielding major capability. I have initiated six pilot programs that push the limits on our contracting agility to demonstrate our ability to responsibly reduce this procurement lead time with the intent of implementing the lessons learned from these pilot projects at scale across Defense contracting. I look forward to sharing these results and further recommendations with Congress as we proceed.

As well, we are building on the initial success of earlier reform initiatives. For example, the Department requested and Congress provided authority to conduct a pilot effort to acquire innovative commercial items, technologies, and services using other than traditional transaction authority. The associated Commercial Solutions Opening (CSO) process piloted by the Defense Innovation Unit Experimental (DIUx) is a merit-based process that enables the Department to rapidly acquire promising innovative commercial technologies using non-traditional contracting tools. Since implementation, DIUx has awarded 61 such transactions totaling \$145 million, averaging only 78 days from initial contact with the company to signing an agreement. More recently, they awarded the Department's first two 'other transaction' production contracts which, with a combined ceiling over \$1 billion, will enable the Services to more broadly leverage these new authorities provided by Congress.

Key to our success, as we implement the broad scope of reform initiatives, are the strength of the acquisition work force that will employ the new acquisition tools and processes, and the strength of our industrial base, which will ultimately develop and produce the capabilities needed by our military.

As the USD(AT&L), one of my top priorities is to improve our competitive posture as we seek to attract, train, and retain talented leaders uniquely skilled in the complex business of defense acquisition. With the help of Congress, the Department has made significant progress in rebuilding the acquisition workforce and invigorating the science and technology workforce. The Defense Acquisition Workforce Development Fund (DAWDF) provided by Congress, and related special hiring authorities for the Science and Technology Reinvention Laboratories, have been particularly critical to the Department's efforts to rebuild its technical workforce, strengthen early and mid-career year groups, improve certification and education levels, and expand participation in the contribution-based Acquisition Demonstration (AcqDemo) personnel management system. I thank the Committee for making DAWDF permanent and extending AcqDemo until 2023 as part of the FY2018 NDAA, and I'm committed to continue working with the Committee to ensure the success of the AcqDemo initiative with a vision of making AcqDemo permanent in the future.

The nation's ability to maintain technological superiority and prevail in a sustained conflict is predicated on a robust industrial base. In July 2017 the President directed the Department, in collaboration with other Agencies, to assess and strengthen the manufacturing and Defense industrial base. We are working on this assessment and will share our policy, legislative, regulatory, and investment recommendations to improve the competitiveness of our industrial base, reduce risks to its viability, and to improve the resiliency of our supply chain after full review by the Administration in 2018. Similarly, the Department is assessing reform and expansion of authorities of the Committee on Foreign Investment in the United States (CFIUS) and Foreign Investment Risk Review Modernization Act legislation to protect critical defense technology. We look forward to working with Congress on these and related measures necessary to protect critical defense technologies placed at risk by foreign competition, global business dynamics, and cyber threats.

At the same time, however, Congress has provided broad authorities and tools to expand our sources of supply beyond the traditional defense industrial base to leverage the innovation and competitive potential offered by commercial technologies and small businesses. Though we are yet in the early stages of implementing the range of tools provided for this purpose, I am committed to accelerating their practice throughout the Department and will keep the Committee apprised of our progress with these important initiatives.

Looking ahead, the Department is carefully reviewing the acquisition reform provisions in the FY2018 NDAA that is pending signature by the President. Once enacted, I will move out quickly with the Services to ensure the effective implementation of those provisions affecting the Defense acquisition system. In parallel, we are continuing to work across the Department and alongside what is commonly referred to as the Section 809 panel, to identify further opportunities to streamline acquisition regulations. I am meeting regularly with the Service leadership and the

panel leaders on these initiatives and look forward to bringing recommendations forward to Congress in 2018 in support of the FY2019 NDAA.

As USD(AT&L) completes its reorganization, we are reforming the Defense Acquisition System to create an agile acquisition enterprise that acquires and fields products and services that provide significant increases in mission capability and operational support in the most cost-efficient, timely manner possible. This reorganization, and the associated reform effort, is a continuing process requiring close partnership across the Department, and with the Congress, to refine and improve the Defense acquisition system.

You have my total commitment to the success of that partnership. Thank you for your support in this significant effort. I look forward to answering your questions.