

**Statement before the Senate Committee on Homeland
Security and Governmental Affairs
Subcommittee on Federal Financial Management,
Government Information,
Federal Services and International Security**

***“ADDRESSING DOD’S SYSTEMIC ACQUISITION
FAILURES”***

A Statement by

Clark Murdock, Ph.D.

Senior Adviser

Center for Strategic and International Studies (CSIS)

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Mr. Chairman, I commend the Subcommittee for addressing the systemic crisis in how the Department of Defense acquires major weapons systems. I also commend the GAO for its substantial and superb analysis of this vexing problem over the past decade, because it has been instrumental in documenting that the persistent and growing failures in defense acquisition have reached crisis proportions. Adding to the urgency is the prospect of an era of flat, if not declining, defense budgets which ensures that the true cost of a poorly performing acquisition system will be military capabilities that the nation needs but DoD can not afford. I thank the Subcommittee for the opportunity to express my views on why so many DoD weapons programs experience cost overruns, schedule delays and, in some cases, performance shortfalls and to suggest some potential legislative solutions.

Nature of the Problem (briefly stated)

Defense Department acquisition processes cannot be examined in isolation from the “front-end” capability requirements determination process that addresses the issue of what to acquire, and the “back-end” resource allocation process that provides funding for acquisition programs. Instability in how requirements are defined, often referred to as “requirements creep,” and in how programs are funded undeniably make it difficult, and sometimes impossible, for acquisition program managers to make trade-offs among performance, cost and schedule.

That having been said, the defense acquisition system is incredibly complex, process-centric and risk-averse. The Defense Science Board Task Board charged with assessing the implications of the illegal actions of the former Air Force Principal Deputy Assistant Secretary Darleen Druyun concluded that today’s acquisition process was “an extremely complex system requiring many inputs from many organizations with many people who can say ‘no’ but few who can say ‘yes.’” In fact, the “diffusion of authority” was so great that it “enables those who master the system to gain power” and to abuse it, despite the “excessive amount of resources...devoted to thwarting or uncovering relatively rare cases of fraud and abuse.”¹ Ironically, the very complexity of the process enabled the very thing it was intended to prevent: the abuse of power by a corrupt official.

Exacerbating the effects of too much bureaucracy is the widespread loss of competency in DoD’s acquisition workforce, which has been reflected in an increased dependency on contractors for staffing (e.g., contractors comprise about two thirds of OSD-AT&L’s 1,500 personnel) and acquisition program management (see the rise and, hopefully, the fall of the Lead Systems Integrator). As the number of major defense acquisition programs has declined in the post-Cold War era, an increased rate of protests by losers in the competition is to be expected since the stakes for each competition are higher. However, the higher rate of successful protests suggests the DoD is the “gang that couldn’t shoot straight” with the most vivid example being Boeing’s

¹ *Report of the Defense Science Board Task Force on Management Oversight in Acquisition Organizations* (March 2005), Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, p. 3.

successful protest of the Air Force's decision on the replacement to the KC-135 tanker. If there was ever a source selection process that DoD had to get right, it was this one. Nevertheless, GAO's upholding of the decision was a "slam dunk."

The underlying incentive structure for defense acquisition is profoundly dysfunctional. "Structural optimism" is the euphemism given to a system that causes all the actors to "lie" by over-promising (with respect to performance and technological maturity) and under-estimating (with respect to cost and schedule) in order to get their program's "nose into the tent." The lack of realism – "faster, better, cheaper" is an unachievable oxymoron in defense acquisition – and the lack of accountability is pervasive. The repeated failure of previous reforms efforts underscores the enduring strength of this dysfunctional incentive structure. An experienced participant-observer once stated in Pogo-like fashion: "We have the acquisition system we want and we deserve."

The Goal (briefly stated)

- A defense acquisition process characterized by accountability and realism:
 - Accountability of institutions, decision makers and program managers
 - Realism in cost, schedule and performance goals
 - Based on realistic assessments of technological maturity
 - Enables competent and informed management of risk
 - Proposed initiatives to be implemented via both DoD directives and legislative action
 - Greater transparency to Congressional oversight needed to promote accountability in DoD

Predicated on the Following Assumptions about "Big A" Processes

In a previous report on defense reform, I stated plainly: "*only the Combatant Commanders have operational requirements; joint capability requirements, both near- and far-term, must drive DoD resource allocation and acquisition policies and decisions.*"² Although the U.S. military fights as a joint team, the Military Services still have great influence over the decisions over what to buy for that joint team, in part because of their Title 10 "force provider" responsibilities to "organize, train and equip" forces and in part because of the centrality of their role in DoD resource allocation process (the DoD budget is comprised of program submissions from the force providers). While it is true that the Office of the Secretary of Defense (OSD) provides front-end guidance to Program Objective Memorandums (POMs) submitted by the Military Services, defense agencies and Special Operations Command (SOCOM), it is usually provided too late in

² Clark A. Murdock and Michele A. Flournoy (July 2005), *Beyond Goldwater-Nichols: U.S. Government and Defense Reform for a New Strategic Era Phase 2 Report*, Washington, DC (CSIS), p. 78.

the process and is cost-unconstrained.³ Nevertheless, significant progress has been made during the Bush Administration in strengthening the joint perspective in defining military requirements. While the Joint Staff-installed (in 2003) Joint Capabilities Integration and Development System (JCIDS) is very labor-intensive and needs to be streamlined, the role of the Combatant Commands (COCOMs) has been enhanced in a process that “validates” only joint (and no longer Service) capability needs statements which is required for any major acquisition program. My “Back-to-the-Future” recommendation that responsibility for managing and executing be returned to the Service Chiefs assumes that the recent trend towards greater jointness in defining capability requirements continues. This will reduce the risk of a return to the pre-Goldwater-Nichols, pre-Packard Commission days when the Military Services acquired capabilities that met their own parochial visions for how they want to operate, rather than meet the joint capability requirements of the COCOMs. However, it is my judgment that the need to fix defense acquisition is so urgent that it cannot wait until jointness dominates the requirements generation process to same degree it does in the operational realm.

DoD’s appetite for acquisition programs has always exceeded its budget – a former senior-level official in the comptroller’s office once told me that “his job was to cram as much program as possible into the budget” – because the Pentagon’s strategy for getting more dollars from Congress was not served by killing inadequately-funded program (another dysfunctional incentive). The lack of discipline in DoD resource allocation appears to be growing, in part because DoD has been using wartime supplementals to fund acquisition programs that would normally be part of the baseline budget (e.g., over 40% of the Army’s peacetime budget is now funded through supplementals). Defense budget expert Steve Koziak from the Center for Strategic and Budgetary Assessments recently stated that it would take \$30 billion more per year (assuming costs goals are met) over the next the five years (bringing the base budget to \$560 billion per year in 2009 dollars) and then sustained at that level to 2025 to fully fund the current defense plan.⁴ Under Secretary for Defense (AT&L) stated last August he wanted to “properly price programs” (since underfunded programs are “walking wounded and waiting to be cost-growth problems and failures”) and was encouraging program managers to submit fully funded budget requests since he was prepared for a FY2010 POM process that would “create budget pressures to squeeze programs out of the budget.”⁵ While I applaud (and endorse) Secretary Young’s call for a fully-funded DoD acquisition program, the defense budget crisis facing the next Secretary of Defense is so great and the tendency of the Pentagon to kill no program before it absolutely has to is so pervasive that inadequately-funded acquisition programs will continue to negate the effects of defense acquisition reform, including the implementation of those offered here.

³ The Aldridge task force, which Secretary Donald H. Rumsfeld commissioned to examine how DoD develops, resources and provides joint capabilities, estimated that fully funding recent Defense Planning Guidances would have required between 1.3 and 1.8 times the funds available.

⁴ *Inside the Pentagon* (September 11, 2008), p. 25.

⁵ *Ibid* (April 24, 2008), pgs. 5-6.

A Proposed Package of Interrelated Reforms

The intent of the first two initiatives is to simplify and clarify responsibility and accountability for acquisition management and to rebuild acquisition competence in the Military Services. The third proposal aims to both empower Program Managers and to hold them accountable. The fourth initiative seeks greater realism in cost, technological and performance estimates by increasing transparency and providing for tougher Congressional oversight.

1. Restore the Service Chief's authority and responsibility for the management and execution of acquisition programs.
 - Supported by both the 2005 DSB Transformation Study and DAPA
 - By re-establishing the Systems Command (see #2) in the Army, Navy and Air Force with the Systems Command 4-star report to the Service Chief and Department Secretary, who will serve as the Department's Service Acquisition Executive (SAE)
 - Service Secretary cannot delegate SAE function to the Secretary's Assistant Secretary for Acquisition, who would serve only as an adviser to the Department Secretary
 - In this model, the Service Chief (who reports to the Department Secretary) would have responsibility for (and be held accountable for) balancing and integrating resource allocation and acquisition.
 - Recognizes growing reality of Service work-arounds (via dual-hatting and the reporting chain for fitness reports) that undermine the authority of the civilian Assistant Secretaries
 - Responsibility for determining requirements, however, continues to migrate to COCOM-centric joint requirements process
 - Chain of Command:
 - PM/PEO -> System Command 4-star -> Service Chief -> Service Secretary (SAE) -> Under Secretary for AT&L (the Defense Acquisition Executive or DAE)
 - Would limit OSD (AT&L)'s role to acquisition policy formulation, oversight and milestone decisions for key (as determined by the Secretary of Defense) major programs
 - This "Back to the Future" proposal makes the uniformed military (that is, the System Command) responsible for acquisition, not the civilian ASD
 - Recognizes reality that the uniformed military is much better (although hardly perfect) on accountability issues than political appointees and civilian deputies

- Uniform PMs, PEOs and System Command would have career civilian deputies to provide expertise and continuity
2. Establish in each Military Service an acquisition career track headed by a 4-star (a 3-star in the case of the Marines) with sufficient officer billets to ensure a sufficient cadre of “Acquisition General Officers) to man that Service’s share of joint acquisition billets and provide 1-star and 2-star PMs for major acquisition billets in the 4-star Systems Command (see #1)
 - Strengthen service program management expertise by mandatory experience and educational requirements tied to promotion
 - In order to be a “smart customer,” Military Services need professional Acquisition Officers (albeit with operational experience) at PM, PEO and 4-star levels, not operators with little or no acquisition experience
 - Separate career tracks for Military Services and joint acquisition (SOCOM, Defense Agencies, TBD), but with lots of commonality and jointness in PME and leadership development programs
 - Recognizes reality that DoD cannot afford a large uniformed acquisition workforce
 - Acquisition-support FFRDCs such as Mitre provide useful support but do not supplant the need for smart, experienced Acquisition flag officers
 - To reduce the need for LSIs and to manage an acquisition work force heavily reliant on civilian professionals and contractors, each Military Service needs a smaller, thoroughly professional acquisition force, with a broad enough base of experience (including sufficient O-6 and O-6 billets) to support the cadre of Acquisition GOs.
 3. Establish an acquisition process that has shorter, more frequent program phases and align (and make mandatory) the PM’s 3-to-5 year duty tours with those phases
 - PMs would participate in formulating the objectives for each program phase and then held accountable for the achievement of those objectives
 - An illustrative 7-milestone option:⁶
 - Milestone 0 – Develop/approve mission need statement
 - Milestone 1 – Develop/approve capability need statement
 - Milestone 2 – Develop/assess Technology (including maturity)
 - Milestone 3 – Systems Definition & Preliminary Design

⁶ In the illustrative example, a PM’s tour could be for Milestone 0-1, 2-4 or 3-5. As called for by FY08 Defense Authorization Act, GAO is already assessing the utility of this proposal.

- Point at which requirements definition ends and acquisition ends
 - “Spiral” or “evolutionary” development between Milestone B and Milestone C of leads to “requirements creep” based upon immature technologies
 - Milestone 4 – Final Design, Production Prototyping & Testing
 - Milestone 5 – Start Limited Production and Field Testing
 - Milestone 6 – Start Full Rate Production
 - It’s block production (the F-16 model), not spiral development
 - At the outset of each phase, the Service Systems Command (under the supervision of the Service Chief and Secretary) must certify (after auditing progress) program status to the Under Secretary (AT&L) **and** to Congress and set the standards (including cost, schedule and technical performance) that an incoming PM “accepts” as the performance metrics for which he/she will be held accountable
 - Linking PM tenure, Milestone decisions and Department Certification (see #4) should empower PMs and hold them accountable for managing acquisition programs through one or two Milestone decisions
- 4. Establish independent assessment offices in OSD and the Military Services that report both to DoD and the Congress and toughen enforcement through tough, no-waiver mechanisms (“Nunn-McCurdy on steroids”)⁷
 - Ensure transparency and accountability in acquisition management by mandating that the Systems Command must certify to OSD and the Congress after each Milestone Decision (as opposed to current certification requirements for Milestone B) the status of the program at the current Milestone and the standards (to include cost, schedule, technological maturity and performance) needed to pass the next Milestone
 - Establish (and resource adequately) an Office of Independent Assessments (OIA) in OSD and each of the Military Departments to provide DoD and the Congress with independent assessments of cost, technological maturity and performance
 - Replaces OSD-PA&E’s Cost Analysis Improvement Group (CAIG), which has performed well but it is under-resourced, and Office of Testing & Evaluation (OT&E), which operates erratically and is routinely ignored
 - Will enable PMs to make cost-schedule-performance trade-offs on the basis of “good numbers” that are transparent to all

⁷ Comparable organizations need to be created for the defense agencies and commands (such as SOCOM) that have budgetary and acquisition authority and responsibility.

- Protects PM against “requirements creep” via changing weapon systems performance standards
- Creating independent assessments offices who “work” for both OSD and Congress may seem draconian, but the “structural optimism” of the current incentive structure is so ingrained that strong structural mechanisms are needed
- Reinforce the independent assessment process by strengthening Congressional oversight of the SecDef waiver authority and the mandatory penalties
 - Cost growth penalized through mandated re-statement of performance metrics, reduced buy, significant financial penalties on companies, and, if large enough, program cancellation
 - Linking OIA process with SecDef exercise of his waiver authority (for programs in breach of Nunn-McCurdy or assessed to have immature technology) will bring greater transparency and accountability to SecDef use of this authority and will raise the political costs of routinely exercising it

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