

TESTIMONY

OF

THE HONORABLE JAMES I. FINLEY

DEPUTY UNDER SECRETARY OF DEFENSE

(ACQUISITION AND TECHNOLOGY)

BEFORE

THE UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

AND

SUBCOMMITTEE ON NATIONAL SECURITY AND FOREIGN AFFAIRS

April 29, 2008

STATEMENT

Chairman Waxman, Congressman Davis, Subcommittee Chairman Tierney, Congressman Shays and distinguished members of the Committee on Oversight and Government Reform and the Subcommittee on National Security and Foreign Affairs, I am pleased to come before you today to address the broad trends, incentives, and challenges present in the Defense Department's current acquisition system for major weapon programs. I will also discuss the report recently issued by the GAO entitled "Defense Acquisitions, Assessments of Selected Weapon Programs". I am fully committed to Acquisition Excellence and the restoration of the confidence in our leadership for our acquisition system. Thank you for the opportunity to appear before you in today's hearing.

The history of acquisition reform for the Department of Defense (DoD) covers over 60 years. The most recent two decades of reform and transformation are often times referred back to the Packard Commission in 1986. The Gold-Water Nichols Act of 1986, the Acquisition Streamline Act of 1994, the Clinger-Cohen Act of 1996 and Intelligence Reform and Terrorism Prevention Act of 2004 all addressed improvements for our Acquisition System. The most recent studies of the Defense Acquisition

Performance Assessment (DAPA), Center for Strategic and International Studies (CSIS) and Defense Science Board (DSB) served to assist my preparation for confirmation by the Senate in February 2006.

My perspectives, coming from industry with over 30 years of experience in Aerospace and Defense, have been shaped utilizing that experience along with the acquisition reform and transformation initiatives, especially the most recent studies. At the time of my confirmation hearing, the consensus seemed to be that the DoD acquisition process (DoD 5000.2) was broken. As a back drop to my confirmation, my position had not been filled for some time and there were several vacancies in my direct reports. That too was considered, by many, as broken. We quickly moved to recruit and fill the vacancies with civilians with significant military and industry experience that had a passion to serve our Country. We eliminated a layer of management to tighten communications. We aligned the organization for accountability and improved efficiency of our workforce within AT&L, OSD, the Joint Staff and the Components.

After my first 90 days in office where I listened, discussed and reflected on the leadership perspectives of Industry, Congress and DoD military and civilian personnel, my opinion was that the acquisition process was NOT broken. We needed to add discipline into the process and ensure

that “the basic blocking and tackling” in executing the acquisition process was being done correctly. We also needed properly scale and tailor processes where and when needed, to implement changes that streamlined and simplified processes, to reduce our cycle times, to increase our competition and to broaden our communications – up, down, across and within Congress, Industry, Academia and our Coalition Partners and especially within our DoD. We developed a three year plan, established our vision and strategy, and implemented goals and initiatives with a sense of urgency. Today, we are twenty-six months into implementing that plan.

TRENDS

We utilized the 2006 Quadrennial Defense Review as a strategic framework to enable aggressive initiatives in support of the most recent studies – DAPA, CSIS and DSB. Those reports represent collectively, fifty-five unique recommendations for acquisition reform. Of those fifty-five recommendations, forty-eight have been implemented fully or partially. Our trends and strategic direction are aligned with Mr. Young’s vision and strategic thrust areas:

- to define effective and affordable tools for the Joint Warfighter,
- to responsibly spend every single tax dollar,
- to take care of our people, and

- to address the DoD transformation priorities with a sense of urgency.

We are striving for acquisition excellence with a broad set of objectives by using short and long term initiatives. These objectives include balancing the trade space, getting programs started right, improving process efficiency, and providing program stability.

- Balancing the Trade Space

Examples of initiatives that enable decision making to balance the trade space focus on affordability and schedule. Concept Decision and Time-Defined Acquisition were QDR initiatives that were successfully piloted utilizing four, diverse programs ranging from traditional platforms, to information management programs, to special programs, to systems-of-systems programs. These programs each represented unique challenges to attempt to shorten cycle time, to make earlier investment decisions, to make strategic choices with debate and differences vetted between the Component, Joint and OSD organizations. We have emphasized the utilization of incremental vs. “big bang” acquisition strategies. Tradeoff decisions were bounded with the convergence of affordability, technical performance and time-certainty.

- Starting Programs Right

Examples of initiatives that enable starting programs right focus on improved, up front planning and awareness of risk. Increased focus on Milestone A and the Utilization of Prototyping.

The Joint Light Tactical Vehicle (JLTV) Program and Broad Area Maritime Surveillance (BAMS) Program are examples of increased focus on Milestone A and utilizing prototyping in preparation for Milestone B decision making. Prototyping provides insight for performance, cost, manufacturability, integration and testing. Design reviews, drawing releases, bills of material, assembly documentation and basis for cost and schedule estimates, from components to systems are enabled utilizing early and competitive prototyping.

- Continuously Improve Process Efficiency

Examples of initiatives that continuously improve process efficiency are focused on tailored, agile, open and transparent communications with checks and balances. Lean Six Sigma, Restructured Executive Reviews, implementation of Configuration Steering Boards, integrating Development Test (DT) and Operational Test (OT), System Assurance, Risk Management and Utilization of

Common Data have been implemented. These initiatives are applied to all MDAP programs.

Executive Reviews were reengineered to reduce the support documentation by half, to focus on decision making and to standardize and simplify Red, Yellow, Green indicators for cost, schedule and performance. Leading metrics were established and closure plans were required with 30/60/90 day horizons for known problems. The standard Systems Engineering likelihood vs. consequences methodology was implemented to address risks and associated mitigation plans. Continuous improvement has been utilized to incorporate quad charts for tracking Key Performance Parameters (KPP's), Cost Drivers, Technology Maturity Status and Acquisition Program Baseline performance for cost and schedule. Quarterly Triage is also conducted of all ACAT-1 Programs in the portfolio to provide a more in depth to identify troubled programs.

- Enable Program Stability

Examples of initiatives that enable program stability are the Configuration Steering Board, Program Management Tenure and Utilization of Capital Funding Accounts. Technology Readiness Level (TRL), Manufacturing Readiness Level (MRL), Integration

Readiness Level (IRL), Funding Stability, Earned Value Management Systems with Trip Wires, Earlier Integrated Baseline Reviews are initiatives that we are implementing. Trip Wires have been added as an additional metric for Earned Value Management Systems (EVMS).

The EVMS Trip Wires have provided excellent insight for trends and projections of planning execution in a variety of cost, schedule, and performance criteria on a monthly basis utilizing EVMS as a management tool for decision making.

INCENTIVES

Incentives are very important for consideration when establishing the acquisition strategy for programs. The program manager, systems engineer and contract manager work as a team to understand the challenges, opportunities and risk in a program. Risk management has become an increasingly important factor for managing large, complex programs.

Contracting terms and conditions for large programs have shifted over the past couple decades due to increased technical complexity and associated cost and schedule impacts. Accordingly, DoD has shifted from the fixed firm price environments to the fixed price incentive and cost plus award/incentive fee structures to motivate and encourage industry performance.

Every weapon system is planned to meet cost, schedule and performance requirements. Providing incentives to industry should motivate and encourage achievement of those requirements. Our objective is to utilize objective criteria, whenever possible, to measure contract performance where incentive structures are utilized.

CHALLENGES

One of the challenges facing our Department of Defense is the career planning for our acquisition workforce. As Mr. John Young stated at the 2007 USD (AT&L) Development Award Presentation, “The AT&L team must continue the legacy we have inherited – a legacy of providing unmatched weapons technology that has assured the security and freedom of our Nation”. With a workforce of over 128,000 members, comprised of military and civilian personnel from across all of the DoD Services and Agencies, we are serving to sustain our world-class mission for the defense of our national security on a global scale. We are actively working to assure our workforce continues to meet that mission.

GAO REPORT 08-467SP

ASSESSMENTS OF SELECTED WEAPON SYSTEMS

A comprehensive analysis of the GAO Report has not been completed. However, we are developing questions to better understand the relevance, usefulness and credibility of many of the methodologies and conclusions presented in the report.

For example, our initial perspectives of five conclusions provided in the GAO Summary page are summarized as follows:

- The opening statement, “Of the 72 programs, none proceeded through System Development meeting best practices....”.

That statement is not understood. The utilization of best practices and Lean Six Sigma are embraced and practiced throughout the Department of Defense and in particular the Acquisition Community for continuous process improvement. Improvements are well documented and demonstrated on such programs such as the F/A 18 engine overhaul and repair at NAS Lemoore, CA that substantially reduced overhaul and repair time.

- The statement, “The absence of wide-spread adoption of knowledge-based acquisition [GAO] processes ... major contributor...lack of maturity”.

That statement is not understood. DoD knowledge based decision making may not utilize the GAO process; however, the acquisition system (DoD 5000.2) utilizes extensive sources of knowledge and expertise to make decisions with a variety of methodologies.

- The statement, “63% of the programs had changed requirements once system development began...”

That statistic may be true but the conclusion reflects a naivety about derived requirements, management of necessary change tradeoffs for cost, schedule and performance during system development.

- The statement, “Average tenure to date of program managers has been less than half of that called for by DoD policy”.

The comparison may be true; however, the data is based on benchmarks over five years old and may only be a “snap shot” of time. For example, if the program manager comes in for a two year assignment and that data was taken at month three,

then the tenure may only reflect three months vs. twenty four months planned. Program manager tenure agreements have been established with all the Services, have been a fundamental change in our Acquisition Excellence initiatives for tenure agreements with four year goals and correlated to major milestones. The actual average tenure of program managers today, across all Services is 23.8 months with an expected tenure of 42 months, average.

- The statement, "...roughly half the programs that provided GAO data experienced more than a 25 percent increase in the expected lines of software code since starting their respective system development programs".

The statistic may be true. However, the benchmarks date back five years. There is also a lack of insight as to the cause of code change, for example poor estimating or legitimate requirement changes. The demand for software is growing exponentially with ever increasing complexity. Software Engineering has been elevated to the Senior Executive Service level. Software training is being added as a core competency in Acquisition Workforce and industry/government relationships have been

established with senior executive participation for software continuous improvement. Our data reflects the cost per line of code has dropped as productivity has increased over past decade. We do not have a sense of comfort, in that regard, and continue to increase the technical rigor and management focus of software and its role our weapon systems.

We look forward to working with the GAO to better understand their data, methodologies and conclusions.

SUMMARY

In summary, measurable progress for acquisition excellence has been accomplished. Much work remains to be done. A plan for that work has been established.

Chairman Waxman, Congressman Davis, Subcommittee Chairman Tierney, Congressman Shays and distinguished members of the Committee and Subcommittee, I am pleased to address any questions that you may have for me. Thank you.