

Testimony

of

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before the

House Committee on Oversight and Government Reform and  
National Security and Foreign Affairs Subcommittee  
Hearing on “Oversight of Defense Department Acquisitions”

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713 words; 5 minutes

## **OUTLINE**

### **THANK YOU FOR THE OPPORTUNITY TO RESPOND TO GAO CONCERNS**

- Thank you for the opportunity to discuss the DoD acquisition process, and respond to your concerns regarding the GAO report.
- Appreciate mutually beneficial relationship of GAO and OUDC for the benefit of the American taxpayer
- Appreciate Congress' continuing frustration with one of government's oldest problems.

### **ESTABLISHING A STABLE BUDGET ENVIRONMENT / CAPITAL FUNDING**

- Acquisition studies show key elements of successful programs are program stability and funding predictability.
- Several initiatives have been co-sponsored by AT&L and OUSDC to address the problem – most notably, Capital Accounts Pilot Program
- Guaranteeing stable funding for a fixed period of time avoids program changes that derail schedules and increase costs.
- Capital Accounts concept is being formalized in three pilot programs; Combat Search and Rescue Helicopter, Joint High Speed Sealift Vessel, General Funds Enterprise Business System.
- Program qualifications

### **ADMINISTRATION HAS MADE FINANCIAL EFFICIENCY A PRIORITY**

- In 2001, critics predicted DoD would not be able to turn around its complex financial operations.
- Today, the Department has made substantial progress toward achieving a clean opinion, eliminating weaknesses, lowering costs, increasing productivity, and saving the taxpayers billions.
- Whether it is financial management or acquisition or anything else, the Department is committed to financial efficiency.

## Thank you for the opportunity to respond to GAO concerns

- Chairman Waxman, Congressman Davis;  
Subcommittee Chairman Tierney, Congressman Shays;  
Distinguished members of the Committee and Subcommittee,  
thank you for the opportunity to discuss the Department of Defense's  
current acquisition process for major weapons systems,  
and other concerns arising from the Government Accountability Office's  
recent report on this issue.
- First, let me make clear that we appreciate the mutually beneficial  
relationship the Office of the Under Secretary of Defense-Comptroller  
shares with the GAO as we strive to ensure that the American taxpayer  
is well served.
- We also appreciate Congress' frustration with what is, quite literally, one  
of the oldest problems in government. General George Washington was  
the first, I believe, to complain about the ineffective response to his  
request for cannon castings – and we've been trying to improve the  
process for acquiring weapons ever since.

## Establishing a Stable Budget Environment

- In the more than 130 acquisition studies, reviews, and evaluations that have been conducted over the past two decades, most – if not all – of them found that the key elements in successful programs are program stability and funding predictability.
- Instability drives cost growth, schedule slippages and, in some cases, failure of the weapons system to perform as anticipated.
- Several initiatives have been co-sponsored by the Under Secretaries of Acquisition, Technology and Logistics and Comptroller to address this problem, but, from a Comptroller perspective, the most notable is the Capital Funding Pilot Program.
- Under the capital funding concept, the Department guarantees a certain level of funding for a fixed period of time – from Milestone B, the beginning of the System Development and Demonstration, to Initial Operating Capability of the program. Funding is then held constant, by avoiding up or down adjustments until the project is delivered.

- When industry and program managers know that annual program funding will be provided at a predictable level, other aspects of the program – such as unfunded performance or requirements changes – are not allowed, thus increasing the probability that the program will be delivered on schedule and within budget.
- To qualify for capital funding, a program:
  - Must have well understood funding profiles from Milestone B (SDD) to Initial Operation Capability;
  - Will not be used as bill payers by the Services or DoD;
  - Will provide bi-annual reports to Congress on cost schedule and performance progress;
  - Will have a Technology Readiness Level of at least six at Milestone B (SDD);
  - Will be a “time-definite” program.
  - Finally, capital funding programs will be cancelled if they fail to meet established cost, schedule and performance objectives three reviews in a row.

- The capital funding concept is being formalized in three pilot programs:
  - the Combat Search and Rescue Helicopter (Air Force) as soon as there is a program of record;
  - the Joint High Speed Sealift Vessel (Army/Navy);
  - the **General Funds Enterprise Business System** (Army).
- Because these initiatives are within the Department's current authorities, they can be implemented in the near term.

## **Administration Has Made Financial Efficiency a Priority**

- Finally, Mr. Chairman, I would offer that this administration has made solid financial management a serious and successful priority; without sound financial management, successful acquisition program management is far less likely.
- In 2001, critics predicted that the Department would not be able to turn around its complex financial management operations. Today, the Department is:
  - Poised to achieve a clean audit opinion in 2009 on more than two-thirds or \$2.4 trillion of its assets and liabilities – an extraordinary achievement;

- We're on track to eliminate the remaining 18 of the original 116 managers' internal control weaknesses;
- And we are lowering costs, increasing productivity, and saving the taxpayers billions of dollars.
  - The Defense Finance and Accounting Service alone has increased productivity by 52 percent, saving \$317 million since 2001; and
  - Audits conducted by the Defense Contract Audit Agency (DCAA) on FY 07 contracts not only saved the Department \$2.4 billion, but armed investigators with information that recovered an additional \$225 million.
- Those are just a few of the areas where we have made progress since 2001.
- Mr. Chairman, whether its sound financial management or providing the American Taxpayer with the most effective weapons system acquisition process, the Department of Defense is absolutely committed to the wise and efficient management of resources. The American people deserve nothing less.
- Mr. Chairman, I'm happy to take your questions.