

Testimony of

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(Acquisition & Technology),**



**Hearing of the
U.S. House Armed Services Committee**

on

**“Accountability During Contingency Operations: Preventing and
Fighting Corruption in Contracting and Establishing and Maintaining
Appropriate Controls on Materiel”**

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Chairman Skelton, Representative Hunter, distinguished members of the House Armed Services Committee, thank you for the opportunity to discuss Department of Defense initiatives in the area of Contracting Integrity. Contracting Integrity is a topic that we always consider to be of key importance. Integrity in all endeavors, including our contracting functions, is a core value of the Department of Defense.

I am Shay Assad and I serve as the Director, Defense Procurement and Acquisition Policy, in the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. Before assuming this position in April 2006, I was the Assistant Deputy Commandant, Installations and Logistics (Contracts) for the Marine Corps and, as such, served as the senior civilian contracting official within the Marine Corps.

Prior to Government service, I spent 25 years in industry serving in a number of operational and contract management capacities, primarily with Raytheon Company. My experience includes serving as a Senior Vice President of Contracts, a President and Chief Operating Officer of one of Raytheon's major subsidiaries and lastly, as an Executive Vice President of the company and the Chairman and Chief Executive Officer of one of its major subsidiaries. I am a graduate of the United States Naval Academy, and I started my career as an officer in the United States Navy serving two tours on U.S. Navy destroyers and lastly as a Navy Procurement Officer at the Naval Sea Systems Command.

Thank you for the opportunity to appear before you today to participate in today's discussion on contracting integrity. I would like to take a moment to thank the committee for its support of our troops and all you have done to help with their mission. I would also like to thank the men and women who serve our great country. When I say men and women, I mean our military service men and women, our government civilian employees and those in industry who support our mission. None of us could get the job done without the other.

The Department of Defense (DoD) acquisition team strives to provide our warfighters the support they need, consistent with responsible management and stewardship to our taxpayers. We strive to effect timely acquisition planning, contract execution and responsible contract management oversight in order to provide our warfighters the contractor support they need to accomplish the mission. We are doing everything it takes to make sure our soldiers, marines, airmen and sailors are provided with the safest, most dependable, and highest performing equipment available within fiscal constraints, together with the logistics and material support necessary to ensure performance whenever, and wherever they are needed. We will continue to work everyday to improve the service that we provide our men and women in the Armed Forces.

In recent years, the Department of Defense (DoD) has increasingly relied on supplies and services provided by the private sector under contract. The Government Accountability Office (GAO) reports that, since fiscal year 2000, the

value of DOD's contracts has nearly doubled, and this trend is expected to continue. In fiscal year 2006 alone, DOD obligated over \$300 billion on contracts for goods and services to become the largest purchasing organization in the world. Given the magnitude of the dollar amounts involved, it is essential that DOD acquisitions be handled efficiently, effectively, and with integrity. In other words, DOD needs to ensure that it buys the right things, the right way.

In your invitation to appear before this Subcommittee you stated that you were interested in hearing what DoD is doing to prevent and fight corruption in contracting. The Department has and is taking several steps to eliminate these matters:

Panel on Contracting Integrity: On February 16, 2007, the Under Secretary of Defense (Acquisition, Technology & Logistics) (USD(AT&L)) established the Panel on Contracting Integrity in accordance with the requirements of Section 813 of the Fiscal Year 2007 National Defense Authorization Act. Although the statute provides a sunset date of 2009 for the Panel, the Department intends to continue the Panel as a matter of policy.

As required by section 813, the Panel is conducting a review of the progress made by the DoD to eliminate areas of vulnerability that allow fraud, waste, and abuse to occur. USD(AT&L) designated the Deputy Under Secretary of Defense (Acquisition Technology) (DUSD(AT&L)) as the Panel Chairman, and me, the

Director, Defense Procurement and Acquisition Policy (DPAP), as the Executive Director for the Panel. To date, the Panel has established eight DOD-wide subcommittees focusing largely on areas of vulnerability identified by GAO. Each of these DoD-wide subcommittees is chaired by the senior procurement executive of one of the military departments or a defense agency, including the Army, Navy, Air Force, Defense Logistics Agency, Defense Contract Audit Agency, Defense Acquisition University, and our Office of the General Counsel.

The focus areas of the subcommittees are: Current Structure of Contracting Integrity; Sustained Senior Leadership; Capable Contracting Workforce; Adequate Pricing; Appropriate Contracting Approaches and Techniques; Sufficient Contract Surveillance; Contracting Integrity in a Combat/Contingent Environment; and Recommendations for Change. As a starting point, the Panel reviewed the requirements of Section 813, the findings and 20 recommendations provided in the March 2005 Report of the Defense Science Board, the recommendations of the GAO Report GAO-06-838R, "Contract Management: DoD Vulnerabilities to Contracting Fraud, Waste and Abuse," dated July 7, 2006; and the recommended best practices from the year-long Acquisition Integrity Analysis, prescribed by USD(AT&L) on August 1, 2006. At the completion of this year's efforts, each of the Panel subcommittees will complete a formal report documenting their review of the Department's progress, with recommendations to ensure vulnerabilities in the contracting system are addressed.

The Panel has convened twice, once to initiate and task the subcommittees, and once to review subcommittee progress. The Panel has scheduled three more meetings in 2007, and plans to provide an initial report to Congress by December 31, 2007.

Senior Contracting Leadership Offsite: On May 10, 2007, the Director, DPAP, conducted an offsite for senior leaders of the contracting community. One of the focal points of the offsite was a discussion to highlight current issues relating to ethics in contracting and ensure that the leadership of the DoD Contracting Community was fully engaged in the activities of the Panel on Contracting Integrity.

Procurement Fraud Working Group: The Department established the DoD-wide Procurement Fraud Working Group in January 2005. The Working Group provides a forum for acquisition professionals to address contracting vulnerabilities. The Working Group began to conduct conferences in March 2005, and has conducted them annually since that time. The conferences provide an opportunity for sharing of best practices among acquisition professionals, and include group discussions, exercises in ethics problem solving and arriving at practical solutions to the contracting ethics problems encountered in the field. Membership and attendance includes primarily DoD attorneys, investigators and auditors. The Working Group meets monthly and attends the Department of

Justice Procurement Fraud Task Force meetings. A current goal of the Working Group is to obtain broader participation by the larger acquisition community.

Updated Acquisition Regulations Relating to Ethics. The Department has initiated several changes to the Federal Acquisition Regulation (FAR) to update the acquisition regulations pertaining to ethics in contracting. The Defense Acquisition Regulations (DAR) Council, in concert with Civilian Agency Acquisition Council, proposed an amendment to the FAR to address a Contractor Code of Ethics and Business Conduct and a requirement for contractors, and subcontractors, participating in contracts over a certain dollar threshold to post an Office of the Inspector General Fraud Hotline poster. The Councils published a proposed rule in February to obtain public comments, and the FAR Secretariat anticipates publication of a final rule by November 2007.

In addition, the DAR Council has initiated a proposed FAR revision to require contractors to establish and maintain internal controls to detect and prevent fraud in their contracts, and to notify contracting officers without delay whenever they become aware of contract fraud. This is a proposed revision that is still under consideration and development, and has not been published.

DOD will continue to work with the Office of Federal Procurement Policy to recommend changes to laws, regulations, and policy that would serve to clarify

or strengthen issues identified through the work of the Panel on Contracting Integrity.

Updated Ethics Training: The DoD Standards of Conduct Office updates the mandatory annual ethics training yearly to ensure that it is always current and relevant. The latest revisions, issued August 24, 2007, modify the curriculum to focus beyond a rote understanding of the law, regulations, and policy so that the updated version now contains presentations by the Office of General Counsel and interactive decision making exercises. The Department also provides on-line the “Employee’s Guide to the Standards of Conduct.”

In closing, I would like to emphasize that the Department views integrity in contracting as the most essential feature of our defense procurement system. We are taking a number of actions to ensure that we deal appropriately with any vulnerability in the contracting system to waste, fraud and abuse. We fully understand that the foundation of our ability to assure our taxpayers that we are being good stewards of their money is to ensure that the Department conducts business with integrity to acquire the supplies and services necessary to meet the needs of our warfighters.

We will not lose sight of the tenet that while we strive to provide our warfighters the very best, we must also ensure that we do so while being good

stewards of taxpayer funds. Our warfighters deserve nothing less and our taxpayers, rightfully, should insist on nothing less.

Mr. Chairman, I thank you and the members of the committee for your interest in our efforts, and would be happy to address any questions that you may have for me. Thank you.