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**JOINT HEARING ON OVERSIGHT
OF DEFENSE DEPARTMENT ACQUISITIONS**

Tuesday, April 29, 2008

House of Representatives,

Committee on Oversight and

Government Reform

joint with the

Subcommittee on National Security

and Foreign Affairs,

Committee on Oversight and

Government Reform,

Washington, D.C.

****Preliminary Transcript****

Committee Hearings

of the

U.S. HOUSE OF REPRESENTATIVES



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1 RPTS BINGHAM

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14 Washington, D.C.

15 The committees met, pursuant to call, at 10:04 a.m., in

16 Room 2154, Rayburn House Office Building, Hon. Henry A.

17 Waxman [chairman of the Committee on Oversight and Government

18 Reform] Presiding.

19 Present from Committee on Oversight and Government

20 Reform: Representatives Waxman, Cummings, Tierney, and

21 | Watson.

22 | Present from Subcommittee on National Security and
23 | Foreign Affairs: Davis of Virginia, Burton, Duncan, and
24 | Issa.

25 | Staff Present: Phil Barnett, Staff Director and Chief
26 | Counsel; David Rapallo, Chief Investigative Counsel; John
27 | Williams, Deputy Chief Investigative Counsel; Margaret Daum,
28 | Counsel; Earley Green, Chief Clerk; Caren Auchman, Press
29 | Assistant; Ella Hoffman, Press Assistant; William Ragland,
30 | Staff Assistant; Miriam Edelman, Staff Assistant; Sam
31 | Buffone, Staff Assistant; Dave Turk, Minority Staff Director,
32 | Subcommittee on National Security and Foreign Affairs; Andrew
33 | Su, Minority Professional Staff Member; and Davis Hake,
34 | Minority Subcommittee Clerk.

35 Chairman WAXMAN. The committee will come to order.
36 Today's hearing is this committee's tenth hearing in this
37 Congress on waste, fraud and abuse in the Federal Government.

38 The subject of today's hearing is weapons acquisitions
39 programs at the Department of Defense. This hearing was
40 suggested by Ranking Member Tom Davis, and I commend him for
41 his bipartisan leadership on this important issue.

42 We are holding this hearing for a simple reason:
43 Weapons programs at the Defense Department are one of the
44 biggest sources of wasteful spending in the Federal budget.
45 The Department of Defense will spend hundreds of billions of
46 dollars over the next 5 years buying weapons systems needed
47 for our Armed Forces. And no one questions the need to give
48 our troops the best possible equipment. But the American
49 taxpayers are footing the bill for these weapons programs and
50 no one seems to be looking out for their interests. Billions
51 of dollars have been squandered due to waste and
52 mismanagement at the Defense Department.

53 According to a recent report from the Government
54 Accountability Office, cost overruns in major weapons
55 acquisitions programs now reach nearly \$300 billion. At the
56 same time, delivery schedules are slipping. The GAO says
57 that delays of 2 years or more are the norm for weapons
58 systems. The contractors and senior defense officials say
59 that some cost increases and delays are inevitable given the

60 | complexity of building new weapons systems. I accept that.
61 | But that doesn't explain the persistent level of waste and
62 | mismanagement that GAO identifies.

63 | In 2001, a GAO report found pervasive problems in
64 | weapons systems acquisition, including poor planning,
65 | inadequate requirements, unrealistic cost estimates, and the
66 | use of high-risk acquisition strategies.

67 | Today, 7 years after that report was written, GAO says
68 | nothing has changed. There seems to be absolutely no
69 | accountability to the taxpayer. Despite report after report
70 | documenting mismanagement and weapons acquisition, nothing
71 | seems to improve. The contractors keep getting richer,
72 | senior Pentagon officials keep receiving lucrative job
73 | offers, and the taxpayer keeps getting stuck with the check.

74 | In preparation for this hearing, my staff examined in
75 | detail one of the weapons acquisition programs identified in
76 | the GAO report, the Marine Corps' Expeditionary Fighting
77 | Vehicle, the EFV. And I ask that the staff report on the EFV
78 | be included in today's Record.

79 | [The information follows:]

80 | ***** INSERT 1-1 *****

81 Mr. DAVIS OF VIRGINIA. Mr. Chairman, reserving the right
82 to object, as I mentioned, we requested this hearing with you
83 and you agreed to it. We are grateful for that. You and I
84 and the subcommittee Chairman and the Ranking Member signed
85 joint invitation letters to witnesses, asking them to be
86 prepared to testify about broad trends, incentives and
87 challenges present in the defense system's current
88 acquisition systems for major weapons programs.

89 The briefing memorandum to witnesses and to members
90 discussed only departmentwide problems and issues, not any
91 specific weapons system. So we were disappointed to learn
92 just late last evening about the decision to release a
93 majority staff report critical of one specific program: the
94 EFV, the Expeditionary Fighting Vehicle. And even if the EFV
95 is illustrative of some systematic flaw in the DOD
96 acquisition process, refocusing on that project at the last
97 minute does a disservice to our members and the witnesses.
98 It needlessly injects a "gotcha" element into what should be
99 a discussion of good government.

100 It was an unexpected and, frankly, an unnecessary
101 departure from the the wholly cooperative and bipartisan
102 approach leading up to this hearing. Had we had the
103 opportunity to review the EFV analysis, we might have been in
104 a position to agree it added a constructive case study around
105 which to build today's discussion, but we weren't given that

106 | opportunity. So under the circumstances I would object to
107 | the unanimous consent request to include the staff report in
108 | the record of today's hearing.

109 | Chairman WAXMAN. I thank the gentleman for his
110 | statement, and I regret his objection to the unanimous
111 | consent request. He has made some good points which we will
112 | take into consideration. And I won't, at this point, pursue
113 | the matter. But I think at some point in the committee
114 | hearing, we will make a motion to include this in the
115 | committee report, which would subject it to a vote, but I
116 | won't do it at this time.

117 | Mr. DAVIS OF VIRGINIA. And I will remain open to
118 | discussion with the Chairman on that.

119 | Chairman WAXMAN. Thank you very much. When the EFV
120 | program was launched in 1996, the goal was to build a new
121 | state-of-the-art amphibious tank for use by the Marines, but
122 | the program has been so badly mismanaged that the Defense
123 | Department now says they have decided to start the program
124 | over again essentially from square one.

125 | The story of the EFV acquisition is an embarrassment.
126 | Six years ago, Defense Department auditors called the project
127 | a paper dream and said management does not have a handle on
128 | reality. They pointed out elementary flaws in the Marine
129 | Corps acquisition strategy, such as the failure to set a
130 | realistic schedule, the reliance on an expensive test, fixed

131 test approach, and a lack of anyone with overall
132 responsibility for integrating the various components of the
133 project.

134 But when a second set of auditors looked at the program
135 4 years later, they told us they saw no improvement. They
136 found disarray, uncoordinated design decisions, reliability
137 issues and a general lack of planning and status monitoring.
138 A key milestone for the EFV occurred in 2006 when the vehicle
139 was subject to a battery of tests called an operational
140 assessment. The EFV failed miserably. The prototype
141 vehicles experienced over 600 breakdowns and could operate
142 for only 4 hours before requiring extensive maintenance.

143 We have obtained a copy of the report on the operational
144 assessment. The list of problems it describes is nearly
145 endless. The vehicles weighed too much. In the water, they
146 could reach cruising speeds only if the Marines on board left
147 their equipment behind. On land, the gun turret bent and
148 broke from the stress of cross-country movement. There was
149 poor crew visibility during water operations, and the
150 driver's vision was periodically washed out by water spray.
151 The ammunition feed jammed and crews were unable to identify
152 vehicle targets. The vehicles were so noisy that the Marines
153 on board had to wear both ear plugs and ear muffs and could
154 not respond to voice commands.

155 The contract with General Dynamics to develop the

156 prototype EFVs cost the taxpayers \$1.2 billion. But now this
157 investment is going to be scrapped.

158 Last year the Marine Corps announced that the EFVs
159 performed so poorly that the entire system development and
160 demonstration process would have to be redone. This means
161 additional cost to the taxpayer of nearly \$1 billion or more,
162 and at least 3 more years of delay.

163 While the project--and this is only one project we have
164 singled out--has been a fiasco for the taxpayer, there has
165 been at least one beneficiary, General Dynamics, the prime
166 contractor. The contract for building and testing the
167 prototype was a cost-plus contract, so the company got paid
168 even though the vehicle flunked its tests.

169 Incredibly, General Dynamics even received over \$60
170 million for its work on the development contract. What's
171 more, the Marine Corps says that General Dynamics will now
172 get the new contract for \$700 million to \$800 million to
173 build another prototype, while the signal it sends is
174 unmistakable: No matter how bad a job you do, there will be
175 no accountability.

176 As we will learn today, the EFV experience appears to be
177 the rule, not the exception. The GAO report that will be the
178 focus of our hearing today looked at 72 weapons programs now
179 underway at the Department. Not every program was as bad as
180 the EFV project, but not a single one had followed the best

181 | practices recommended by both GAO and the Department of
182 | Defense.

183 | We need to find a new and better way to procure weapons
184 | for our military. Every one on this committee wants our
185 | military to have the equipment it needs to protect our
186 | Nation. But we simply cannot afford to continue to waste
187 | hundreds of billions of dollars on poorly planned and
188 | mismanaged weapons programs. And I hope our witnesses today
189 | will be able to help you understand what has gone wrong in
190 | these programs and what steps can be taken to protect the
191 | interests of the American taxpayer.

192 | [Prepared statement of Mr. Waxman follows:]

193 | ***** INSERT 1-2 *****

194 Chairman WAXMAN. I want to recognize Mr. Davis for his
195 opening statement.

196 Mr. DAVIS OF VIRGINIA. Thank you, Mr. Chairman.
197 Chairman Waxman and Subcommittee Chairman Tierney, I want to
198 thank you for agreeing to our request to convene this hearing
199 on chronic and costly problems plaguing major weapons system
200 programs at the Department of Defense. This is critical
201 oversight that transcends party, as the challenges we will
202 discuss today have been faced in some form or another by
203 virtually every administration since the earliest days of our
204 Republic.

205 The recent report by the Government Accountability
206 Office on 72 large-scale acquisitions once again found most
207 programs' outcomes "sub-optimal." Apparently, that's
208 understated auditor shorthand for "incredibly bad." In the
209 aggregate, the systems analyzed exceeded original budget
210 targets by \$295 billion and were 21 months behind schedule.

211 This committee has spent substantial time and effort
212 probing allegations of malfeasance and wrongdoing by
213 contractors in Iraq and elsewhere. This GAO report reminds
214 us there are far larger problems on the other side of the
215 ledger, far from the war zone, where program managers
216 continually fail to follow established best practices to
217 measure the technical maturity and feasibility of these
218 complex projects.

219 To put these cost overruns in perspective: The \$295
220 billion in cumulative cost growth found by the Government
221 Accountability Office is more than 2,000 times the alleged
222 overage in the State Department's Baghdad Embassy project
223 which the committee continues to probe extensively. We
224 welcome sustained attention to deeply ingrained abuses and
225 inefficiencies in weapons system programs already budgeted to
226 costs many hundreds of billions of dollars.

227 As I have said, the problems cited by GAO--systemic
228 failures to refine requirements, acquire mature technologies,
229 and capture production efficiencies--are not new. In 1794,
230 Congress authorized construction of six frigates. In order
231 to "spread the work among the several States as equitably as
232 possible and with the greatest political advantage," six
233 private shipyards were leased to carry out the shipbuilding.
234 The project was soon behind schedule. The six keels were not
235 laid until the end of 1795, 17 months after construction had
236 been authorized. Subsequent mismanagement, delays and cost
237 overruns resulted in scaling back the ultimate requirements
238 to three frigates. Does any of this sound familiar?

239 From those frigates to the F-22, that has been the sad
240 history of weapons systems development throughout our
241 history. In the modern era, major system acquisition has
242 been on GAO's "high risk" list for many years because DOD
243 processes "have often proved costly and inefficient, if not

244 wasteful." In 1997, GAO found "many new weapons systems cost
245 more and do less than anticipated, and schedules are often
246 delayed."

247 To address these issues, the Pentagon has convened any
248 number of task forces, working groups, committees and
249 commissions, whose reports have resulted in sequential case
250 waves of promised reforms and layers of ambitious
251 initiatives. But, as cautious GAO auditors often conclude,
252 "Challenges remain." Perhaps that's because DOD reforms, as
253 well as congressional attempts to tame this inefficient
254 process, have focused too often on symptoms, while
255 overlooking the root causes of chronic dysfunction in major
256 system development projects.

257 This GAO report blames a lack of skilled managers,
258 overuse of contractor employees, and the tendency to
259 "gold-plate" new designs with immature technologies for cost,
260 performance and schedule problems. But we've known about
261 these issues in varying degrees for decades.

262 Today, we should look beyond the persistent symptoms to
263 the broader, deeply ingrained personnel and management
264 practices that can empower, or cripple, complex procurements
265 like these. Freed from the Cold War imperative to beat the
266 Soviets by rushing into high-risk production of new weapons
267 platforms, we now have the opportunity to retool the major
268 systems acquisition process. Technical knowledge and sound

269 management decisions should drive programs to key benchmarks,
270 not internal DOD budget duels or military service rivalries.

271 In this discussion, it has to be acknowledged these are
272 highly complex, large-scale, inherently risky programs.

273 Commercial and industrial best practices provide many
274 valuable lessons, but offer only limited wisdom about
275 packaging and projecting lethal technology across continents.

276 Very often this is rocket science, not an automobile
277 assembly line, and some measure of budgetary risk, even the
278 occasional failure, may be an unavoidable cost of doing this
279 aspect of the Nation's vital defense business.

280 This is a government problem. But the major defense
281 contractors can exploit the system's weakness as well. If
282 the Pentagon asks for a gold-plated flying Cadillac, that is
283 what contractors will bid on, even if both sides of the deal
284 know they are going to get much less that will end up costing
285 much more. Even companies that should know better play the
286 game.

287 The Boeing Corporation is the prime contractor on 16 of
288 the 72 major systems in which GAO found requirements creep,
289 schedule delays, or significant cost overruns.

290 Oversight like this, when consistent and constructive,
291 can help mitigate those inherent risks while modernizing and
292 improving major acquisitions at the Department of Defense and
293 throughout government. We appreciate the extensive body of

294 | work GAO has undertaken on this subject and we hope this will
295 | be the beginning of an extended, in-depth focus by the
296 | committee on these issues. Thank you.

297 | Chairman WAXMAN. Thank you very much, Mr. Davis.

298 | [Prepared statement of Mr. Davis of Virginia follows:]

299 | ***** INSERT 1-3 *****

300 Chairman WAXMAN. This is a joint hearing with the
301 Subcommittee of our committee on National Security and
302 Foreign Affairs, and I want to recognize the Chairman of that
303 Subcommittee, Mr. Tierney, for his opening statement.

304 Mr. TIERNEY. Thank you, Chairman Waxman and Ranking
305 Member Davis, both for scheduling the hearing and agreeing to
306 hold it with the subcommittee. The Government Accountability
307 Office's report--and, Mr. Sullivan I thank you and your
308 colleagues for it-- as the centerpiece of this hearing is
309 pretty striking and should be reason for concern by Congress
310 and the American people for at least two reasons:

311 First, the scope of the money that we are talking about
312 is immense. We currently spend as much as on military as
313 every other country in the world combined. Last year we
314 allocated 53 percent of all of our discretionary funding to
315 Defense, \$549 billion. And that doesn't even include the
316 \$115 billion as supplemental funding for the wars in Iraq and
317 Afghanistan.

318 As the Government Accountability Office points out, we
319 have \$1.6 trillion in total planned commitments for weapons,
320 and in 2007 the Pentagon exceeded original budget estimates
321 by \$295 billion.

322 Secondly, the Pentagon stewardship of our taxpayer money
323 seems to be getting worse. In 2000 the Pentagon exceeded
324 cost by \$42 billion. Now it is exceeded by \$295 billion. In

325 | 2000 original weapons cost grew by 6 percent. This year it
326 | was 26 percent in growth. In 2000 our average delays in
327 | delivering initial weapons capabilities were 16 months. Now
328 | it is almost 2 years. So today's hearing certainly asks the
329 | question whether we are being responsible to our taxpayers.

330 | In other words when it comes to developing and buying
331 | weapons, are we spending America's tax dollars wisely? On
332 | that front, the report raises many, many important questions.

333 | Why are things getting worse when it comes to cost overruns
334 | and delays, especially when the underlying problems have been
335 | known about for years and years? In other words, why can't
336 | we do better? Why has the Pentagon failed to meet
337 | industry-accepted best practices in any of the 72 programs
338 | surveyed by GAO?

339 | Why do we continually reward contractors, who now make
340 | up nearly half of the workforce on these weapons programs.
341 | When they apparently are not delivering on budget and on
342 | time?

343 | Is it unreasonable to ask that any proposed weapons
344 | systems have clear expectations, realistic technology, and
345 | appropriate testing? Why do we continue to buy before we
346 | fly? Tomorrow this subcommittee is going to hold its third
347 | hearing on the missile defense program, which I think
348 | exemplifies some of these issues very well. That is a
349 | decades-old program that has already cost taxpayers \$120 to

350 \$150 billion dollars. And according to the Congressional
351 Budget Office, it may cost an additional \$277 billion over
352 the next 20 years. It has been plagued by delays and cost
353 overruns and a lack of realistic testing. Yet we continue to
354 throw good money after bad.

355 Our core defense budget, that is the defense excluding
356 the hundreds of millions of dollars being funding for Iraq
357 and Afghanistan has grown by an average of 8 percent per year
358 over the last 8 years. As part of the problem here in terms
359 of cost overruns, the fact that we currently lack any
360 discipline or any budgetary pressures on the Defense budget
361 with these nearly double-digit yearly percentage budget
362 increases; is there any fiscal discipline being exerted to
363 hold down costs and to make difficult trade-offs between what
364 we really need and we can afford versus a system that gives
365 everybody what they want?

366 Where is the evidence that the Pentagon or this
367 administration has any broad strategy for identifying all of
368 the threats or risks to our security; that is, threats or
369 risks ranging from concerns of penetration of our seaports
370 all the way through acts of terror in foreign territories
371 that result in any prioritization of defenses to be engaged?

372 If it is clear that we have that kind of strategy, then
373 let's have the joint Chiefs of Staff in, Mr. Chairman and Mr.
374 Davis, and have them explain to the American people and show

375 | us how in fact there is any prioritization of weapons system
376 | production with those threats and the realistic likelihood of
377 | deployment against the United States.

378 | Further, let's see what the cost/benefit analysis is
379 | when you compare those weapons systems with the value of
380 | other defensive systems that could have been or are being
381 | employed, or the need to strengthen the core of this country;
382 | the physical infrastructure and human capital, for instance.

383 | One gets a sense from reading this Government
384 | Accountability Office report, and those that have preceded
385 | it, that the Pentagon is functioning as if the resources were
386 | unlimited and there are no competing demands existing.
387 | Moreover, as Defense Secretary Gates himself has repeatedly
388 | pointed out, national security in the 21st century must
389 | emphasize smart power as much as hard. He stated, and I
390 | quote him:

391 | "My message is that if we are to meet the very
392 | challenges around the world in the coming decades, this
393 | country must strengthen other reports of national power, both
394 | institutionally and financially, and create the capability to
395 | integrate and apply all of the elements of national power to
396 | problems and challenges abroad.

397 | At a time of economic hardship and these myriads of
398 | foreign challenges facing us, couldn't we find a better way
399 | to spend \$295 billion other than for weapons cost overruns?

400 Thank you, Mr. Chairman.

401 Chairman WAXMAN. Thank you Mr. Tierney.

402 [Prepared statement of Mr. Tierney follows:]

403 ***** INSERT 1-4 *****

404 Chairman WAXMAN. The Chair would like to recognize Mr.
405 Duncan for a statement.

406 Mr. DUNCAN. Well, thank you, Mr. Chairman. And I thank
407 you and Ranking Member Davis and subcommittee Chairman
408 Tierney for calling this very important hearing. When I read
409 the front-page story in the Washington Post on April 1st
410 concerning this situation, I was disgusted. But I am sad to
411 say that I doubt that anybody was very surprised by it,
412 although everyone should have been shocked by this story.

413 I want to put in the record a couple of paragraphs from
414 that story that said "Government auditors issued a scathing
415 review yesterday of dozens of the Pentagon's biggest weapons
416 systems, saying ships, aircraft and satellites are billions
417 of dollars over budget and years behind schedule. The
418 Government Accountability Office found that 95 major systems
419 have exceeded their original budgets by a total of \$295
420 billion, bringing their total cost to \$1.6 trillion and are
421 delivered almost 2 years late on average."

422 Apparently there are no fiscal conservatives at the
423 Pentagon. Apparently they believe that the Congress will
424 just keep giving them more money no matter how wasteful or
425 inefficient they become. Of course, the International Herald
426 Tribune said a few years ago--had a major article about the
427 revolving door at the Pentagon, and the fact that all the
428 defense contractors had hired, I think it was, 300 retired

429 admirals and generals over the previous 10 years so that most
430 of these contracts seemed to be sweetheart deals in the first
431 place.

432 But it is really shocking; \$1.6 trillion in total costs
433 and \$295 billion in cost overruns, and this was just on the
434 major systems. No telling how much has been wasted on the
435 hundreds of smaller contracts the Pentagon has; \$295 billion
436 would run the entire Government of the State of Tennessee,
437 our schools, our health care, roads, prisons, parks, and on
438 and on for the next 11 years.

439 Conservatives, above all, should realize that any
440 gigantic government bureaucracy is always going to ask for
441 more money and always find reasons to justify it. And
442 Congress is afraid to cut the Defense Department for fear of
443 being seen as unpatriotic. Yet it is a very false and very
444 blind patriotism that allows the Pentagon to continually
445 waste megabillions and allows the Defense Department to spend
446 like there's no tomorrow.

447 In a few short years we will not be able to pay all of
448 our veterans pensions and Social Security and all the other
449 things we promised our people if we do not bring spending
450 under some type of control. Conservatives, above all, should
451 realize, as Jonah Goldberg wrote in a recent issue of
452 National Review, that the insight that government abroad
453 fuels the expansion of the State was central to the formation

454 of the modern conservative and libertarian movements.

455 In other words, perpetual war leads to bigger government
456 and goes very much against traditional conservatism.

457 Finally, Mr. Chairman, I would just like to read
458 something that was in a column in the Washington Post
459 yesterday by Dov Zakheim and Ronald Kadish. They wrote this.

460 They said, "The GAO report lays bare a festering problem in
461 our Nation's military procurement system: Competition barely
462 exists in the defense industry and is growing weaker by the
463 day.

464 "It was a different story just two decades ago. In the
465 1980s, 20 or more prime contractors competed for most defense
466 contracts. Today, the Pentagon relies primarily on six major
467 contractors to build our Nation's aircraft, missiles, ships
468 and other weapons systems.

469 "It is a system that largely forgoes competition on
470 price, delivery and performance, and replaces it with a kind
471 of 'design bureau' competition, similar to what the Soviet
472 Union used--hardly a recipe for success."

473 I think this is a very sad situation that we have at the
474 Pentagon. And I suppose it will continue. But I certainly
475 am pleased that at least we are trying to do a little
476 something about it.

477 And I will ask, again, are there no fiscal conservatives
478 at the Pentagon? Thank you, Mr. Chairman.

479 Chairman WAXMAN. Thank you very much, Mr. Duncan.

480 [The information follows:]

481 ***** COMMITTEE INSERT *****

482 Chairman WAXMAN. Ms. Watson, did you have any comments?

483 Ms. WATSON. Thank you, Mr. Chairman. And I, too, want
484 to join my colleagues in reflecting on the findings of the
485 recent GAO report which I find very disturbing as well.

486 The report, as we know, found that the Defense
487 Department's 95 major weapons acquisition programs currently
488 exceed their original budgets by nearly \$300 billion and are,
489 on average, 21 months late in delivering these weapons
490 systems to warfighters.

491 The GAO report concludes that the current
492 underperformance must be rectified, particularly in light of
493 competing needs from other military and major
494 nondiscretionary programs. In a time of declining
495 discretionary spending, the fact that the DOD is not
496 receiving expected returns on large investments in weapons
497 systems has implications far beyond the DOD, where other
498 government agencies and departments are competing for
499 increasingly scarcer resources.

500 \$300 billion in excess spending on weapons systems is a
501 sizeable amount of money that could be put to use for many
502 other competing and worthy projects governmentwide. This is
503 particularly true in an age of declining discretionary
504 spending where every dollar not spent optimately translates
505 into less money available for other budget priorities, both
506 for domestic, entitlement, and other national security

507 | programs.

508 | Mr. Chairman, the GAO Report on Defense Acquisitions
509 | notes that DOD has begun to develop several initiatives to
510 | improve outcomes. But GAO notes that there also must be a
511 | change in the DOD culture that lead the military services to
512 | overpromise capabilities and underestimate costs in order to
513 | sell new programs.

514 | If the DOD's current culture remains in place, it will
515 | circumvent and I believe, ultimately, undermine any new
516 | systems that are put in place to improve outcomes. I am
517 | looking very forward to hearing from our witnesses to see if
518 | they can make some sense of this procedure.

519 | Thank you, Mr. Chairman.

520 | [The information follows:]

521 | ***** COMMITTEE INSERT *****

522 Chairman WAXMAN. I turn to Mr. Burton if he has an
523 opening statement.

524 Mr. BURTON. Mr. Chairman, I think the defense of the
525 Nation is one of the most important things that we are
526 charged with in our responsibilities as Congressmen. And we
527 want to make sure that we have the weapons and the ability
528 and the equipment necessary to preserve and protect and
529 defend this country.

530 I am a fiscal conservative, of course, and I want to
531 make sure there is no waste, fraud and abuse in the
532 Department of Defense, or at least we keep it to a minimum.
533 So I am anxious to hear our witnesses today and to question
534 them about this to see if there are ways we can economize and
535 cut out waste, fraud and abuse.

536 But at the same time, I think one of the things we ought
537 to keep paramount in our mind is that the defense of the
538 Nation is our number one consideration. And also we ought to
539 make sure that we don't waste any money in the process.
540 Thank you Mr. Chairman.

541 Chairman WAXMAN. Thank you, Mr. Burton.

542 [The information follows:]

543 ***** COMMITTEE INSERT *****

544 Chairman WAXMAN. Mr. Davis.

545 Mr. DAVIS OF VIRGINIA. Mr. Chairman, you had made a
546 unanimous consent request, and I had raised an objection. I
547 am prepared to withdraw my objection and make a unanimous
548 consent that the majority report on the Expeditionary
549 Fighting Vehicle and the GAO report on the Capitol Visitors
550 Center, just to show that Congress isn't always great when we
551 do our own procurements, that both of these be allowed to be
552 entered into the Record to show the systematic problems we
553 have throughout government.

554 Chairman WAXMAN. I think that is a reasonable request
555 and I will certainly go along with it. Any objection? If
556 not, then the unanimous consent agreement is ordered.

557 [The information follows:]

558 ***** INSERT 1-X *****

559 Chairman WAXMAN. Well, we are pleased to welcome
560 Michael J. Sullivan, Director of Acquisition and Sourcing
561 Management Division at the Government Accountability Office,
562 James Finley is the Deputy Undersecretary of Defense for
563 Acquisition and Technology at the Department of Defense. And
564 David Patterson, the Principal Deputy Undersecretary of
565 Defense for Comptroller at the Department of Defense.

566 We want to welcome all three of you to our hearing
567 today. It is the practice of this committee that all
568 witnesses testify under oath. So I would like to ask if you
569 would please stand and raise your right hand.

570 [Witnesses sworn.]

571 Chairman WAXMAN. The Record will indicate that each of
572 the witnesses answered in the affirmative.

573 We have your prepared statements, and they will be made
574 part of the Record in its entirety. We would like to ask, if
575 you would, to try to keep the oral presentation to around 5
576 minutes. We have a clock that will indicate green while the
577 5 minutes is going. The last minute will be yellow, and then
578 red when the 5 minutes has concluded.

579 Mr. Sullivan, there is a button on the base of the mike.
580 Be sure it is pressed in. And we want to hear from you
581 first.

582 STATEMENTS OF MICHAEL J. SULLIVAN, DIRECTOR, ACQUISITION AND
583 SOURCING MANAGEMENT, GOVERNMENT ACCOUNTABILITY OFFICE; JAMES
584 FINLEY, DEPUTY UNDERSECRETARY OF DEFENSE FOR ACQUISITION AND
585 TECHNOLOGY; AND DAVID PATTERSON, PRINCIPAL DEPUTY
586 UNDERSECRETARY OF DEFENSE FOR COMPTROLLER

587 STATEMENT OF MICHAEL J. SULLIVAN

588 Mr. SULLIVAN. Chairman Waxman and Chairman Tierney,
589 Ranking Member Davis, and other members of the committee, it
590 is my pleasure to be here today to discuss our sixth annual
591 assessment of the Department's major weapons systems
592 acquisition programs. My statement today will focus on
593 outcomes for the major acquisition programs, what we believe
594 are the reasons for them, and potential solutions, some of
595 which we believe the Department recognizes and is now trying
596 to implement.

597 With regard to outcomes since we began these assessments
598 in 2000, the number of major weapons system acquisitions has
599 grown by 20. The total investment has doubled. Cost
600 overruns have increased from 27 percent, on average, to 40
601 percent. Overall acquisition cost overruns have increased
602 from 6 percent to 26 percent. And delays in delivering

603 | initial capability have increased from 16 months to 21
604 | months.

605 | Our analysis of 72 separate programs reveal the lack of
606 | knowledge-based decisions at three critical junctures as some
607 | of the causes for this. For example, 88 percent of these
608 | programs started before required technologies to meet weapons
609 | systems capabilities were ready. Because technology
610 | development cannot be scheduled, neither can the cost of
611 | these programs be credibly estimated. A lack of technology
612 | design and manufacturing knowledge at critical junctures in
613 | each program accounts for the additional cost and time from
614 | original estimates to field the weapons system.

615 | There are systemic problems that we believe contribute
616 | mightily towards these poor outcomes. At the strategic
617 | level, there are simply too many programs chasing available
618 | dollars. Two key processes in the Pentagon that precede the
619 | acquisition process, the requirement setting process and the
620 | funding process, should be responsible for ensuring a
621 | balanced investment strategy that matches the warfighters'
622 | needs with available funds. However, they do not work
623 | together very well to ensure that this happens.

624 | The requirements process, which validates the need for a
625 | new program, tends to be stovepiped, meaning each of the
626 | services may offer different solutions to fill the same
627 | capability gap. This means that candidate programs, in order

628 | to compete, usually must promise very high, sometimes
629 | unachievable performance requirements, given available
630 | resources. They must also promise very low cost in order to
631 | fit into the Department's funding plan.

632 | Because the funding process starts with overly
633 | optimistic cost estimates, problems with cost and schedule
634 | are a fait accompli for most programs. Each program begins
635 | with an unmanageable business case: cost and schedule
636 | estimates heavy on optimistic assumptions and light on data.
637 | Their definition of success is usually to become a program of
638 | record with a funding stream attached to it. As a result,
639 | programs begin with cost and schedules that are, frankly,
640 | impossible to forecast.

641 | To be sure, problems resulting from a poor match between
642 | program requirements and the resources available will quickly
643 | cascade into design changes, manufacturing inefficiencies,
644 | quality problems, parts shortages, and delays to testing that
645 | must eventually demonstrate the weapons systems capabilities.

646 | Solutions are available. A well-balanced,
647 | well-prioritized mix of candidate acquisition programs would
648 | alleviate the pressure that each program now faces in winning
649 | the competition for funding. This means the Department must
650 | make early hard decisions and must truly move toward a joint
651 | process for validating requirements.

652 | A business case that applies solid systems engineering

653 practices to properly match a program's capability
654 requirements with available resources before a program is
655 approved would allow more predictable cost and schedule
656 estimates at the outset of the program.

657 Finally, rules once a program begins, that require
658 program managers who now, by the way, would be empowered with
659 a business case that was much more reasonable, to show
660 evidence that technology design and manufacturing knowledge
661 have been achieved at the right places before moving past
662 critical investment points in a program. This would bring
663 accountability to each program as it is executed.

664 The Department understands all of this and, to its
665 credit, it has been trying very hard in the past, I would say
666 12 to 18 months, very hard to move things in that right
667 direction. However, the issue is large and complex. We have
668 recommended several ways that we believe this process can be
669 improved, such as limiting acquisition time frames and
670 embracing evolutionary knowledge-based product development
671 processes that would allow earlier fielding of new weapons
672 systems and then incrementally improving them as new
673 technologies become mature.

674 However, as was stated by this committee earlier, the
675 cultural barriers remain high. The transitory nature of the
676 positions at the top in the Pentagon that can guide change
677 makes this difficult.

678 Often, policy does not translate into practice because
679 of this. Significant and lasting change can only take place
680 with greater and continued support and advocacy from the
681 Department's leadership as well as sustained oversight from
682 this Congress. I conclude with that, and I look forward to
683 any questions you may have.

684 Chairman WAXMAN. Thank you Mr. Chairman, Mr. Sullivan.

685 [Prepared statement of Mr. Sullivan follows:]

686 ***** INSERT 1-5 *****

687 Chairman WAXMAN. Mr. Finley. We will hear from you
688 next.

689 STATEMENT OF JAMES FINLEY

690 Mr. FINLEY. Good morning. Chairman Waxman, Ranking
691 Member Davis, subcommittee chairman Tierney, and
692 distinguished members of the Committee on Oversight and
693 Government Reform and the Subcommittee on National Security
694 and Foreign Affairs, I am pleased to come before you today to
695 address the broad trends, incentives, and challenges present
696 in the Defense Department's current acquisition system for
697 major weapons programs. I will also discuss the report
698 recently issued by the GAO entitled "Defense Acquisitions
699 Assessments of Selected Weapons Programs."

700 I am fully committed to acquisition excellence and the
701 restoration of the confidence in our leadership for our
702 acquisitions system. Thank you for the opportunity to appear
703 here today.

704 The history of acquisition reform for the Department of
705 Defense covers more than 60 years. The most recent studies
706 of the Defense Acquisition Performance Assessment, DAPA, the
707 Center of Strategic International Studies, CSIS, and the
708 Defense Science Board, DSB, serves to assist my preparation

709 | for confirmation as the Deputy Undersecretary of Defense for
710 | Acquisition Technology by the United States Senate in
711 | February of 2006.

712 | My perspectives come from industry, with over 30 years
713 | of experience in aerospace and defense, have been shaped
714 | utilizing that experience along with the acquisition reform
715 | and transformation initiatives, especially those most recent
716 | studies by DAPA, CSIS, DSB and the GAO reports.

717 | At the time of my confirmation hearing, the consensus
718 | seemed to be that the DOD acquisition process, the DOD
719 | 5000.2, was broken.

720 | Once confirmed, we quickly moved to recruit and fill key
721 | positions with civilian executives that had significant
722 | industry and military experience and a passion to serve our
723 | country. We eliminated a layer of management to tighten
724 | communication. We aligned the organization for better
725 | accountability and we improved the efficiency of our
726 | workforce within AT&L and OSD, the joint staff and the
727 | components.

728 | After my first 90 days in office, where I listened,
729 | discussed, and reflected on the leadership perspectives of
730 | Congress, industry, and DOD military and civilian personnel,
731 | my opinion was that the acquisition process was not broken.
732 | We needed to add discipline into the process and ensure that
733 | the basic blocking and tackling in executing the acquisition

734 process was being done correctly. We also needed to properly
735 scale and tailor processes, where and when needed, to
736 implement changes that streamlined and simplified processes,
737 to reduce cycle times to increase competition, and to broaden
738 communications up down and across with Congress industry,
739 academia, our coalition partners and within DOD.

740 We developed a 3-year plan, established our vision and
741 strategy, and implemented goals and initiatives with a sense
742 of urgency. Today, we are 26 months into implementing that
743 plan.

744 We are striving for acquisition excellence with a broad
745 set of objectives by using short- and long-term initiatives.
746 These objectives include:

747 1. Enabling decision-making for balancing the program
748 and portfolio trade space with convergence of affordability,
749 schedule and performance.

750 2. Getting programs started right with improved upfront
751 planning and awareness of risk.

752 3. Improving process efficiency with focus on tailored,
753 agile, open and transparent communications with checks and
754 balances.

755 4. Providing program stability with program management
756 tenure, utilization of capital funding accounts and
757 configuration steering boards.

758 These objectives and initiatives are examples, with more

759 | examples provided in the semiannual section 804 Congressional
760 | Report, in accordance with the John Warner National Defense
761 | Authorization Act of fiscal year 2007.

762 | In addition, contracting terms and conditions for
763 | weapons systems have shifted over the past couple of decades
764 | due to increased technical complexity, associated
765 | affordability issues, and predictable performance challenges.

766 | Accordingly, DOD has shifted from the fixed firm price
767 | environments to the fixed price incentive and cost-plus
768 | award, incentive fee structures to motivate and encourage
769 | industry performance.

770 | Our goal is to utilize objective criteria to measure
771 | contract performance where incentive structures are being
772 | implemented. A comprehensive analysis of the GAO report
773 | 08-467 SP, Assessments of Selected Weapons Systems, has not
774 | been completed. However, we are developing questions to
775 | better understand the report and work with the GAO.

776 | For example, our initial perspectives of conclusions
777 | from the GAO report are summarized as follows:

778 | 1. The GAO report opening statement excerpt, quote, "Of
779 | the 72 programs, none of them proceeded through systems
780 | development and meeting best practices standards for mature
781 | technology, stable design or mature production processes by
782 | critical junctures of the program, each of which are
783 | essential for achieving planned cost, schedule, and

784 performance outcomes." End quote. That statement is not
785 understood.

786 The DOD drives Lean Six Sigma, continuous process
787 improvement as an example for best practices and best of best
788 practices with CPI across all our organizations in Department
789 of Defense, including acquisition.

790 2. The GAO report opening statement talks about "The
791 average tenure to date of program managers has been less than
792 half of of what is called for by DOD policy," end quote. The
793 DOD policy is 24 months. The actual average tenure of
794 program managers today across all services is 23.8 months
795 with an expected tenure of 42 months average. I see I am out
796 of time so I will cut to my summary.

797 We look forward to working with the GAO to better
798 understand their data, methodologies, and conclusions
799 associated with the assessments of selected weapons systems.

800 In summary, measurable progress for acquisition
801 excellence has been accomplished on a broad front of
802 initiatives. We have traction. We will continue to improve.
803 Much work remains to be done. A plan for that work has been
804 established.

805 Chairman Waxman, Congressman Davis, subcommittee
806 Chairman Tierney and distinguished members of the committee,
807 thank you for supporting our troops. I will be pleased to
808 address any questions.

809

Chairman WAXMAN. Thank you very much Mr. Finley.

810

[Prepared statement of Mr. Finley follows:]

811

***** INSERT 1-6 *****

812 Chairman WAXMAN. Mr. Patterson.

813 STATEMENT OF DAVID PATTERSON

814 Mr. PATTERSON. Chairman Waxman, Ranking Member Davis,
815 Subcommittee Chairman Tierney, and distinguished members of
816 this committee and subcommittee, thank you for the
817 opportunity to discuss the Department of Defense's current
818 acquisition process for major weapons systems and other
819 concerns arising from the Government Accountability Office's
820 recent report on this issue.

821 First, let me make it very clear that we appreciate the
822 mutually beneficial relationship that the Office of the
823 Undersecretary of Defense Comptroller shares with the GAO as
824 we strive to ensure that the American taxpayer is well
825 served.

826 We also appreciate Congress' frustration with what is
827 quite literally one of the oldest problems in government.
828 And to Ranking Member Davis' point it was George Washington,
829 I believe, who first complained about the ineffective
830 response to his request for cannon castings. And we have
831 been trying to improve the process for acquiring weapons ever
832 since.

833 In more than 130 acquisition studies, reviews and

834 | evaluations that have been conducted over the past two
835 | decades, most, if not all of them, found that the key
836 | elements in successful programs are program stability and
837 | funding predictability. Instability drives cost growth.
838 | Schedule slippages, and in some cases, failure of the weapons
839 | systems to perform as anticipated.

840 | Several initiatives have been cosponsored by the
841 | Undersecretary of Defense for Acquisition Technology and
842 | Logistics and the Department to address this problem. But
843 | from a Comptroller's perspective, the most noticeable is the
844 | Capitol Funding Pilot Program. Under the capital funding
845 | concept, the Department guaranties a certain level of funding
846 | for a fixed period of time--from Milestone B, the beginning
847 | of system development and demonstration to initial operating
848 | capability of the program. Funding is then held at a
849 | guaranteed level by avoiding up-and-down adjustments until
850 | the project is delivered.

851 | When industry and program managers know that the annual
852 | program funding will be provided at a predictable level and
853 | that other aspects of the program, such as unfunded
854 | performance or requirements changes are not allowed, there is
855 | an increasing probability that the program will be delivered
856 | on schedule and within budget.

857 | To qualify for capital funding, a program must have a
858 | well-understood funding profile from Milestone B to initial

859 | operating capability, will not be used as a bill-payer by the
860 | services or the Department. It will provide by biannual
861 | reports to the Congress on cost, schedule and performance
862 | progress, will have a technology readiness level of at least
863 | 6 at Milestone B. It will be time-definite.

864 | Finally, capital funding programs will be canceled if
865 | they fail to make established cost, schedule, and performance
866 | objectives three reviews in a row.

867 | The capital funding concept is being formalized in three
868 | pilot programs: The Combat Search and Rescue Helicopter
869 | program by the Air Force, as soon as that program is a
870 | program of record; the Joint High Speed Sea Lift Vessel
871 | managed by both the Army and the Navy; and the General Funds
872 | Enterprise Business Systems managed by the Army. Because
873 | these systems are within the Department's current
874 | authorities, they can be implemented in the near-time term.

875 | Finally, I would offer that this administration has made
876 | solid financial management a serious and successful priority.

877 | With sound financial management, successful acquisition
878 | program management is far less likely.

879 | In 2001 critics predicted that the Department would be
880 | unable to turn around its complex management operations.
881 | Today, the Department is poised to achieve a clean audit
882 | opinion in 2009 on more than two-thirds of the \$2.4 trillion
883 | of assets and liabilities--an extraordinary achievement.

884 We are on track to eliminate the remaining 18 of the
885 original 116 managers' internal control weaknesses, and we
886 are lowering costs and increasing productivity and saving the
887 taxpayer billions of dollars.

888 The Defense Finance and Accounting Service alone has
889 increased productivity by 52 percent, saving \$317 million
890 since 2001.

891 Audits conducted by the Defense Contract Audit Agency on
892 fiscal year 2007 contracts not only saved the Department \$2.4
893 billion, but armed investigators with information that
894 recovered an additional \$225 million. These are only a few
895 areas where we have made progress since 2001.

896 Whether it is sound financial management or providing
897 the American taxpayers with the most effective weapons
898 systems acquisition process, the Department of Defense is
899 absolutely committed to the wise and efficient management of
900 resources. The American people deserve nothing less.

901 Thank you for this opportunity and I am ready to take
902 your questions.

903 Mr. TIERNEY. [Presiding.] Thank you, Mr. Patterson.

904 [Prepared statement of Mr. Patterson follows:]

905 ***** INSERT 1-7 *****

906 Mr. TIERNEY. I thank all of you for your testimony
907 here. Mr. Waxman has been called away for a short period of
908 time.

909 We are going to have initial 10-minute rounds from the
910 Ranking Member and the Chairman before we move to 5-minute
911 rounds to the members.

912 Mr. Davis, you are recognized for 10 minutes.

913 Mr. DAVIS OF VIRGINIA. Let me start with our GAO rep.
914 You state that improving acquisition outcomes will require
915 changes in environment and incentives as well as improved
916 processes.

917 Is there anything we in Congress can do to help change
918 that environment that leads the DOD to overpromise
919 capabilities and underestimate the cost of these programs?
920 Or is this basically just executive branch management issues?

921 Mr. SULLIVAN. I think that the oversight capability
922 that the Congress has is critical to keeping these, the
923 Department on track. But I think basically it's the
924 Department. The way we see it is the Department has plenty
925 of funding to invest properly in the major weapons system
926 acquisitions that they believe they need to equip the
927 warfighter; and even within that universe within the
928 Department, oversight within there needs to improve
929 significantly.

930 Probably the bigger problem is between the Department

931 | and the stovepipes that they have to deal with, meaning the
932 | acquisition communities, the various acquisition communities
933 | within the Pentagon.

934 | You know, there is an oversight mechanism that these
935 | gentlemen obviously have to take care of. The services all
936 | have different solutions that they want to provide in terms
937 | of capabilities. And there are other acquisition agencies in
938 | the Department as well. That is the critical place. I think
939 | when you have the parochial nature and the stovepipes of the
940 | acquisition community coming forward, the oversight that
941 | happens within the Pentagon is critical. That is where hard
942 | decisions have to be made. Of course, I think the Congress,
943 | your responsibility and your power of the purse, obviously,
944 | is critical to all of that.

945 | Mr. DAVIS OF VIRGINIA. You have mentioned that the DOD
946 | often asks contractors to develop cutting-edge systems under
947 | cost-type contracts, in essence reimbursing the firm for its
948 | best efforts rather than results. Do you think that the
949 | Defense Department would be better served by awarding some of
950 | these contracts under fixed-price contracts and placing more
951 | of the risk on the contractor, and do you think they would
952 | get the requisite number of bidders there?

953 | Mr. SULLIVAN. You know, Congressman, that is a very
954 | sensitive issue because of the technical nature, the really
955 | cutting-edge nature of these programs. There are a number of

956 reasons I think that the, cost-plus contracts are important
957 for these major development programs.

958 Number one is these companies, no matter how well you
959 understand the technologies for these, there is going to be
960 tremendous risk in moving forward to build a thoroughbred
961 system that is going to meet all the performance requirements
962 they have. So even integration risk, which we think is a
963 little more knowable, probably there are no contractors that
964 would take on that kind of risk with a fixed price, in a
965 fixed-price kind of environment.

966 But in addition to that, the low volumes and the lack of
967 a market, an after market for products and things like that,
968 just makes it much easier for contract. If they are going to
969 expend the \$20 or \$30 billion that it sometimes takes to
970 develop a weapons systems, they have to have protection to do
971 that. So we understand that.

972 The critical thing there is if that if you're going to
973 take on a risky project like that, the first thing that you
974 want to know is you need to understand the requirements. And
975 you don't want to sign that contract until you've done really
976 proper systems engineering analysis, maybe even to the point
977 of prototyping before you would actually begin a weapons
978 systems program.

979 The way that is done today is many of these programs are
980 started before they even do a preliminary design. You know

981 | the requirements process comes out with the needed
982 | capabilities, the funding process, the process that is going
983 | to resource that, tends to get cost estimates, one from the
984 | program office that is going to run the acquisition, and
985 | maybe another one from the Department of Defense's cost
986 | analysis improvement group, that are based on very little
987 | systems engineering analysis, very little reality. There has
988 | not been, you know, forget about prototypes. They are not
989 | even close to that.

990 | So these programs begin without any knowledge about, you
991 | know, the studies that we've done in the past, on some of the
992 | big major weapons systems, F-22 or the B-2 bomber long ago,
993 | those programs began and received a funding stream that would
994 | allocate billions of dollars in investments to them over the
995 | years, before they really had any true understanding whether
996 | or not they would ever be able to build that weapons systems.

997 | And so I would say that cost-plus contracting, that is a
998 | contracting mechanism that certainly is important here. You
999 | have to be able to keep risk under control for the defense
1000 | industrial base.

1001 | But if you don't have the requirements, well
1002 | established, well understood, with available technologies and
1003 | the funding process has the available funding stream, this is
1004 | going to continue to happen.

1005 | Mr. DAVIS OF VIRGINIA. I have always felt cost-plus

1006 | was probably appropriate in these cases, given the
1007 | flexibility and changing requirements. But you know what?
1008 | If you went out fixed price, somebody would bid; they would
1009 | just be much higher. But given the cost overruns here, I am
1010 | not sure that shifting the risk, I think that is the--

1011 | Mr. SULLIVAN. Congressman, an analogy. If you are
1012 | building a new house or if you want to buy a new car and you
1013 | just want a contract, you expect that there are going to be
1014 | some cost overruns. So you're not necessarily signing a
1015 | fixed price with them. You get their estimate and you have
1016 | an agreement that they're going to deliver within 10 percent
1017 | of that perhaps.

1018 | Well, if you then ask for, you know, a nuclear-powered
1019 | furnace to power the heating and cooling in the house--and
1020 | what is the contractor going to say to you? "That is
1021 | impossible." Well, in the Department of Defense they might
1022 | have a requirement like that, and the contractor is not in
1023 | any way constrained at that point to say, "You know, we don't
1024 | think we can do that." Because it is a requirement that has
1025 | been put on, it is best effort.

1026 | Mr. DAVIS OF VIRGINIA. They always say they can do it
1027 | don't they?

1028 | Mr. SULLIVAN. They always say they can do it because
1029 | they have been released from the cost risk.

1030 | Mr. DAVIS OF VIRGINIA. That is part of the problem. I

1031 | don't know how you get at that, but there may be a portion
1032 | that you can fix prices on pieces of that or somewhat.

1033 | Mr. SULLIVAN. I think those are things that can be
1034 | looked at, but the critical thing to me there is not to start
1035 | that program unless you have got documented you know what you
1036 | want.

1037 | Mr. DAVIS OF VIRGINIA. You know what you want.

1038 | We just held a hearing on this, the Chairman and myself,
1039 | on the Census Bureau with some hand-held computers that
1040 | jeopardized the Census now, because they didn't know what
1041 | they wanted. They came in with so many changes and it is way
1042 | behind schedule. It is not getting what we wanted. This is
1043 | not just DOD. It has been going on for a long time. But I
1044 | tell you what we will spend time on the floor fighting over
1045 | 20, \$30 million for funding for the arts, and then you have
1046 | cost overruns here that go into billions of dollars.

1047 | And it seems when government needs to lose weight in a
1048 | tight budget, then we chop off fingers and toes, but in point
1049 | of fact, the fat is layered throughout the system in the way
1050 | we do our acquisition in our business processes. And we need
1051 | to give a lot of focus to that. And this is just a prime
1052 | example.

1053 | Let me ask this. Your report recommends that DOD holds
1054 | program managers more accountable. What do you mean by
1055 | holding managers more accountable? I don't think anybody is

1056 | ever fired over this. Is anybody ever fired for any of
1057 | these? Are you familiar with any managers being fired over
1058 | these acquisitions? I know you are paying out, the
1059 | contractors are getting their fees, their award fees. But
1060 | are managers being fired?

1061 | Mr. FINLEY. Yes, there are actions taken in the
1062 | Pentagon to remove program managers from their duties and
1063 | reassigned. Yes.

1064 | Mr. DAVIS OF VIRGINIA. They are reassigned. They don't
1065 | lose their job.

1066 | Mr. FINLEY. Well, they are serving their country. They
1067 | get reassigned to another requirement for the service. They
1068 | are removed from their positions.

1069 | Mr. DAVIS OF VIRGINIA. Does it happen very often?

1070 | Mr. FINLEY. In my short tenure, I have probably seen it
1071 | happen more than I have seen in industries in a comparable
1072 | time.

1073 | Mr. DAVIS OF VIRGINIA. What's the downside?
1074 | Traditionally, managers are risk-averse. I understand. That
1075 | is good or it's bad. But, in a case like this, in managing
1076 | something that's difficult, what does a manager do in a
1077 | situation like that? Do they go upstairs for help when they
1078 | have to get the change orders? Explain to me the manager's
1079 | perspective on this. Because they are seeing these things
1080 | creep out of control. They can't be too comfortable with

1081 | with it.

1082 | Mr. FINLEY. I believe Mr. Young is very focused in this
1083 | area as well to help facilitate the environment for program
1084 | managers to come forward and be far more open and transparent
1085 | about what are the real issues. And in that respect, we have
1086 | done a lot of streamlining and simplifying of the monthly
1087 | processes for executive reviews. For example, risk
1088 | management of these programs is fundamental to making the
1089 | proliferation of cost overruns, you know, a thing of the
1090 | past. And it is an absolute must-do. And it is an
1091 | absolute--my opinion--doable.

1092 | The programs, in my opinion, should not be starting--a
1093 | CAT I one program should not be starting with low technology
1094 | levels. We have TRL's, Technology Readiness Levels that are
1095 | measured. Programs do not go through Milestone B without a
1096 | level 6 approval. We believe that is adequate to start.

1097 | Programs in the pipeline that have been cited in the GAO
1098 | report, for example, have started with IIs, IIIs, IVs. All
1099 | of the histories and all of the stories are there of why
1100 | these programs should not started.

1101 | Mr. DAVIS OF VIRGINIA. Let me just ask this last
1102 | question.

1103 | GAO reports that a significant increase in the number of
1104 | major defense acquisition programs since 2000, huge increase,
1105 | but the acquisition workforce has remained static in terms of

1106 numbers. With this type of program growth and the lack of
1107 concurrent increase in the numbers of acquisition personnel,
1108 should we have seen the current growth in the use of
1109 contracting support for the management of these systems? Has
1110 that been a problem?

1111 Mr. SULLIVAN. Is that for me?

1112 Mr. DAVIS OF VIRGINIA. It is for all of you.

1113 Mr. SULLIVAN. You know, this year when we did this,
1114 this is a survey we do and we send it out to all these
1115 programs. This year because of interests, congressional
1116 interest and the use of service contracts and things like
1117 that, we included a question on how much of your program
1118 office workforce is contracted out. The response we got
1119 back, I don't think that we are prepared to say if that is
1120 good or bad yet. But it is something that seems questionable
1121 to us where the use of outsource contractors is growing and
1122 it just is a trend that we want to keep an eye on.

1123 RPTS CASWELL

1124 DCMN MAGMER

1125 Mr. SULLIVAN. We don't have anything, any evidence,
1126 that that's good or bad at this point.

1127 But if I could go back to the program manager
1128 discussion, you brought up the accountability of program
1129 managers. The report that we did, that was another thing we
1130 asked in the survey. We asked--Secretary Finley had the
1131 numbers that DOD has, and those are probably more up to date
1132 and more universal than what we had.

1133 I just want to make it clear that in our report we
1134 indicate that our analysis of that included 39 of these
1135 programs that gave us information back on what the tenure was
1136 of their program managers. Of those 39, it was 17 months.
1137 But, in addition, the way we hold program managers more
1138 accountable is you give them a better business case, I think
1139 we were talking about early.

1140 I don't think you can really hold someone accountable
1141 for managing risk given the business case of the capabilities
1142 that they are going to need to achieve with the funding that
1143 they are going to be given and the cost estimates that are
1144 based on really not enough data at the time. Not only that,
1145 but the time frames of these programs can be 10, 12, 15
1146 years.

1147 Mr. DAVIS OF VIRGINIA. Let me ask you this. If you are

1148 | doing a \$25 billion program or \$50 billion program and you
1149 | manage it under time or under budget, what about a bonus
1150 | system? Does that make sense?

1151 | Mr. SULLIVAN. Yes, I think that would make a lot of
1152 | sense.

1153 | Mr. DAVIS OF VIRGINIA. You certainly would get a bonus
1154 | if you were in the private sector.

1155 | Mr. FINLEY. Yes, I think a bonus system does make
1156 | sense. I think that--

1157 | Mr. DAVIS OF VIRGINIA. It certainly would be
1158 | cost-effective, as opposed to these other issues.

1159 | How about you, Mr. Patterson?

1160 | Mr. PATTERSON. As a matter of fact, when we have
1161 | civilian employees who are program managers, they do get
1162 | bonuses; and their bonus is commensurate with their success
1163 | in the program. But military program managers, it's a little
1164 | bit more problematic, as you might suspect.

1165 | Mr. DAVIS OF VIRGINIA. All right. Thank you.

1166 | Chairman WAXMAN. [Presiding.] Thank you, Mr. Davis.

1167 | We are talking in a more general way, and GAO gave us a
1168 | lot of examples, but I want to focus on one example that I
1169 | brought up in my opening statement earlier of just how money
1170 | seems to be used without any accountability and without any
1171 | result.

1172 | The Expeditionary Fighting Vehicle, supposed to be an

1173 amphibious tank that was developed to transport Marines from
1174 ship to shore and then to conduct land-based combat
1175 operations; and this was thought up in 2001. The Marine
1176 Corps awarded a contract to General Dynamics to design and
1177 test the EFV in order to prepare it for large-scale
1178 production, and they thought through a schedule. They were
1179 supposed to finish this phase of development by 2003, and
1180 then the Marines would have the vehicle available to them by
1181 2006.

1182 The original budget was \$712 million. Through a series
1183 of contract modifications, the budget grew to \$1.2 billion,
1184 and the deadline for completing the system development and
1185 demonstration was pushed back to 2006. When the Marine Corps
1186 tested the EFV in 2006, it broke down every 4-1/2 hours;
1187 crucial parts for the vehicle, including the bow flap and the
1188 gun turret, had serious structural problems.

1189 I have a chart that I am going to put up on the screen.
1190 It shows the slide that the Marine Corps prepared discussing
1191 the results of this test--and I don't know if it's visible
1192 enough to you--but, according to the slide, the vehicle will
1193 only reach high speeds in the water if Marines don't bring
1194 their combat and personal equipment with them on the craft.
1195 Well, that means that the vehicle could only work as
1196 envisioned if the Marines left behind their battle gear.

1197 Since those tests failed, the program has gone back to

1198 square one.

1199 Last year, the Defense Department announced that the EFV
1200 would have to go through a second development and
1201 demonstration process at an additional cost of the taxpayer
1202 of nearly \$1 billion more. In effect, the Department said,
1203 even though we spent \$1.2 billion and 6 years on the first
1204 system development contract, we need to start the process all
1205 over again and spend another billion dollars to build a new
1206 prototype vehicle.

1207 Mr. Finley, how could this have happened? Why didn't
1208 the contractor deliver what it promised? Why didn't the
1209 Defense Department manage the program better? Why are the
1210 U.S. taxpayers out over \$1 billion as a result?

1211 Mr. FINLEY. Thank you, Mr. Chairman.

1212 I do not have the facts on EFV with me. I am not as
1213 prepared as I would like to be for this particular subject.

1214 I will share with you that, in my tenure, this program
1215 came up for Nunn-McCurdy. It was recertified as a program
1216 and restructured last year, 2007. It is my understanding
1217 that coming into the Nunn-McCurdy as part of the causal
1218 mechanisms behind the performance on this program was funding
1219 stability, and yet for some number of years, the funding on
1220 this program had been cut dramatically from some level but
1221 approaching 50 percent of what they had.

1222 Chairman WAXMAN. I don't see any cuts. I see only

1223 | increases in the amount of money that went into this program.
1224 | It was a cost-plus project, and the costs were paid. In
1225 | fact, at the end of the day the contractor got bonuses for a
1226 | failed effort.

1227 | Mr. FINLEY. I would have to take the question for the
1228 | record, sir.

1229 | [The information follows:]

1230 | ***** COMMITTEE INSERT *****

1231 Chairman WAXMAN. Mr. Sullivan, I believe you have
1232 looked at this EFV contract. What, in your view, went wrong?

1233 Mr. SULLIVAN. I think with the EFV they had very tough
1234 requirements to begin. Actually, in the beginning of this
1235 program, they tried to go forward before they had mature
1236 technologies, particularly with the engine, the propulsion
1237 that you would need to literally skip across the ocean like a
1238 stone with this thing.

1239 To their credit at the time--we are going back to the
1240 mid-'90s--the Navy told them to hold up and work on some of
1241 those technologies. I think that led to some of the--you
1242 know, the annual funding increments they did reduce, a lot of
1243 the annual funding increments in the beginning, which slowed
1244 them down in that regard.

1245 But once they did get mature technologies and begin,
1246 they had reliability--as you mentioned, I believe it was 4
1247 hours between breakdowns on this. I think the reliability
1248 requirement was 47 hours.

1249 So when they finally got to a point where they thought
1250 they had designed a full-up prototype, they had ignored the
1251 critical design review. That second thing that we talk about
1252 is, you know, managing the design, building a prototype
1253 before you go forward, having a good critical design review
1254 at about midpoint. That was ignored, I think. As a result,
1255 they got the reliability problems that they have, and they

1256 | have to start over.

1257 | Chairman WAXMAN. Well, there were plenty of warning
1258 | signs that the contract was not going to work, but nobody
1259 | seemed to pay attention to those warning signs.

1260 | In 2002, the Defense Department auditors issued a
1261 | scathing report that found that the program was being poorly
1262 | managed. Here is what the 2002 report said, "Management does
1263 | not have a handle on reality, particularly with unrealistic
1264 | schedules."

1265 | The report also said the project lacked leadership, and
1266 | there seems to be "no one steering the ship" and that the
1267 | project was a "paper dream that everyone accepts but has only
1268 | a casual resemblance of reality."

1269 | Mr. Finley, that was 6 years ago. These warnings
1270 | weren't heeded in 2002. Why do you think that happened? You
1271 | don't know specifically about this, but if there are
1272 | warnings, doesn't the DOD take those warnings seriously?

1273 | Mr. FINLEY. That's an unequivocal yes. We do take all
1274 | warnings seriously. I cannot speak for 2002. I will be
1275 | happy to take the question for the record, though, sir.

1276 | [The information follows:]

1277 | ***** COMMITTEE INSERT *****

1278 Chairman WAXMAN. Well, in 2006, they had another audit
1279 that was performed; and this audit found exactly the same
1280 problems that were reported in 2002. Four years had passed,
1281 hundreds of millions of dollars had been spent, but there was
1282 no improvement in the contract management.

1283 Here is what the auditor said in their 2006 report:

1284 "Oversight of the program is ineffective."

1285 "The system's engineering process is inadequate and a
1286 major shortcoming of the EFV program. It is a root cause of
1287 disarray, uncoordinated design decisions, reliability issues,
1288 and the general lack of planning and status monitoring."

1289 Well, it appears that everyone who examined the EFV
1290 contract knew for years that it had serious flaws, yet the
1291 Defense Department still committed more than \$1 billion of
1292 taxpayer funds to the contract.

1293 Mr. Sullivan, you mentioned this earlier, there are
1294 supposed to be checks and balances in this process to prevent
1295 this kind of thing from happening. What do you think went
1296 wrong here? Why weren't there checks and balances to take
1297 these warnings seriously?

1298 Mr. SULLIVAN. One of the things that happened on this
1299 program is they signed the contract to go to system
1300 demonstration and development, which is the cost-plus
1301 contract to go ahead that opens up the funding. In December
1302 of 2000, they declared the design stable in January of 2001.

1303 | In one month, they had a complete critical design review that
1304 | okayed the program to continue towards manufacturing,
1305 | engineering, manufacturing and development.

1306 | Obviously, in one month--and I don't think that they had
1307 | the proper engineering prototypes. They had not accumulated
1308 | the knowledge that any program manager in any world-class
1309 | company would have to accumulate before they got more
1310 | investment dollars in that timeframe. So I really think
1311 | probably, as a major defense acquisition program, it wasn't
1312 | getting the oversight it probably deserved.

1313 | Now, that's back in the 2,000 timeframe is when that's
1314 | probably the genesis of when this really started going wrong.

1315 | Chairman WAXMAN. If I hire a contractor to do work for
1316 | me and they run over budget and run out over time and then
1317 | they fail, I would want my money back. Why can't the
1318 | government get its money back?

1319 | Mr. SULLIVAN. I think, probably, you know, one of the
1320 | things that has to happen in this environment that we are
1321 | talking about is decisions like that have to be made. This
1322 | is a program that probably was a very good candidate for, you
1323 | know, if not termination, then somehow, you know, scaling
1324 | back the dollars that were going into it back in that
1325 | timeframe.

1326 | Chairman WAXMAN. Is it possible to get the money back
1327 | if it's a cost-plus contract? Or do the contractors say they

1328 | are taking--they are not taking the risk; it's the government
1329 | that's taking the risk?

1330 | Mr. SULLIVAN. I don't think--you know, that's kind of
1331 | outside--I would have to talk to some of our lawyers that we
1332 | have to understand the legalities of that. But I don't think
1333 | it's-- it's not easy to get the money back. I know that.

1334 | Chairman WAXMAN. Well, the problem I see is that nobody
1335 | in this process is advocating on behalf of the taxpayers.
1336 | The company is doing fine. It has a contract. It's
1337 | structured so that it will get paid no matter what the
1338 | result, even if the result is total failure.

1339 | The responsible officials at DOD are not being
1340 | disciplined. In fact, they may get lucrative job offers from
1341 | other defense contractors.

1342 | But the Marines who need this equipment have to go
1343 | without, and the taxpayers that foot the bill pay out
1344 | billions of dollars, and we get nothing in return. That just
1345 | can't be a system that we ought to be sustaining. I think
1346 | that's the reason we are holding this hearing, and many of us
1347 | are very concerned.

1348 | Mr. Finley, I do want you to be able to respond to the
1349 | record. I don't think you were adequately advised we were
1350 | going to focus in on this weapons system. So I apologize to
1351 | you for surprising you. But this is something that the GAO
1352 | looked at and our staff looked at, and I do think it's an

1353 | illustration of our frustration with this whole system that
1354 | we have.

1355 | Mr. FINLEY. I would be happy to, sir.

1356 | Chairman WAXMAN. Thank you very much.

1357 | Mr. Burton.

1358 | Mr. BURTON. Thank you, Mr. Chairman.

1359 | Well, from your testimony, it sounds like there needs to
1360 | be improvement in oversight and management; and, in many
1361 | cases, it's inadequate. But if you have a cost-plus
1362 | contract, the contractor pretty much, as long as he is doing
1363 | the best he can, you can't really go back and say, hey, we
1364 | want our money back, as long as he is going to perform as he
1365 | said he was going to.

1366 | Some of these weapons systems--and I have tried to
1367 | follow this over the years. You are talking about such
1368 | things that are so complex that, even if you have a design,
1369 | once you get into the actual production of a prototype, you
1370 | start finding design flaws that you didn't think there were.
1371 | I mean, it's not an exact science, is it?

1372 | Mr. SULLIVAN. No, it isn't.

1373 | Mr. BURTON. Because of that, the contractor pretty much
1374 | has to work with the Defense Department. The contractor has
1375 | to work with the Defense Department in order to make sure
1376 | that those flaws or the design changes are corrected and need
1377 | to be made. That sometimes involves cost overruns, right?

1378 Mr. SULLIVAN. Yes, sir.

1379 Mr. BURTON. I think that's one of the things we want to
1380 talk about. I don't think anybody here--Democrat, Republican
1381 liberal or conservative--doesn't want to make sure that we
1382 minimize waste, fraud and abuse in the Defense Department or
1383 any other department, but the thing that is important to me
1384 is that we have the defense capability to defend this country
1385 against any enemy, domestic or foreign.

1386 That means sometimes we have to look at weapons systems
1387 that may be new and on the drawing boards that we think are
1388 going to be necessary to defend this country and we let a
1389 cost-plus contract for design and engineering. Once they get
1390 into it, we find out that, hey, this thing really needs a lot
1391 more work. So you have to go back to the drawing boards and
1392 try to make those corrections.

1393 Then when you get a prototype built, you find, many
1394 times, more design problems and changes that have to be made;
1395 and the contractor and the Defense Department have to go back
1396 to the drawing boards one more time to make sure that those
1397 corrections are made.

1398 I have seen helicopters that are supposed to be the best
1399 in the world, and we have seen them crash. I have seen
1400 planes that we have developed that were supposed to be the
1401 best in the world. During the test phase, and even after the
1402 test phase, they found flaws and they caused crashes and

1403 | people were killed. When you are talking about defense
1404 | items, many times you are going to have to make those
1405 | changes.

1406 | Now, one of the things I want to ask is, you know, we go
1407 | up and down with Defense budgets; and the Defense Department
1408 | has to pick and choose which Defense programs, which weapons
1409 | systems that they want to produce. Do the fluctuations
1410 | between administrations, for instance, change the amount of
1411 | money that could be allocated, say, for a different defense
1412 | programs, different programs?

1413 | I mean, do you have a program to say, okay, we are going
1414 | to allocate this much, this amount of money through the
1415 | Defense Department for a program and then the Defense budget
1416 | is reduced and so the funds aren't there and you have to pick
1417 | and choose? What kind of an impact does that have on defense
1418 | design and programs?

1419 | Mr. SULLIVAN. Is that for me?

1420 | Mr. BURTON. For any of you.

1421 | Mr. SULLIVAN. You know, we have looked at--the trend of
1422 | acquisition funding over the past, I would say, 25 years
1423 | shows a kind of a buildup in acquisition funding for weapons
1424 | systems beginning in the '80s. And then, as the Soviet Union
1425 | fell and world events changed, we talked about the peace
1426 | dividend. So you do see a trough beginning in the late 1980s
1427 | when the Soviet Union fell, through the 1990s, and it is up

1428 | again now. A lot of that is due to the war and other things.

1429 | But acquisition spending, the RDT&E budget and the
1430 | procurement budget right now are as about as high as they
1431 | have ever been, probably, for the last--

1432 | Mr. BURTON. Let me pose this question. Let's say we
1433 | have a weapons system that we are developing right now that
1434 | we think is going to be very imperative for the 21st century
1435 | to deal with nuclear development by an enemy or a lot of
1436 | other things; and a new administration comes in and says,
1437 | okay, we want to cut the Defense budget. There's too much
1438 | going on, and the Defense Department has to pick and choose
1439 | the programs that they want to proceed with.

1440 | Isn't it possible that some of those programs will be
1441 | shortchanged and so they have to cut back on research and
1442 | development? And then as time goes by, if it becomes
1443 | necessary for that program to be restarted or funded to a
1444 | higher degree because of the necessity of it, that there
1445 | needs to be changes, design changes, and there needs to be
1446 | more money because enough money wasn't allocated in the first
1447 | place?

1448 | Mr. SULLIVAN. If I could just take a minute, and I
1449 | think you just gave a very good description of what happens
1450 | to a weapons system. Everyone knows you are going to have to
1451 | deal with a lot of unknowns and contractors. You signed a
1452 | cost-plus contract for a reason, because contractors are

1453 going to have to deal with a lot of risk, just as you
1454 explained.

1455 I think the problem we have here is there are two
1456 processes, the requirements process that validates a need and
1457 the funding process that will establish the available funding
1458 for that. What comes out of the requirements process may
1459 validate a need that would overwhelm a threat that they see
1460 10 or 15 years out. But the reality of it is that there's
1461 nothing available today that can achieve that need. It's got
1462 to come out of the tech base.

1463 They begin the product development for that before that
1464 tech base has even invented it. That's where they
1465 need--there's a process and the 5,000 process, the
1466 acquisition policy. There's a milestone A, and then you work
1467 maybe a 2-year process between the milestone A to a milestone
1468 B to where that's where you get your big money and you start
1469 your program.

1470 That process is really what you are talking about.
1471 That's where the need and the available resources and
1472 technologies have to--somebody has got to come in and apply
1473 some reason to that and say, you know, can we get that F-22
1474 fighter to do all of these things by 1996? The systems
1475 engineers have to say, no, we can't do that. Let's try to
1476 get this--you know, the requirements have to be level.
1477 Oftentimes, that's not done; and that's what really gets them

1478 | in trouble.

1479 | If these programs were coming in at 25 percent, 30
1480 | percent even, over cost in product development, I think,
1481 | while that's not acceptable, that that is not in the area,
1482 | really, of wasteful dollars. I think we would understand.
1483 | But often these programs, EFV is an example, that's over 100
1484 | percent over cost.

1485 | Not only that, the quantities eventually have to be
1486 | reduced. So the warfighter doesn't get the numbers that they
1487 | were talking about; and they are always late, as a result of
1488 | that.

1489 | Mr. BURTON. Mr. Chairman, let me just make one final
1490 | comment.

1491 | No question. I agree with you and everybody on the
1492 | committee that we need to really police the amount of money
1493 | that's being spent on these weapons systems. Wherever
1494 | possible, Congress ought to, you know, pound whoever is in
1495 | charge over there to make sure that they are not wasting
1496 | taxpayers' dollars.

1497 | But, on the other hand, it's extremely important that we
1498 | realize on these cost-plus contracts with defense systems
1499 | that are extremely important in the opinion of the people at
1500 | the Defense Department and the administration's that we
1501 | properly fund those, even though we know that there may be
1502 | cost overruns, to make sure that this country is well

1503 | protected.

1504 | Thank you very much, Mr. Chairman.

1505 | Chairman WAXMAN. Thank you, Mr. Burton.

1506 | Mr. Tierney.

1507 | Mr. TIERNEY. Thank you, Mr. Chairman.

1508 | Let me continue on that vein, because I am not sure that
1509 | it looks like anybody ever makes a decision that some of
1510 | these systems ought not to proceed.

1511 | When you look at 92 systems and so many of them behind
1512 | schedule by such large periods of time and so many over
1513 | budget by so many dollars, let me ask you, Dr. Finley and Mr.
1514 | Patterson, have any of these systems ever been scaled back or
1515 | eliminated?

1516 | Has there ever been a decision where somebody finally
1517 | says, you know what? This thing has been going on for
1518 | decades showing no progress. We can build now only a
1519 | fraction of the ones we really intended to build, doesn't
1520 | meet the original specifications or the change requirements.
1521 | Let's move on. Let's just put this one on the burner and
1522 | move on.

1523 | Mr. PATTERSON. Yes, sir.

1524 | Mr. TIERNEY. Maybe about a half a dozen of those?

1525 | Mr. PATTERSON. Joint common missile comes to mind,
1526 | where we determined that the requirement was not sufficient
1527 | to continue the program; and the program was terminated.

1528 That's the most recent example.

1529 Mr. TIERNEY. Well, how about the F-22, where at one
1530 point Vice President Cheney was all for eliminating it?
1531 It's, what, two or three decades overdue now. It's billions
1532 of dollars--tens of billions of dollars over budget. It was
1533 originally designed to go deep in the Soviet Union. That
1534 doesn't exist any more. Is the real problem that some parts
1535 of it are made in 48 States, and we can't get Congress to
1536 kill this beast? Or what's going on with that?

1537 Mr. PATTERSON. I believe it's the Defense Department
1538 V-22 that Secretary Cheney had a problem with. As you know,
1539 the V-22 is performing quite well in Iraq today. Had we
1540 cancelled it, it probably would have been a bad thing, but it
1541 did take a long time.

1542 But your point is well taken, quite frankly, the fact
1543 that we oftentimes live under a circumstance where we live in
1544 hope. We hope that it will perform the way that we intended
1545 it to. We hope that it will be on budget. But the fact is
1546 that the circumstances we find ourselves in oftentimes make
1547 that impossible.

1548 I would like to point out and to comment on the GAO's
1549 reports that have, in fact, prompted a great deal of effort
1550 on the part of the Department of Defense. Back in 2005, the
1551 GAO reported a report similar to this one that was used
1552 extensively in the confirmation hearing for the Deputy

1553 Secretary of Defense that then prompted him to ask for a
1554 complete review of the Defense Department acquisition system
1555 from the bottom to the top; and those recommendations, which
1556 we have started to implement, as Secretary Finley has
1557 expressed, are beginning to show progress and promise.
1558 Things don't happen overnight, but the fact is that we have
1559 started to do that, and I think that we will show success in
1560 the future.

1561 Mr. TIERNEY. One of the problems, I think, is that
1562 people keep changing; and it's always, we are talking about
1563 the past. That's not us. We are doing a better job. Then
1564 you move on. Somebody comes in and says that was them.
1565 That's not us. But we are doing a better job.

1566 But, Mr. Sullivan, you laid out in the report pretty
1567 clearly the bestpractices. At what point in time do you do
1568 the concept refinement and technology development? Then you
1569 should move on to the system development and demonstration
1570 and then move on to production and deployment.

1571 From your report, it looks like these are overlapping
1572 significantly. That just doesn't seem to make sense. We are
1573 flying before we are buying on so many of these systems, and
1574 then it just creates more work down the line.

1575 The story in the New York Times on the littoral ship
1576 being one of those cases where they put it all together and
1577 they thought it would work in small spaces and they go

1578 backwards on the project. So do you see that this is going
1579 to change?

1580 Mr. Finley, I would ask you to answer as well. Are we
1581 going to get back to the best practices where we actually
1582 test and get them to a point of time where we have some
1583 assurance they will be able to work in a realistic
1584 operational environments before we can move to the next
1585 stage? You certainly are not recommending that we don't do
1586 that, that we just continue to keep building and paying,
1587 building and paying when they don't work and go to the point
1588 go.

1589 Mr. SULLIVAN. You know, the way that we look at this,
1590 the recommendations that we come up with would be literally
1591 it would be a good idea to fully fund a product development
1592 program. In order to do that, the thing pretty much has to
1593 take 5 years or less. So you have to have requirements that
1594 you know are achievable in that timeframe, and that way you
1595 can upgrade.

1596 We talk about an evolutionary knowledge-based
1597 acquisition process that might get you an F-22A, an F-22B, an
1598 F-22C, understanding your requirements all the way along.

1599 There's significant overlap still in most of the big
1600 weapons systems that they are building now. The joint strike
1601 fighter, there's overlap now. They are going into
1602 production. They are in the limited procurement contracts

1603 now, and they have just begun testing the aircraft, so that's
1604 risky to us.

1605 I would like to say that in the past couple of years--in
1606 fact, the Congress, with this section 804 from the Defense
1607 Authorization Act a couple of years ago, asked the Department
1608 to start looking at things.

1609 I really, to be fair, would like to say in the past 18
1610 months or so there have been--even us, GAO, looking at it
1611 from the outside, we have seen things happening at the OSD
1612 level that indicate that harder decisions are being made.

1613 I think the JLTV you could probably talk about better
1614 that I, but that is an example where they have asked them to
1615 go back and look at the requirements before they let them be
1616 in a program.

1617 That, as we say in our statement, there's reason for
1618 optimism. But, as you said, the transitory nature of the
1619 people at the top is really what keeps anyone from being able
1620 to change the underlying culture.

1621 Mr. TIERNEY. That and I think just the unending desire,
1622 apparently, by Congress to keep writing a check. Nobody ever
1623 says this is how much money we have to spend, given all of
1624 our other challenges here.

1625 We have to keep the core of the country solid as well as
1626 a better defense and morality, but we say, well, that will
1627 have to just set aside. Because we will keep writing the

1628 Pentagon as many checks they want, no matter how many
1629 billions of dollars they go over budget or how many decades
1630 they go behind schedule.

1631 I would suggest that some of these auditors ought to
1632 come up at some point and say, you know what? Here are X
1633 billion dollars off the table. Now realign your strategy
1634 here and tell us what you can do.

1635 Mr. FINLEY. I think we are completely aligned on that,
1636 Congressman Tierney. We have made a lot of changes, probably
1637 way too many, to discuss in this particular hearing, as
1638 pointed out by both Mr. Patterson and Mr. Sullivan. And they
1639 are very wide-ranging. They are very sweeping.

1640 To your point about people, people oftentimes ask me,
1641 you know, I have 265 days to go--my wife is counting.

1642 Mr. TIERNEY. Counting, yes.

1643 Mr. FINLEY. But when I came in we brought in very
1644 senior executive people that had the industry experience and
1645 the military experience and the passion to serve their
1646 country, our country. That has made an astounding difference
1647 from a leadership point of view. These are career SESs.

1648 What we have been doing for these 26-some odd months is
1649 getting the traction empowered and embedded and, you know,
1650 deployed throughout the building, if you will. So the
1651 relationship with the four-stars, the three-stars, all the
1652 way down to the iron majors is what's been going on.

1653 I can do the tests. I can go to the field today, and I
1654 can see things like Lean Six Sigma, continuous process and
1655 improvement working in the field in terms of dramatic
1656 performance at that end.

1657 At our end of the food chain up here in acquisition,
1658 where they think of us at the front end, you know, early
1659 preliminary design reviews. We're pushing this entire
1660 acquisition process to the left by years. That's what we are
1661 talking about. We are talking about competitive prototyping,
1662 one of Mr. Young's top strategic initiatives to prototype at
1663 milestone A or sooner.

1664 Industry, I believe, is more than happy to invest their
1665 R&D money to get better performance out of products before we
1666 start making major milestone decisions at B early. And more
1667 competition even through milestone B, more competition
1668 through milestone C, I believe, will enable us to get our
1669 industrial base far more mobilized and able to afford
1670 affordable solutions for our warfighter needs.

1671 Right after we sign contracts, for example, at milestone
1672 B, we have also instituted what had we call a B prime. At B
1673 prime, within 30 days, what we want to try to do is have a
1674 meeting of the minds that what we are going to sign on the
1675 contract is, in fact, what we actually need. Eyeball to
1676 eyeball, what have we really got here that we think that we
1677 need, make sure we are both talking from the same sheet of

1678 paper.

1679 I have heard a lot about contracting. We have shifted
1680 from fixed firm price. We are trying to get ACAT 1 programs
1681 with predictable performance. That means it needs an
1682 additional acquisition strategy. That means it needs a block
1683 acquisition strategy. ACAT 1 programs should not have a
1684 spiral acquisition strategy mainstreamed into that program
1685 planning.

1686 The discovery of some of the programs--in fact, that is
1687 what we have found. That is where you see technology, low
1688 maturity starting at the get-go, and that's where you see
1689 requirements creep at the get-go. It just does not get
1690 stopped without having mature technology.

1691 I fundamentally believe today we have got technology
1692 maturity and requirement creep in hand. We have got those
1693 systems stopped. We have got the processes working so that
1694 we can move on to other critical issues like funding
1695 stability. I think funding stability is imperative to be
1696 fixed.

1697 Chairman WAXMAN. Thank you very much.

1698 Mr. Issa.

1699 Mr. ISSA. Thank you, Mr. Chairman.

1700 Two hundred sixty--how many days?

1701 Mr. FINLEY. Five, 265, I think.

1702 Mr. ISSA. Is your wife also counting when you go from

1703 | four to five grandchildren? Does she keep track of all of
1704 | these things for you ?

1705 | Mr. FINLEY. No.

1706 | Mr. ISSA. I appreciate your service.

1707 | Since we have a wealth of historic information here and
1708 | we are in the waning days of an administration, I am not
1709 | going to dwell on what this administration can't change; and
1710 | I am certainly going to try not to overly dwell on the fact
1711 | that this administration doesn't seem to have done worse than
1712 | its predecessors. It's just we are disappointed it may not
1713 | done as much better than we would have hoped.

1714 | Just historical, you know--I mean, I grew up in the
1715 | military during the MX missile, failed night vision devices,
1716 | secure radios that were never secure. They were
1717 | theoretically secure, but they couldn't stay secure long
1718 | enough to communicate, so, ultimately, you transmitted in the
1719 | open.

1720 | I watched the Vulcan system repeatedly fire an amazing
1721 | amount of rounds and never hit anything. I know that the
1722 | A-10 was a disaster, unable to kill or survive in a Soviet
1723 | environment, and we kept buying and building them. But I was
1724 | told it got better. They got so good that the Governor of
1725 | Pennsylvania objected when we tried to retire them on him
1726 | because he needed them for homeland defense in case there was
1727 | a riot in Pittsburgh.

1728 I have sort of enjoyed a little bit of history here with
1729 you, but I would like to dwell for a moment on how we can
1730 change the future so that the next administration and, more
1731 importantly, the next Congress can make sure we do a better
1732 job.

1733 Mr. Patterson, you are intimately familiar with the
1734 C-17.

1735 Mr. PATTERSON. I have been acquainted with the C-17 for
1736 a very long time, yes.

1737 Mr. ISSA. I am going to dwell for a moment--by the way,
1738 I noticed you are an old '02 Ford observer.

1739 Mr. PATTERSON. That's correct.

1740 Mr. ISSA. Now there was an inexpensive contract. We
1741 just bought a Cessna 182, put a big engine in it and hoped it
1742 would stay in the air. I hope it always did for you in
1743 Vietnam.

1744 Mr. PATTERSON. It did, quite frankly. I wouldn't be
1745 here otherwise.

1746 Mr. ISSA. Well, that's how you do something on the
1747 cheap. You buy a Cessna and say, can you make it a little
1748 more powerful? We will put the radios in it and hope that no
1749 one shoots it down, because it has no armor.

1750 The C-17 has been a tremendous success. Why is it--two
1751 questions. Why is it that the C-17 continues to be bought in
1752 bits and pieces? We never shut down the line, because,

1753 ultimately, it is a great performer, and we keep realizing
1754 that we can and should have more of them. But, at the same
1755 time, we have never made a purchase essentially for the end
1756 game. Even today, we are not really accurately stating the
1757 end game. We zero it out, and then we plus up in order to
1758 keep the line running.

1759 I will make it a two-part question for a good reason.
1760 The GAO, rightfully so, talked about the C-130J. The C-130J
1761 appears as though we are trying to morph endlessly the C-130
1762 from a basic short field, deliver a small amount of cargo in
1763 theater to something in many, many fields that it wasn't. As
1764 a result, it creeps up to the cost of a C-17 and it exceeds
1765 it on a payload basis.

1766 Can you touch on those two areas and how we got there?
1767 I really want to know how we got through this trouble. We
1768 are not going away from it yet. How is this Congress going
1769 to begin thinking about giving instructions to this next
1770 generation so we will stop making the same mistake we made in
1771 plain sight?

1772 Mr. PATTERSON. Let me talk to the C-17 first. The
1773 C-17, in fact, continues to perform in a more capable way
1774 than we had anticipated. It performs its night mission. It
1775 lands in the short field, carrying the amount of cargo that
1776 we had thought it would; and it continues to do that.

1777 While the C-17 performs as well, we have problems that

1778 | you are well aware of in terms of the C-5 and re-engining the
1779 | C-5 and having it available--

1780 | Mr. ISSA. Please don't go to the C-5. I am on record
1781 | as saying, except for special missions, we should shut them
1782 | down. It is the worst decision of the Air Force, but because
1783 | it is an ongoing Air Force decision that I have fought and
1784 | lost, I would rather not go there.

1785 | I am concerned about these other aircraft--including, by
1786 | the way, the short-field version of the C-17. We look and
1787 | say that's sort of like the Cessna 182 with the big engine.
1788 | We know it can work. We know we can get a guaranteed
1789 | contract to deliver it at a fixed price and make sure that it
1790 | meets that requirement or we don't pay. But, at the same
1791 | time, we continue to go buy C-130s as though it's the only
1792 | thing that can do a short-field message.

1793 | That's why I am limiting you in my limited 5 minutes.

1794 | Mr. PATTERSON. The C-17, in fact, does land in short
1795 | fields, carries a lot of stuff, carries three times what the
1796 | C-130 carries. The fact that the C-130 is truly a less
1797 | expensive airplane that the Air Force believes that it can
1798 | use that in an effective way in the intratheater mission and
1799 | has chosen to emphasize the intratheater mission.

1800 | The C-17, on the other hand, has been used in its long
1801 | range and long-range direct delivery capability. It is a
1802 | question of the instant mission that they are having to deal

1803 | with, and I think that's where the Air Force is going.

1804 | I don't want to put words in the Air Force's mouth--and
1805 | they are probably better able to tell you why they do
1806 | things-- but those are the issues that I believe continue to
1807 | make the two airplanes marketable to the Department of
1808 | Defense.

1809 | Mr. ISSA. Mr. Chairman, if you could just finish up on
1810 | the C-130J and how we can justify the continued cost
1811 | increases there, because that is sort of the mirror of the
1812 | first half he has answered.

1813 | Mr. PATTERSON. I believe--and I will get you the
1814 | precise answer for the record--but Lockheed has come in with
1815 | a reduced cost for the C-130J, which is an appealing cost for
1816 | a continued purchase of that airplane, and that is why the
1817 | Air Force has seen this as an opportunity, sir.

1818 | [The information follows:]

1819 | ***** COMMITTEE INSERT *****

1820 Mr. ISSA. Thank you, Mr. Chairman.

1821 I would only say that you can tell I would love to have
1822 a whole hearing on sort of our lift capability and
1823 those--because I believe those, in the long run--you and I
1824 will be long retired, and we will still be paying for a fleet
1825 of C-5s that can't be cost justified.

1826 Thank you, Mr. Chairman.

1827 Chairman WAXMAN. Thank you, Mr. Issa.

1828 Ms. Watson.

1829 Ms. WATSON. Thank you so much, Mr. Chairman.

1830 Dr. Finley, can you justify paying General Dynamics \$60
1831 million in bonuses to build a vehicle that didn't work and
1832 had to be scrapped?

1833 Mr. FINLEY. Congresswoman, I am not familiar with the
1834 facts. I would, I think, certainly be honored to take the
1835 question for the record.

1836 [The information follows:]

1837 ***** COMMITTEE INSERT *****

1838 Ms. WATSON. Well, let me inform you that over \$25
1839 million--and you better write this down, since you don't have
1840 the facts--over \$25 million in bonuses was paid to General
1841 Dynamics for doing its work on time and under budget. But
1842 the work wasn't done on time and wasn't done on budget.

1843 Under the contract, General Dynamics was supposed to
1844 build a working prototype by the year 2003. It's now 2008, I
1845 believe, and we still don't have a working prototype. In
1846 fact, the Defense Department is about to issue a new contract
1847 worth nearly \$1 billion to build a new prototype because the
1848 one General Dynamics built didn't work.

1849 I just feel that if you set out a contract, regardless
1850 of the problems the contractor runs into, how do we reward
1851 poor behavior? I would like to know how the Defense
1852 Department can justify giving a bonus--and this is taxpayers'
1853 money. We have got a war going on in Iraq, and we still have
1854 conflicts in another nation, and we are giving a bonus to a
1855 contractor who failed to live up to the contract.

1856 So you can give it to me in writing and please help me
1857 to understand so I can go back to my constituents who pay
1858 their taxes and let them know what is happening with their
1859 precious dollars. Thank you.

1860 Mr. FINLEY. You are welcome.

1861 I would just comment, shortly after I was confirmed,
1862 award fee policy was one of the first things that came up on

1863 my radar screen, and we immediately did initiate policy
1864 change.

1865 Where we are today is we really do not believe award fee
1866 structures are appropriate. We are promulgating policy to
1867 conduct business with objective goals and requirements for
1868 being paid in terms of incentive fees and not award fees.

1869 We will be happy to take this question for the record.

1870 There's rollover provisions that our contracts had
1871 historically that we have eliminated. You know, the rollover
1872 provisions that they used to have, you know, when not earned
1873 in one period could roll over to the next period. So we will
1874 be delighted to take the question for the record and get back
1875 to you.

1876 [The information follows:]

1877 ***** COMMITTEE INSERT *****

1878 Ms. WATSON. Mr. Chairman, reclaiming my time, may I ask
1879 Mr. Sullivan to respond to the question I was raising with
1880 Mr. Finley.

1881 Mr. SULLIVAN. This is something--if you would like, I
1882 could look into that further and get back to you. You are
1883 talking about the expeditionary fighting vehicle contract?

1884 Ms. WATSON. Yes.

1885 Mr. SULLIVAN. The one thing I would add to that is I
1886 think the new contract they have established has a lot more
1887 incentives in it today that are tied to achieving reliability
1888 targets. So the Department may have at least looked back at
1889 the mistakes they have made with it.

1890 [The information follows:]

1891 ***** COMMITTEE INSERT *****

1892 Ms. WATSON. Well, let me ask you this. How is it you
1893 would say they justify paying the bonus money out when they
1894 didn't meet their contract at all and we are looking at maybe
1895 a new contractor? It's inexplicable to me. Maybe you can
1896 help me.

1897 Mr. SULLIVAN. Well, Congresswoman, you know, we,
1898 actually, wrote a report about award fees in general and the
1899 policies that the Department uses. Because we feel, you
1900 know, we had the same idea, that the award fee policies were
1901 a bit too generous, given the outcomes that they have. I
1902 think we found that the Congress did, I think, eventually
1903 pass some laws in one of the authorization acts for the
1904 Department to look at that. I think that's what Mr. Finley
1905 is talking about now, is that the Department has looked at
1906 that thoroughly. I think they did recognize that the award
1907 fee process had gotten a little bit undisciplined and are
1908 trying to tighten it up now again. So I don't think it is
1909 justified. I agree with you.

1910 Ms. WATSON. I would hope so, because there's another
1911 emergency supplement coming our way, and we have got to find
1912 out a way to fund it. We want to protect our troops and give
1913 them what they need. But when we throw money away and reward
1914 bad behavior, it's unjustifiable to me.

1915 Thank you so much. I yield back.

1916 Chairman WAXMAN. Thank you very much, Ms. Watson.

1917 Mr. Cummings.

1918 Mr. CUMMINGS. This is a very interesting discussion,
1919 and I am trying to figure this thing out. Because, to be
1920 very frank with you, it's a bit confusing.

1921 The question is, how do we move to a culture of
1922 excellence? I think that we are mired in a culture of
1923 mediocrity, a culture of complacency and a culture of just
1924 don't give a hoot. I mean, if we listen to everything that
1925 was said--and, Mr. Sullivan you just said something that was
1926 very interesting. You were talking about items delivered,
1927 delivery of items, and you said they are always late.

1928 I am not here knocking anybody. I am really not. You
1929 know, I sit as a chairman of the Deepwater--of the Coast
1930 Guard Subcommittee on Transportation, and this thing--I tell
1931 you, if I closed my eyes and didn't read a document I would
1932 swear I was going through Deepwater.

1933 It's the same kinds of problems: product not delivered
1934 on time, bonuses given out to people who don't deserve them,
1935 not getting what we bargained for. That's a basic contract
1936 concept. You pay. You get what you bargain for.

1937 I mean, I could go on and on; and it seems to me that
1938 there is some type--I think we can back up. You just keep
1939 backing up, backing up, backing up, and say, okay, guys, it's
1940 going to be all right. Just slap your hand. We will correct
1941 that for you.

1942 But what is happening is that we have this--time passes
1943 on, money being spent, product not being produced, bonuses
1944 being given out, American people being cheated. That's a
1945 problem; and, at the same time, our national security--and
1946 this is probably number one--our national security being
1947 compromised.

1948 So I guess what I am trying to figure out is, you know,
1949 in the Deepwater program, one of the problems was they didn't
1950 have the kinds of people--this is my opinion--in the Coast
1951 Guard who had the skill to even put together a contract that
1952 made sense.

1953 As I said to the Coast Guard, I believe that a
1954 first-year law student could have done a better job than
1955 having, for example, the person who--the contractors deciding
1956 whether they get bonuses, for example.

1957 But I am trying to figure out where are--I heard you,
1958 Mr. Finley, talk about we are bringing in all of these
1959 people, and then I hear us talking about how we have this
1960 turnover are and how at what point--going back to some of the
1961 things that Mr. Issa was saying--how do we make sure that we
1962 are not--we are in a place where we are not having this same
1963 discussion 5 or 10 years from now, for example, Mr. Finley,
1964 when you are retired and chilling out, you know, in the
1965 summer sun.

1966 I am very serious. I mean, what kinds of things must we

1967 do now? Because a lot of this stuff comes down to reaching
1968 for the very best in America.

1969 I have this saying I tell my kids. I tell them, you
1970 know, we can--at some point, you have got to meet your maker.

1971 What I say is that people will--you can jive and play
1972 games and act like we are doing something successfully and
1973 everything is going to be fine, but sometimes the rubber is
1974 going to have to meet the road. And the sad part is
1975 sometimes we discover there's no road. This is happening
1976 more and more in this country. It's not just you guys. Like
1977 I said, the Coast Guard is almost a mirror image of this.

1978 So the question then is, how do we make sure that we
1979 have the kind of people that we need? How do we lift up that
1980 standard of excellence? Because if we are going to be number
1981 one in the world and maintain number one status in the world,
1982 we have got to be on that level. We just can't say, well,
1983 they are going to be late.

1984 I see my time is run out, but I hope I can get an answer
1985 to that question.

1986 Mr. FINLEY. Well my answer to that question is, sir, we
1987 do not accept mediocrity. It does start with the leadership.

1988 We do set the pace. We set the bar. I am a very big
1989 believer in Lean Six Sigma, been through it numbers of times
1990 with a number of companies. It is being implemented in the
1991 Pentagon.

1992 There's a shift in the way we do business in the
1993 Pentagon to measure performance, objectives. Performance,
1994 bonuses don't come unless you have achieved your objectives.
1995 If you have excelled in your objectives, then maybe you get a
1996 little bit more. But it starts with leadership; and it ends
1997 with the fact that you simply do not accept mediocrity, as
1998 you have very eloquently stated.

1999 In the Lean Six Sigma--the good thing about the Lean Six
2000 Sigma is you establish a bar of performance, and that
2001 performance bar is not measured by who is in charge or
2002 personalities. That's measured by process control.

2003 Once you have achieved that processability, you then
2004 raise the bar another notch, and you raise the bar. They
2005 call it Six Sigma for a reason. You can go to Nine Sigma if
2006 you want. It's a continuous process of improvement.

2007 The balance you have to strike is we cannot invest in
2008 process improvement at the cost of complex outputs. My
2009 process can be so complicated, as 5000.2 has been accused of
2010 from time to time.

2011 The process is so complicated we can't find our way
2012 through it. That's where we have to slash, cut and simplify
2013 the process for better outcomes, not compromise quality, do
2014 not accept mediocrity. This is a way of doing business, and
2015 we do it as a team.

2016 Mr. CUMMINGS. Thank you.

2017 Chairman WAXMAN. Thank you, Mr. Cummings.

2018 Mr. Tierney.

2019 Mr. TIERNEY. Thank you very much.

2020 There's a lot to go over that we won't have time for
2021 here today, but I appreciate the give and take it on this a
2022 little bit.

2023 I want to clarify something if I can between Dr. Finley
2024 and Mr. Sullivan. Mr. Patterson, if you have something to
2025 say--I am not sure where you are with Mr. Finley's role--sort
2026 of overlap a little bit.

2027 Can we be comfortable now going forward that all the
2028 projects, the 92 various programs, are going to go through
2029 sort of the knowledge achievement process that the GAO
2030 outlined in its report? Do you have that confidence, Mr.
2031 Sullivan?

2032 Mr. SULLIVAN. Well, if you look at the portfolio that
2033 we are examining, the 95 programs, many of them are beyond
2034 that. I mean, this is a snapshot in time of all the major--

2035 Mr. TIERNEY. Some of them have gone by the by.

2036 Mr. SULLIVAN. We have F-22 in there. We have Global
2037 Hawk. There are a lot of programs beyond that.

2038 But a study should be done of what is starting now and
2039 begin to track these new ones. So the 95 programs that we
2040 are talking about, these are not all new starts. I would
2041 hope that--

2042 Mr. TIERNEY. I would just ask Dr. Finley just that.
2043 The programs that you are starting now, Dr. Finley, can we
2044 anticipate that they will follow the knowledge achievement
2045 system that the GAO talks about in its report?

2046 Mr. FINLEY. Well, the knowledge achievement system in
2047 itself is one I don't understand necessarily; and I need more
2048 work with my friend, Mike, to figure that out.

2049 Mr. TIERNEY. Where did you get that, Mr. Sullivan?
2050 This isn't something you invented, is it?

2051 Mr. SULLIVAN. It's something that we probably
2052 articulate for the first time, but I think the three points
2053 that we talk about are--

2054 Mr. TIERNEY. Pretty confident.

2055 Mr. FINLEY. Yes, but the programs that are in this
2056 pipeline of acquisition at the ACAT 1 level, all of these
2057 programs are in the process of going through very simplified,
2058 very streamlined reporting to OSD, first of all.

2059 These have leading metrics. We are looking ahead 8, 12
2060 months, performance, cost, schedule performance and
2061 survivability.

2062 We are also, as a result of all the Nunn-McCurdy actions
2063 that we have had last year, are looking at what we call
2064 triage; and we are able to discern programs that are may not
2065 be in trouble today but at leading indicators that's where
2066 they may be tomorrow. As he implied, not only the pipeline

2067 | but to programs that are typically outside of the so-called
2068 | OSD pipeline and milestone C.

2069 | Once you get into production, once you get in
2070 | sustainment, oftentimes, these programs lose our radar
2071 | screen. We are bringing all of those back into our radar
2072 | screen; and we are pushing the front end of the radar screen,
2073 | if you will, at the very, very beginning into the format
2074 | 13170 requirements process to help facilitate dialogue about
2075 | our critical technologies, what our readiness is to make the
2076 | entire process end to end far more streamlined and effective.

2077 | Mr. TIERNEY. Thank you.

2078 | Mr. Sullivan, can you talk a little bit about the
2079 | ground-based, mid-course defense systems block system of
2080 | finding--the spiral development thing, whether they are
2081 | developing it in blocks and so forth. Does that comport with
2082 | best practices in the industry, and how does that affect or
2083 | not affect the ability to make sure we don't fly before we
2084 | buy?

2085 | Mr. SULLIVAN. Is this part of the Missile Defense
2086 | Agency?

2087 | Mr. TIERNEY. It is.

2088 | Mr. SULLIVAN. Congressman, it is something I can look
2089 | into and get back to you on. I don't know enough. I know a
2090 | little bit about how the MDA is going through the three
2091 | points or not going through the three points that we talk

2092 | about. I can get something for you and give you my opinion
2093 | on that in writing.

2094 | Mr. TIERNEY. Thank you. I would appreciate that if you
2095 | would.

2096 | [The information follows:]

2097 | ***** COMMITTEE INSERT *****

2098 Mr. TIERNEY. Dr. Finley, do you have any say over that
2099 MDA program?

2100 Mr. FINLEY. I am sorry? Can you repeat the name of the
2101 program at MDA?

2102 Mr. TIERNEY. Missile defense?

2103 Mr. FINLEY. No, I am familiar with missile defense, but
2104 which program?

2105 Mr. TIERNEY. It was the ground-based, mid-course
2106 defense system itself. We also involved the Aegis, airborne
2107 laser, that stuff.

2108 Mr. FINLEY. I am sorry. What is the question again?

2109 Mr. TIERNEY. The question had been whether or not you
2110 are directly involved with establishing that block sort of
2111 accountability process.

2112 Mr. FINLEY. Yes, sir, we are involved. Oversight of
2113 MDA and ballistic missile defense has fallen into the four
2114 different committees, subcommittees, standing subcommittees.
2115 I am on two of those standing subcommittees as co-chairman.

2116 One committee that Mr. Patterson and myself are involved
2117 in is the budgeting and the programmatic end of the
2118 business. The other committee is testing evaluation.

2119 Mr. SULLIVAN. One of the things that I thought of there
2120 is the Missile Defense Agency is interesting in that it has
2121 one selected acquisition report; and there are probably 20--I
2122 am not sure how many--but many major acquisitions going on

2123 | within that. And that's a--you know, there's a difference
2124 | being able to manage properly and being able to fund elements
2125 | across a wide matrix of things you are trying to get done and
2126 | oversight.

2127 | But from our point of view it's very difficult to have
2128 | oversight of 20 different programs when they are all part of
2129 | one report. That's just kind of an aside.

2130 | Mr. TIERNEY. That's our point as well, and we have
2131 | issues on that.

2132 | Let me just, if I can--and I don't want to overstay my
2133 | welcome here, but I want to talk a little bit about the
2134 | contractors that are out there.

2135 | Mr. Sullivan, you indicated, of the 72 programs, about
2136 | 48 percent of the personnel involved in that were
2137 | contractors. So I guess the question is, are we relying too
2138 | heavily on contractors? What are the dangers? If we
2139 | are--dangers in terms of how that might affect the program
2140 | and the inability to say no when it's necessary? But also
2141 | dangers--are we not having enough people on the government
2142 | payroll able to manage these contracts? Whether that seems
2143 | to be a problem with problem with people retiring. I have
2144 | noticed that the age group is in the 40s and up on that. And
2145 | from all three of you, what are we going to do about that,
2146 | and what the problems of having so many contractors?

2147 | Mr. SULLIVAN. If I can clarify, we did look at 72

2148 | programs overall. But when we sent the survey out, I am not
2149 | sure--there was some percentage of those programs that
2150 | actually answered that question for us. So it is
2151 | some--probably half of those we have got data back on. So
2152 | it's a much smaller subset.

2153 | Mr. TIERNEY. Of half of those programs they had almost
2154 | half of the personnel.

2155 | Mr. SULLIVAN. That's right. I think the reason we were
2156 | asking that question is because of interest in the
2157 | Government, generally, speaking about, well, are you raising
2158 | it? Are you contracting out some of the things that the
2159 | government really needs to keep in hand?

2160 | As I stated earlier, we have not found any evident bad
2161 | effect of that yet, but we question it a lot. We think that
2162 | the Government should try to maintain a more organic
2163 | workforce than they have now. I think it goes to some of the
2164 | things that Mr. Cummings was talking about. You know, as you
2165 | contract things out, you lose the organic capability and
2166 | probably get more mediocre and lose the Government's
2167 | interests in the process.

2168 RPTS BINGHAM

2169 DCMN MAGMER

2170 Chairman WAXMAN. Thank you, Mr. Tierney.

2171 Mr. Issa, do you wish a second round?

2172 Mr. ISSA. Yes, Mr. Chairman. Thank you.

2173 Mr. Sullivan, when did you join the government?

2174 Mr. SULLIVAN. 1986.

2175 Mr. ISSA. I apologize. Yours was the only bio I
2176 couldn't get.

2177 So you sort of came in at the height of Nixon's buildup.

2178 The 600 ships was somewhere in sight over the horizon.

2179 Mr. SULLIVAN. Six hundred ship Navy, right.

2180 Mr. ISSA. During that period of time, was contracting
2181 better or less well done than it is here today? Did we do a
2182 better job? Was there less waste?

2183 Mr. SULLIVAN. Just kind of generally speaking, I would
2184 say that it is about the same, really.

2185 Mr. ISSA. Ten years into your career, midway through
2186 your rise, was it any better, any worse in 1996?

2187 Mr. SULLIVAN. From my perspective, the things that were
2188 taking place in the Department, there was an acquisition
2189 reform movement that began with the end of the Cold War. It
2190 seems to me that there was at least initiative and the idea
2191 that things could improve, a lot of acquisition reform with
2192 very good thinking trying to be put in place by people like

2193 William Perry.

2194 Mr. ISSA. Did they pull it off?

2195 Mr. SULLIVAN. No.

2196 Mr. ISSA. And I am not going to overly pick on one
2197 thing, but the Crusader was ordered, designed, nearly
2198 procured all post Cold War so that we would have a big
2199 frigging gun that could shoot a long way and weighed not just
2200 a ton but more tons than any road can hold.

2201 Isn't it essentially true that if we're going to really
2202 improve government procurement to get us the right systems,
2203 the right time, with the minimum mistakes--and there will
2204 always be mistakes. When you say I want to see at night, I
2205 want to fight at night, I want to know where the enemy is and
2206 where the friendlies are, and I want to be able to pinpoint
2207 them with a smart bullet, that is not going to be easy to do.

2208 But if we are going to do that, we are going to have to take
2209 career professionals like yourself and not these two
2210 gentlemen who came from industry but the people who worked on
2211 the BFE program, and we are going to have to change how they
2212 do business. We're going to have to do another reform.

2213 Isn't that true?

2214 Mr. SULLIVAN. I think that the culture needs a change,
2215 yes.

2216 Mr. ISSA. And just for the record, because I think it
2217 is critical. And not only are you a career professional but

2218 | how many people on these programs that you cite in your
2219 | report that failed, how many people in one of those programs
2220 | was a political appointee? Out of every 10, essentially 10
2221 | were career professionals. Either they were active duty
2222 | military or they were career professional civilian.

2223 | Mr. SULLIVAN. Yes, sir.

2224 | Mr. ISSA. So because the other side of the aisle
2225 | sometimes wants to make it seem as though a change in
2226 | Congress or a change in administration really hasn't made any
2227 | change in your oversight, your job and how well it is done,
2228 | could I ask it straightforward--the administration per se or
2229 | the previous administration, this Congress or the previous
2230 | Congress, realistically, although we may have failed to
2231 | improve things, did we really have any impact? Or isn't it
2232 | essentially what you are complaining about in your report
2233 | part of a culture that has been unwilling or unable to be
2234 | changed by both previous administrations and this
2235 | administrations, previous Congresses and this Congress?

2236 | Mr. SULLIVAN. I would say that that is fair. It is
2237 | about the culture of this acquisitions community that we talk
2238 | about has been impervious.

2239 | Mr. ISSA. Secretary Finley and Mr. Patterson, I am
2240 | going to ask you both together. You both came from industry.
2241 | You have both have been on both sides now on this. Going
2242 | forward as part of your legacy to the next administration,

2243 | because you have tried for 7 years, I am sure, to improve
2244 | things, and I know you can cite things you have improved, but
2245 | what is it that this committee, the primary Committee of
2246 | Government Reform--and the oversight's worked. We found out
2247 | that this is a problem that has been around since not the
2248 | Cold War but since World War II. What is it you leave us
2249 | with that should be the beginning of our process of reforming
2250 | the system so that these career professionals who want to do
2251 | a good job will do a better job?

2252 | Ms. PATTERSON. Well, I think the first thing that I
2253 | would recommend is that--and I don't want anybody to get the
2254 | idea that, despite that we have a great relationship with the
2255 | GAO, that I embrace this particular study. I don't. But--

2256 | Mr. ISSA. We will assume for a moment that, if it
2257 | wasn't there, there would be other things that could be done.

2258 | Mr. PATTERSON. That I do embrace, yes. But what I
2259 | would say is we should be directed to work together with the
2260 | Government Accountability Office to come up with a mutually
2261 | agreeable way forward that takes into consideration the
2262 | pressures and limitations and resources that the Department
2263 | has, the kinds of requirements and budgetary and acquisition
2264 | rules, regulations and limitations that we have, with the
2265 | clear--the clarity that the Government Accountability Office
2266 | brings in terms of what the government and its oversight
2267 | requirements need in order to achieve the end state of on

2268 | cost, on schedule and performing. And that is really what we
2269 | are all about.

2270 | And I think that also having been the executive director
2271 | of the Defense Acquisition Performance Assessment, having had
2272 | over 1,000 different observations, over 100 different people
2273 | coming and talking to us, I concluded that, because we have a
2274 | dearth of competent people as a consequence of us reducing
2275 | the real skill levels during the 1990s, we have to replace it
2276 | with a series of rules.

2277 | And Secretary Finley has talked to you about the process
2278 | in which we are starting to implement those kinds of things.
2279 | But something very simple; and he raised this, that you build
2280 | what you bid. I know it sounds simple. But the fact is
2281 | that, oftentimes, while the ink is drying on a contract,
2282 | everybody has better ideas; and we start to change what we
2283 | had originally asked for. We have got to stop that kind of
2284 | behavior.

2285 | And those are the kinds of things that I would offer,
2286 | and that came out of the DAPA study. And I appreciate the
2287 | question, and we certainly appreciate being here with the
2288 | Government Accountability Office.

2289 | Chairman WAXMAN. Thank you, Mr. Issa.

2290 | Mr. ISSA. Mr. Sullivan, had one more comment.

2291 | Mr. SULLIVAN. You know, I was thinking through this as
2292 | Mr. Patterson was talking. I don't know how long ago it was

2293 | but the Goldwater-Nichols Act by the Congress, 20 years ago,
2294 | whenever it was--

2295 | Mr. PATTERSON. 1986.

2296 | Mr. SULLIVAN. --the year I came into the
2297 | government--looked at how the warfighters fought wars and
2298 | wanted more jointness in that and wrote a law to do that; and
2299 | I think we now have warfighters that fight wars jointly very
2300 | well. I think the same thing, that kind of focus has to be
2301 | given to how we acquire weapons systems, too. Because it in
2302 | a lot of ways it is the stovepipes and the parochial nature
2303 | of this culture that creates all of the inefficiencies.

2304 | Mr. ISSA. So you are calling for a Waxman-Issa reform
2305 | before the Senate beats us to it. It is okay to say yes, as
2306 | long as the chairman lets you.

2307 | Mr. SULLIVAN. Sounds good.

2308 | Mr. ISSA. Thank you, Mr. Chairman.

2309 | Chairman WAXMAN. Thank you, Mr. Issa. This hearing was
2310 | requested by Mr. Davis, so I am thinking we will have him as
2311 | the co-author of the reform.

2312 | Mr. ISSA. We will make it the Davis-Waxman, just one
2313 | for the Gipper.

2314 | Chairman WAXMAN. Sounds good to me.

2315 | Ms. Watson, did you want a second round?

2316 | Okay, I had some further questions to wrap up the
2317 | hearing. Because we want to be constructive, but we can't be

2318 | constructive unless we get accountability in the system. And
2319 | I talked about the EFV program. I am troubled even more by
2320 | the complete lack of accountability for the mistakes in that
2321 | program. There were massive screw-ups that cost the
2322 | taxpayers billions of dollars.

2323 | Yet, Dr. Finley, you seem--you are going to get back to
2324 | us on the record on some of these things. I am looking
2325 | forward to your responses. But GAO has reported that the
2326 | Defense Department failed to follow best practices in its
2327 | weapons development programs. Your comments were that, to
2328 | the GAO, that the GAO was wrong. On page 10 of your written
2329 | statement you said, the best practices are embraced and
2330 | practiced throughout the Department of Defense, end quote.

2331 | So I want to ask you about specifics. First, as I
2332 | understand it, you are generally supposed to complete your
2333 | engineering drawings before you conduct the critical design
2334 | review. Mr. Sullivan, in the GAO report, you say that a
2335 | program should complete at least 90 percent of the
2336 | engineering drawings before the critical design review, is
2337 | that right?

2338 | Mr. SULLIVAN. That is general. And when we speak to
2339 | large world-class firms that do these sorts of things, that
2340 | is the general rule.

2341 | Chairman WAXMAN. And I think it makes sense.

2342 | Mr. SULLIVAN. In fact, the Department of Defense has

2343 | policies that agree with that.

2344 | Chairman WAXMAN. You want your engineers to plan
2345 | everything out and make all their calculations to make sure
2346 | the project will work on paper before you proceed. You agree
2347 | with that, Mr. Finley.

2348 | But in the case of the EFV, the Defense Department
2349 | didn't do that. They didn't wait until the engineering
2350 | drawings were done. In fact, they started the critical
2351 | design review in January, 2001. That was just 1 month after
2352 | the program started, and GAO concluded this was a major
2353 | problem. GAO warned that this did not allow adequate time
2354 | for testing, evaluating the results, fixing the problems and
2355 | retesting to make sure that the problems are fixed before
2356 | moving forward.

2357 | So, Dr. Finley, this contradicts what you said in your
2358 | testimony. The Department didn't follow the best practices.
2359 | It did not complete the engineering plans before it launched
2360 | the critical design review. GAO warned that this would cause
2361 | major problems; and, in fact, it did.

2362 | What I would like to know is who made that decision?
2363 | And you may have to supply that for the record. Who decided
2364 | not to follow the standard procedure? Who decided that you
2365 | didn't need to complete the engineering plans before
2366 | proceeding? And what accountability has there been for that
2367 | mistake?

2368 That decision has resulted in more than a billion
2369 dollars in taxpayer funds being wasted. Has that person been
2370 fired? Has that official been disciplined?

2371 And I assume that you're not prepared to answer that
2372 question now, but you will get an answer to us.

2373 Mr. FINLEY. I will be pleased to take it for the
2374 record, sir.

2375 [The information follows:]

2376 ***** COMMITTEE INSERT *****

2377 Chairman WAXMAN. Another best practice according to GAO
2378 is to have an official responsible for ensuring that all of
2379 the different parts of the program work together and a
2380 senior-level engineer whose job it is to make sure that all
2381 the plans make sense when combined into one coherent system.
2382 But the Defense Department didn't do that.

2383 According to the audit from 2002, "There is no overall
2384 system engineer or architect with the authority and
2385 responsibility to ensure products meet their allocated and
2386 integration requirements." Here is what the auditor said.
2387 "There seems to be no one steering the ship."

2388 Dr. Finley, this also appears to me to contradict your
2389 testimony that the Pentagon follows best practices. What
2390 accountability has there been for this mistake? And we will
2391 look forward to getting your answer on that.

2392 [The information follows:]

2393 ***** COMMITTEE INSERT *****

2394 Chairman WAXMAN. Our oversight and GAO's oversight both
2395 show the same thing. The same problems happen over and over
2396 and again. One reason that this happens is that there seems
2397 to be a culture of complacency at the Defense Department.
2398 When mistakes are made, there is no accountability. That
2399 leads to more mistakes and more ways to spending. There
2400 seems to be no one looking out for the taxpayer, and that is
2401 the concern that we have about this system.

2402 And I know you are not prepared to answer the questions
2403 about this particular system at this moment, but we would
2404 like to have you submit in writing for the record responses
2405 to these questions.

2406 Mr. FINLEY. Yes, sir.

2407 Chairman WAXMAN. Members may want to ask additional
2408 questions for the record, and we would like to ask the three
2409 of you to be prepared to respond in writing to further
2410 questions, and we will hold the record open for such
2411 requests.

2412 I thank you for your participation at this hearing. I
2413 think it is been a good one to get to the point where maybe
2414 we can change the direction and in another 10 years, Mr.
2415 Sullivan, you won't come back here and say, it is pretty much
2416 the same now as it was 10 years ago. We'll have you come in
2417 and say, things have improved a lot; and then we will argue
2418 with you why we haven't even done better. But with all of

2419 | your help we will do better in the future.

2420 | That concludes our hearing today, and the hearing stands
2421 | adjourned.

2422 | [Whereupon, at 12:15 p.m., the committees adjourned.]