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ON OVERSIGHT AND  
GOVERNMENT REFORM**

**STATEMENT**

**BY**

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**BEFORE**

**THE UNITED STATES HOUSE OF REPRESENTATIVES  
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM  
SUBCOMMITTEE ON NATIONAL SECURITY AND FOREIGN AFFAIRS**

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## STATEMENT

Chairman Tierney, Ranking Member Flake and distinguished members of the Subcommittee on National Security and Foreign Affairs, I am Nancy Spruill, Director, Acquisition Resources and Analysis, in the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)). I am responsible for all aspects of AT&L's participation in the Planning, Programming, Budgeting, and Execution System (PPBES), the Congressional process, and the Defense Acquisition System. As the Executive Secretary to the Defense Acquisition Board, I support USD (AT&L)'s oversight of the almost 100 Major Defense Acquisition Programs, including submission to Congress of Selected Acquisition Reports and support of the Nunn-McCurdy certification process. I am also deeply involved in providing authoritative data and analysis in support of USD(AT&L)'s oversight of acquisition programs.

For the past several years the Department has been making changes to improve the acquisition process. Changes such as putting increased emphasis on the front end of the process—starting programs right, making material development decisions at program initiation, conducting preliminary design reviews before Milestone B, budgeting to independent cost estimates, requiring competitive prototyping, implementing configuration steering boards, establishing program management agreements, and completing independent program reviews. We have made support to the warfighter our highest priority and we are increasing and improving the acquisition workforce.

I am pleased to come before you today to address **“Defense Acquisitions: One Year after Reform,”** and discuss the broad trends, incentives, and challenges present in

the Defense Department's current acquisition system for major weapon programs. Thank you for the opportunity to appear before you in today's hearing.

The Department has initiated numerous improvements to the Defense Acquisition System since the enactment of the Weapons System Acquisition Reform Act (WSARA) of 2009 in the areas of systems engineering, developmental test and evaluation, technological maturity, and cost estimation with the goal of re-establishing a culture of acquisition excellence in the Department of Defense. The Department is committed to making trade-offs among cost, schedule, and performance to significantly reduce cost growth in major defense acquisition programs.

Procedural and organizational changes required by WSARA complemented and reinforced many of the Department's recent policy changes. The Department strongly supports and is aggressively implementing the WSARA requirements and will continue to seek additional ways to improve the effectiveness of our weapon systems processes. One of the most important reforms to come out of WSARA was increased emphasis on strengthening the front end of the process—placing more emphasis on acquiring knowledge about requirements, technology and design.

### **Strengthening the Front End of the Process**

Each major program will be subject to a mandatory process entry point, the Materiel Development Decision (MDD) before Milestone A. This will ensure programs are based on approved requirements and a rigorous assessment of alternatives. The objective is to balance, early on, performance needs with schedule and cost limitations.

To reduce technical risk, our standard practice will be to conduct Competitive Prototyping and a Preliminary Design Review before Milestone B. At that point, an independent review must certify the maturity of program technologies for a program to progress to the more costly Engineering and Manufacturing Development (EMD) phase.

We are also making investments to increase the size and capabilities of our cost estimating staff. We believe this increase in capacity, combined with the changes we have made to the front end of the process, will improve the accuracy of our cost estimates and that program costs and associated outcomes will be more predictable.

While ensuring effective oversight, we are being attentive to not burdening the process with excessive reviews. The lead time to design and deliver capability is already too long. As a result, we intend to ensure that process agility is not undermined with more “checkers” than those being “checked.”

We expect these “front end” changes, supported by disciplined systems engineering and effective development testing—as required by WSARA—to result in requirements that are both responsive to the capability need and technically feasible within the time frame and funding available. As well, we believe these steps will result in more thoughtfully structured programs that reinforce our stated preference for an evolutionary acquisition approach.

These changes are already working. The Joint Lightweight Tactical Vehicle Program awarded three separate contracts for prototype vehicles. The resulting competition is being based on real performance of actual hardware. As a result, we are

able to conduct more effective developmental testing, improve the design solution, and increase our confidence in the system cost estimates.

### **Executing Programs Properly**

In addition to the changes we have made to the front end of the process we are also implementing policies designed to improve our ability to execute programs.

A key focus of this effort is improving the business arrangements we have with our suppliers. We plan to make greater use of fixed price contracts when we have stable, well-defined requirements and mature technology. To align profitability with performance, we will employ contract fee structures that are tied to delivered accomplishments rather than process. Where objective measures do not exist, we will restrict the use of award fees.

Let me cite some examples of these arrangements in operation. The Joint Air to Surface Standoff Missile (JASSM) is employing contract incentives tied directly to missile reliability as demonstrated during flight tests that are being executed before each successive contract award. The Small Diameter Bomb Program used a fixed price contract for development, they plan to use a fixed price incentive fee contract during Engineering and Manufacturing Development.

To address the issue of “requirements creep” we will continue to employ “Configuration Steering Boards.” These boards provide a mechanism to preclude destabilizing requirements changes and to match requirements with mature technology.

The newly established WSARA-directed office of Program Assessment and Root Cause Analysis (PARCA) will improve our ability to monitor program performance. We

strongly support this new organizational capability and, while the office is not yet fully staffed, we are engaged in establishing the performance assessment structure, and the operational concept for its employment on a routine basis.

WSARA also strengthened the review process for programs exceeding the Nunn-McCurdy critical cost breach limits and we are implementing those changes currently as we are now conducting several such reviews. In addition to the acquisition process improvements I've already mentioned, I also want to comment on another important element of our acquisition portfolio.

### **Acquisition of Services**

Although the GAO report focuses principally on the acquisition of weapons systems, we are keenly aware of the fact that the Department has come to rely significantly on contractors to provide a variety of support services which enable us to project power and sustain our warfighters. The extent of this reliance and the sheer magnitude of taxpayer dollars spent in this arena demands that we acquire these services in a manner that ensures we are obtaining value. Recently, we have made strides to improve the quality and consistency of our services acquisitions by communicating to military departments and defense agencies the common framework we believe is essential to initiate contracts, and we have implemented a comprehensive architecture for the acquisition of services.

OSD is validating adherence to that architecture through the review and approval of acquisition strategies submitted for services acquisitions valued at \$1 billion or more. For example, we are using this opportunity to shape these programs to severely curtail the

use of new time and materials contracts, to limit service contract periods of performance to three to five years, ensure requiring organizations dedicate sufficient resources to performance oversight, and to demand competition for task orders on indefinite delivery, indefinite quantity (IDIQ) contracts. Military departments and defense agencies are to employ the same set of service acquisition tenets and associated review criteria for contracts valued less than the \$1 billion OSD threshold.

Additionally, we are using Peer Reviews to influence consistency of approach, ensure the quality of contracting, and drive cross-sharing of ideas, best practices and lessons learned. For all acquisitions valued at \$1 billion dollars or more, the Department assigns an independent Peer Review team, which is comprised of senior contracting leaders and attorneys from outside the military department or defense agency whose procurement is the subject of the review, to meet with acquisition teams to assess whether the acquisition process was well understood by both government and industry. Similarly, military departments and defense agencies are accomplishing Peer Reviews within their respective organizations for acquisitions valued at less than the \$1 billion.

### **IMPROVE ACT**

Another important piece of legislation is the “Implementing Management for Performance and related Reforms to Obtain Value in Every Acquisition Act” (or IMPROVE Acquisition Act) currently under debate. We expect the IMPROVE Acquisition Act to help improve the defense acquisition process in the areas of acquisition system management, requirements identification and control, financial

management, fostering the highest quality acquisition workforce, and promoting and strengthening excellence in the Department of Defense acquisition system and the U.S. industrial base. We look forward to working with the Congress as they finalize the provisions of this Act as we have several issues we would like to discuss. We are committed to addressing the issues outlined in the IMPROVE legislation, as well as in WSARA, so that improvements in the acquisition system serve and support the Nation's warfighters and reduce cost growth in defense acquisition programs.

### **General Accountability Office (GAO) Annual Reports**

Over the last several years, the annual Government Accountability Office (GAO) reports on Selected Weapon Programs have identified where the Department, generally, and the Offices of the USD(AT&L) and the Under Secretary of Defense Comptroller, specifically, should focus management attention. Although the reports assessed different numbers of programs every year, each report had specific focus areas, which the Department addressed. For example, the 2008 report focused on “knowledge-based” elements and decisions, the 2009 report focused on “collective cost growth,” and the 2010 report focused on reducing developmental risk.

First, the Department is encouraged the 2010 report cites the progress we have made over the past several years in our efforts to improve acquisition processes and reduce cost growth. We have instituted several major changes that are beginning to show results. The 2010 report acknowledges there has been continued improvement in technology, design, and manufacturing knowledge in programs. We agree early systems engineering reviews and higher technology readiness levels for new program entry will

be fundamental to restraining cost growth across the major defense acquisition programs. The 2010 report also acknowledges that recent changes in DoD acquisition policies are having beneficial impacts with respect to requirements changes, software development challenges, and workforce issues.

We appreciate and respect the GAO's perspective on our acquisition system, and agree with their discussion on problems associated with unintentional cost growth. In the 2010 report, we examined cost growth from another perspective. When we eliminate cost growth due to program age and to quantity increases, we can get to Actual Cost Growth. Using this definition, we find that Actual Cost Growth is concentrated among just a few programs.

In the 2010 report, the GAO said that the Department must adhere to knowledge-based acquisition in order to increase the number of successful acquisition programs. The Department realizes that greater knowledge and stability are critical to managing cost growth. As a Department, we need to minimize changes to requirements after contract award. We need to keep Program Managers in place for several years to ensure the success of the program. The Department has implemented a number of measures to increase adherence to knowledge-based acquisition and improve stability. Central to our efforts to reform the acquisition system is the recognition that we must have a well-trained, adequately staffed workforce. It takes great people to determine what constitutes best value for the American taxpayer and for the soldiers, sailors, airmen and marines who depend on the weapons, products and services we buy.

## **Acquisition Workforce**

The 2010 Quadrennial Defense Review found that the Defense Acquisition Workforce has been allowed to atrophy. In response, the Department has already budgeted for an increase of 20,000 new acquisition workforce personnel over the next 5 years. The Department plans to hire 9,000 new civilian employees and convert 11,000 contract positions to government positions. This “insourcing” effort will also have the added benefit of reducing the Department’s reliance on private corporations to perform inherently governmental work.

Over the past year, we have made enormous strides towards re-building and retaining a high quality acquisition workforce. Our strategy to grow the Department’s acquisition workforce directly supports the President’s objective to ensure the acquisition workforce has the capacity and ability to develop, manage, and oversee acquisitions appropriately. Last April, Secretary Gates announced his intention to significantly improve the capability and capacity of the defense acquisition workforce. With unparalleled leadership support, Department strategy and planning, and the tools provided by Congress, the Department is taking decisive action. Since April 2009, the Department has successfully implemented strategy to shape and rebalance the workforce through growth hiring for contracting, oversight, systems engineering, program management and other critical functions. This strategy includes making adjustments for a better balance between our government workforce and contractor support personnel to ensure that critical and inherently governmental functions are performed by government employees. For Fiscal Year 2009, growth targets were exceeded and DOD is on track to

meet or exceed Fiscal Year 2010 growth and rebalancing targets. Component hiring is aligning with strategy priorities in contracting, systems engineering, program management, cost estimating, auditing and other critical functions. Just last month, the Department delivered to the Congress our Human Capital Strategic Workforce Plan and a report on the Defense Acquisition Workforce Development Fund.

While the Department has made great strides in its acquisition reform efforts, we realize there is still more work to be done. We look forward to continuing our dialogue with the Congress and GAO to identify ways to improve our acquisition processes. We recognize that we have cost and schedule growth in some of our programs. We look forward to continuing to work together with the GAO to improve our cost and schedule growth metrics. Improved metrics will allow for a more accurate assessment of current portfolio performance and policies.

Our acquisition process is improving, and our programs are being restructured to be more efficient and cost effective. The wars in Iraq and Afghanistan place a tremendous amount of stress on the Defense Acquisition System, while at the same time they have greatly increased our funding. The Department recognizes that we simply cannot continue to operate in this fashion, and further acquisition reform is necessary. This will support Secretary Gates' initiative to save two to three percent in overhead costs starting in FY 2012. We will continue to implement the necessary laws and policies to help the Department create a more efficient and effective acquisition system. We must invest our taxpayers' dollars wisely on systems that will help the men and women of the Armed Forces succeed in their missions. Our number one priority is to ensure that our

soldiers, sailors, airmen, and marines have the capabilities to defeat any adversary at anytime, anywhere in the world.

### **SUMMARY**

In summary, measurable progress for acquisition excellence has been accomplished. Much work remains to be done. We recognize that the character, range, and complexity of the Department's acquisition portfolio have substantively changed. We also recognize the unique challenges these changes have produced. The Department is committed to aggressively addressing all unnecessary cost, schedule, and performance growth, and we will continue to implement new and innovative initiatives that help control costs and keep programs on track over the long term. USD(AT&L) Ash Carter recently testified that: "I support, as does the Secretary, the initiatives the Congress directed when it unanimously passed the Weapon Systems Acquisition Reform Act (WSARA). Acquisition Reform is one of DoD's High Priority Performance Goals presented in the Analytic Perspectives volume of the President's FY 2011 Budget. The Department is moving out to implement these initiatives." DoD's acquisition initiatives described above are supportive of DoD's High Priority Performance Goals to "Reform the DoD Acquisition Process" and "Implement DoD-wide in-sourcing initiative." We look forward to working with Congress as we develop an acquisition system that delivers value to the taxpayer and is responsive to the 21<sup>st</sup> century operating environment.

Chairman Tierney, Ranking Member Flake and distinguished members of the Subcommittee, I am pleased to address any questions that you may have for me. Thank you.