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U.S. HOUSE OF REPRESENTATIVES

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PRINCIPAL DEPUTY UNDER SECRETARY OF DEFENSE
FOR ACQUISITION, TECHNOLOGY AND LOGISTICS

BEFORE THE

HOUSE OVERSIGHT AND GOVERNMENT REFORM COMMITTEE

ON

GAO'S 2015 HIGH RISK LIST

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Chairman Chaffetz, Ranking Member Cummings, Members of the Committee, thank you for the opportunity to appear before you to discuss the efforts we have taken to address GAO's identified areas of high risk. The Defense Department has made significant and measurable progress in the two years since the last GAO high risk report, and my testimony today reflects our continued dedication toward improvements that provide effective support for our deployed warfighters and provide value to the American taxpayers who pay for that support. I appreciate the Committee's interest and support of the Department's mission.

Introduction

The Department has developed a close working relationship with the GAO and continues to be fully engaged in the process for removal of each area from the high risk list. GAO's process for removing an item from the High Risk List includes five key elements: top leadership support and demonstrated strong commitment, the capacity to address the high risk areas, developing corrective action plans, monitoring corrective measures, and demonstrating progress resulting from implementing the corrective measures.

Today, I would like to discuss two of the areas that have been assessed by GAO as high risk for the Department: supply chain management and weapon systems acquisition. These are complex areas that by their nature entail some level of risk. We develop and field the best weapon systems, and our logistics capability is unparalleled, as demonstrated by our logistics successes in the 13 years of war. However, even at six sigma tolerance, there will be deficiencies. We agree that we can and should continually strive to improve for the benefit of our warfighters and the taxpayers.

I will highlight concrete actions taken to address the high risk designations in the areas of supply chain management and weapon systems acquisition.

Supply Chain Management

The DoD supply chain is unparalleled in the scope of its operations and complexity of its mission. Our mission is to provide globally responsive, operationally precise, and cost effective joint logistics support for the combat power projection and sustainment of America's warfighter. The over 1 million uniformed, civilian, and contract employees who support all aspects of the Department's supply chain keep 16,000 aircraft, 600 ships, and 40,000 combat vehicles capable of fulfilling their mission.

Every day, DoD logisticians support troops deployed in some of the world's most demanding environments, and they are frequently called upon to support operations on short notice in parts of the world where we have little or no presence. The ability of DoD's supply chain to support these warfighters is our most important measure of success. Most notably today, DoD logisticians are key enablers to simultaneously executing the sustainment of forces in Afghanistan, supporting the war on ISIL, and providing support in the mission to control Ebola. At the height of operations in Afghanistan, we provided 1.1 million gallons of fuel a day for both U.S. and coalition forces while feeding 435,000 meals a day to the U.S. Service personnel and civilians on the ground, as well as delivering the needed sustainment in medical, construction materials, clothing, and spare parts. We also rapidly fielded more than 12,000 mine-resistant ambush-protected (MRAP) vehicles to Afghanistan to protect our forces as they performed their mission, and we sustained the readiness of these vehicles in austere conditions at levels over 90%. In addition to delivering warfighter sustainment, we executed the drawdown of forces, equipment, and supplies. From the high water mark in January 2012 to January 2015, we reduced over 38,000 vehicles and 27,000 containers of supplies and equipment, and closed or transferred 343 US bases. We donated \$284 million (depreciated value) of excess property to the Afghan government, improving their capacity while avoiding transportation cost in excess of \$2.2B.

At the same time that we have been providing unwavering support to our deployed warfighters, we have also responded to multiple and complex humanitarian relief and disaster assistance efforts around the world, with little or no warning. Those responses are another measure of our success.

Even with these enormous challenges, we continue to make substantial and measurable improvements to mitigate the high-risk designation.

Inventory Management

DoD manages over five million inventory items valued at more than \$90 billion. GAO's assessment cited the Department for buying and managing more inventory than needed and buying inventory far in advance of its use. The Department manages inventory in such a way as to reduce risk for our warfighters. Recent DoD actions to improve performance have produced substantial results which have been reviewed and acknowledged by the GAO.

For example, DoD developed the Comprehensive Inventory Management Improvement Plan in FY2010 to establish specific process and outcome goals and to inculcate a culture change of "Don't buy what is not needed" and "Don't keep what is not used".

Within that plan, we have accelerated our review processes and established these reviews at senior levels. We have reduced government-managed inventory by \$14.4B since 2012 -- the first reduction in government-managed inventory since the late 1990s. Additionally, the Department identified and brought to record in government inventory systems \$8.7B of government owned - contractor managed inventory. We have reduced inventory being held for potential reuse by \$4.3B, and we have reduced buying potential inventory far in advance of the need by \$816M since 2010.

Perhaps the most significant change going forward is in demand forecasting. DoD is implementing a new forecasting methodology for inventory with demand patterns that are infrequent or highly variable. This initiative is producing improved materiel availability, decreased backorders, reduced procurement orders, and on-hand inventory results.

Asset Visibility

The Department has achieved significant progress in providing asset visibility to improve support to the warfighting customer, leveraging automatic identification technology in the logistics business area. We operate the world's largest active radio frequency identification (RFID) network, providing visibility of unit cargo and sustainment materiel transiting 41 countries, with 1,990 tag read/write sites and more than 1,420 satellite tracking sites. Passive RFID is being used to provide visibility of and accountability for principal end items and containers moving within a base, and for inventory of uniform items issued at Service recruit training facilities. We are seeing reductions in inventory cycle times from 10 days to 10 hours, stock pick times from approximately two hours to near-real time, uniform issue times for new recruits from 2.5 hours to 55 minutes, and receipt processing times from two hours to one. The U.S. Marine Corps' Non-nodal In-transit Visibility for the Last Tactical Mile provides near-real time visibility of sustainment cargo during the tactical level battlefield distribution process, while the Air Force uses Real Time Location System technology to track aircraft and critical assets, leading to a 35% reduction in depot flow time.

Last year, the Department published the "Strategy for Improving DoD Asset Visibility", creating a framework whereby the Department can build on efforts to date and further improve asset visibility. These efforts will inform our oversight and will expand use of automatic identification technology to improve data capture, integration, analysis, and supply chain execution. We are working with industry leaders to review best practices and lessons learned in the use of this technology.

Materiel Distribution

The Department has established 23 enterprise metrics to evaluate the materiel readiness, responsiveness, reliability, cost, and planning and precision of the supply chain. With respect to material distribution, we are measuring the effectiveness of the system, and are continuing our efforts to improve our data analysis. Where we are not meeting our goals, we are identifying corrective actions, and monitoring results of those actions. There is more work to be done on improving supply chain management, but we continually improve our performance and validate existing goals.

Weapon Systems Acquisition

The second DoD high risk area identified on GAO's inaugural list is weapon systems acquisition. As with supply chain management, it is important to recognize that the weapon systems acquisition process has provided the United States with dominant military capabilities relative to any potential adversary.

The combination of on-going combat operations, global U.S. commitments, and reduced budgets --especially if we return to sequester levels of funding-- significantly impacts U.S. investment in new technology and weapon systems. The rise of foreign capability, coupled with the overall decline in U.S. research and development investments, is jeopardizing our technological superiority. The Defense Department has to balance among many competing requirements, and the goal of DoD weapon system acquisition is to use available resources as efficiently and effectively as possible to deliver needed capability to our warfighters. DoD actions to address the GAO high risk assessment remain consistent with that goal. Here are some of the steps we are taking to accomplish this.

We are steadfast in our actions to reduce cost growth, prevent schedule delays, and obtain better performance from our weapon systems. A recent study found statistically significant correlation between cost increases in weapons systems and the budget situation at the time the program was first baselined.¹ Program cost overruns are much more pronounced if the program was initiated during periods of "tight" money, such as we are currently experiencing. Therefore, we must be diligent and realistic as we manage programs.

¹ McNicol, David L., and Linda Wu, *Evidence on the Effect of DoD Acquisition Policy and Process On Cost Growth of Major Defense Acquisition Programs*, Institute for Defense Analyses, Paper P-5126, September 2014. <http://www.dtic.mil/dtic/tr/fulltext/u2/a609472.pdf>

During the past five years the department has been engaged in a process of continuous improvement that we call “Better Buying Power” (BBP). While Better Buying Power is comprised of many individual initiatives, I wanted to highlight a few that I believe are fundamental to today’s discussion.

Affordability

The first area of GAO concern is affordability. Under Better Buying Power, the Department sets and enforces affordability caps on all major programs. Affordability caps help us determine how much capability can reasonably be afforded in future budgets. Before requirements are established and before programs are initiated, affordability analysis is used to establish production and sustainment affordability caps. We are tracking our performance against the established caps to ensure compliance.

Requirements

The affordability caps tie to a second GAO concern for weapon systems acquisition, requirements. Better Buying Power drives active engagement between the acquisition and requirements leadership during the development and review of proposed requirements trades. This is essential to ensuring that the requirements associated with the program address the warfighters needs in a cost effective and affordable way. Our policies require the acquisition leadership to actively participate in the requirements authorities review to ensure, before final approval, that the requirements are achievable, affordable, and testable and that requirements are fully informed by systems engineering trade-off analysis.

While implementing and learning from the Better Buying Power initiatives, we have also revised our principal acquisition policy, DoD Instruction 5000.02. The policies I have already mentioned are formally implemented by the revised instructions.

The instruction also makes two important changes to improve cost and schedule outcomes. It adds a Requirements Decision Point to implement the vital dialogue between the requirements and acquisition communities. It also adds a Development Request-for-Proposal Decision Point to ensure that the program business arrangements and contracting strategies are consistent with requirements and affordability caps before proceeding with significant long term investments.

The update to DoDI 5000.02 also formally institutionalizes and emphasizes the important acquisition policy improvements resulting from the Weapon Systems Acquisition Reform Act, including increased emphasis on systems engineering, cost analysis, and testing.

As we rewrote DoDI 5000.02, we noted the significant number of statutory and regulatory requirements imposed on our program managers. We are taking steps to reduce part of this burden via proposed changes to regulation that will simplify the statute without sacrificing the intent. Consequently, we have been working closely with Congressional leadership and staff and we are submitting a legislative proposal timed for review and inclusion in the FY 2016 National Defense Authorization Act.

Tracking Performance

In addition to the actions already mentioned, we are formally measuring our own performance. Our objective is to gather data and understand the causes of good and bad results and correlate that with our policies. The first two “Annual Reports on the Performance of the Defense Acquisition System” identify the relationships between factors the department can affect and outcomes we are trying to achieve.

The improvements to acquisition outcomes that we believe can be achieved via the Better Buying Power initiatives and the changes to DoDI 5000.02 will not be possible without our acquisition workforce. Our acquisition professionals have hard, technical jobs that require a unique body of knowledge and advanced problem solving skills. We added workforce professionalism as a major category in Better Buying Power 2.0 to ensure this area received sustained leadership attention.

The department leadership remains firmly committed to ensuring that we have the capacity and resources necessary to attain improved acquisition outcomes. We are leveraging Better Buying Power initiatives to improve our performance and we monitor the effectiveness of our actions via our program decision reviews and the senior-level BBP progress reviews. We continue our annual reviews of the performance of the acquisition system, including assessing process and cost growth metrics to monitor our progress.

Conclusion

In summary, DoD will continue to work with GAO to address the underlying root causes that have resulted in our high-risk designation and we will implement solutions to those identified problems. While these two areas I have discussed today are complex, we are committed to continuous improvement for the benefit of our warfighters and the taxpayers.

Thank you again for this opportunity to discuss GAO's 2015 high risk list. I look forward to answering your questions.

ALAN F. ESTEVEZ
PRINCIPAL DEPUTY UNDER SECRETARY OF DEFENSE
ACQUISITION, TECHNOLOGY AND LOGISTICS



Alan Estevez was confirmed by the Senate as the Principal Deputy Under Secretary of Defense for Acquisition, Technology and Logistics in October 2013.

As the Principal Deputy Under Secretary of Defense for Acquisition, Technology and Logistics, Mr. Estevez develops and implements strategies, policies, and programs that increase the Department's warfighting capabilities, management efficiency, and buying power in support of the Warfighter. Mr. Estevez supports the Under Secretary of Defense in all matters related to acquisition; logistics and materiel readiness; research and engineering; nuclear, chemical, and biological weapons; operational energy; installations and environment; and the defense industrial base.

Prior to his current appointment, Mr. Estevez held several key positions within the Office of the Secretary of Defense. From August 2011, when he was confirmed by the Senate, to October 2013, Mr. Estevez served as the Assistant Secretary of Defense for Logistics and Materiel Readiness. In this position, he was responsible for providing world class military logistics support to the men and women of the United States Armed Forces and managing a budget of over \$170 billion in logistics operations. He was the first career Federal official to hold this position. Mr. Estevez served as the Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness from November 2006 and performed the duties of the Assistant Secretary of Defense for Logistics and Materiel Readiness from April 2009 to August 2011.

From October 2002 to November 2006, Mr. Estevez was the Assistant Deputy Under Secretary of Defense for Supply Chain Integration and was responsible for developing global defense supply chain management and distribution policies. From 1981 to 2002, Mr. Estevez held positions of increasing responsibility within the Office of the Secretary of Defense, the Department of the Army, and the Military Traffic Management Command.

Over the course of his career, Mr. Estevez has received the DoD Distinguished Public Service Medal, the DoD Distinguished Civilian Service Medal, the 2011 Presidential Rank Distinguished Executive Award, the 2006 Presidential Rank Meritorious Executive Award, two Office of the Secretary of Defense Medals for Meritorious Civilian Service (2005 and 2009), and the 2005 Service to America Medal. He was inducted into the Senior Executive Service in October 2002.

Mr. Estevez is a graduate of Rutgers University in New Brunswick, New Jersey, where he earned a Bachelor of Arts degree in Political Science. He also holds a Master of Science degree in National Resource Strategy from the Industrial College of the Armed Forces (now the Eisenhower School) at the National Defense University, Washington, DC.