

**HEARING TO RECEIVE TESTIMONY ON THE
ACQUISITION OF MAJOR WEAPONS SYS-
TEMS BY THE DEPARTMENT OF DEFENSE**

Tuesday, June 3, 2008

U.S. SENATE
COMMITTEE ON ARMED SERVICES
Washington, DC.

The committee met, pursuant to notice, at 9:35 a.m. in Room SD-50, Dirksen Senate Office Building, Hon. Carl Levin, chairman of the committee, presiding.

Committee Members Present: Levin [presiding], Lieberman, Reed, Akaka, Pryor, McCaskill, Warner, Collins, Dole, Thune, and Martinez.

Committee staff members present: Richard D. DeBobes, Staff Director, and Leah C. Brewer, Nominations and Hearings Clerk.

Majority staff members present: Madelyn R. Creedon, Counsel, Creighton Greene, Professional Staff Member, Michael J. Kuiken, Professional Staff Member, Peter K. Levine, General Counsel, Michael J. McCord, Professional Staff Member, William G. P. Monahan, Counsel, and William K. Sutey, Professional Staff Member.

Minority staff members present: Michael V. Kostiw, Republican Staff Director, William M. Caniano, Professional Staff Member, Gregory T. Kiley, Professional Staff Member, David M. Morriss, Minority Counsel, Christopher J. Paul, Professional Staff Member, and Sean G. Stackley, Professional Staff Member.

Staff assistants present: Jessica L. Kingston, Ali Z. Pasha, Benjamin L. Rubin, and Breon N. Wells.

Committee members' assistants present: Jay Maroney, assistant to Senator Kennedy, Frederick M. Downey, assistant to Senator Lieberman, Elizabeth King, assistant to Senator Reed, Bonni Berge, assistant to Senator Akaka, Christopher Caple, assistant to Senator Bill Nelson, Jon Davey, assistant to Senator Bayh, M. Bradford Foley, assistant to Senator Pryor, Gordon I. Peterson, assistant to Senator Webb, Sandra Luff, assistant to Senator Warner, Anthony J. Lazarski, assistant to Senator Inhofe, Nathan Reese, assistant to Senator Inhofe, Lenwood Landrum, assistant to Senator Sessions, Todd Stiefler, assistant to Senator Sessions, Mark J. Winter, assistant to Senator Collins, Clyde A. Taylor IV, assistant to Senator Chambliss, Lindsey Neas, assistant to Senator Dole, Jason Van Beek, assistant to Senator Thune, and Erskine W. Wells, III, assistant to Senator Martinez.

**OPENING STATEMENT OF HON. CARL LEVIN, U.S. SENATOR
FROM MICHIGAN**

Chairman LEVIN. Good morning, everybody. The committee meets today to consider the performance of the Department of Defense major acquisition programs at a time when cost growth on these programs has reached crisis proportions. We don't have to look very far to find examples. Over the last years, unit costs on the Air Force's largest acquisition program have grown by almost 40 percent, costing us an extra \$37 billion. Over the last 3 years, unit costs on the Army's largest program, the Future Combat System, have grown by more than 45 percent, costing us an extra \$40 billion. And last year the Navy had to cancel the planned construction of the two Littoral Combat Ships after the program cost doubled in just 2 years.

Since the beginning of 2006, nearly half of the Department of Defense's 95 largest acquisition programs have exceeded the so-called Nunn-McCurdy cost growth standards established by Congress. Overall, these 95 acquisition programs, known as MDAPs, have exceeded their research and development budget by an average of 40 percent, have seen their acquisition costs grow by an average of 26 percent, and experienced an average schedule delay of almost 2 years.

The GAO tells us that cost overruns on these MDAPs now total \$295 billion over the original program estimates, even though we have cut unit quantities and reduced performance expectations on many programs in an effort to hold down costs.

Now, just to put the size of these cost overruns in perspective, what would that \$295 billion buy? We could buy at current prices two new aircraft carriers for \$10 billion each, and eight Virginia-class submarines for \$2.5 billion each, and 500 V-22 Ospreys for \$120 million each, and 500 Joint Strike Fighters for \$100 million each, and 10,000 MRAPs for \$1.4 million each, all of that, and still have enough money left over to pay for the entire \$130 billion Future Combat System program.

These cost overruns happen because of fundamental flaws that are built into our acquisition system. We know what those flaws are. Department of Defense acquisition programs fail because the Department continues to rely on unreasonable cost and schedule estimates, establish unrealistic performance expectations, insists on the use of immature technologies, and direct costly changes to program requirements, production quantities, and funding levels in the middle of ongoing programs.

As Secretary Gates even recently acknowledged, we've been "adding layer upon layer of cost and complexity onto fewer and fewer programs that take longer and longer to build." And, he said, "This must come to an end." Well, it's been long overdue that that come to an end.

Let me just give you a few examples of how these programs have impacted weapons systems. With regard to unrealistic cost and schedule estimates, the Navy established initially a goal of \$220 million and a 2-year construction cycle for the two lead ships on the Littoral Combat Ship, LCS, program, goals that were completely inconsistent with the Navy's historic experience in building new ships and with the complexity of the design required to make

the program successful. As a result, program costs doubled and the Navy started to run out of money long before the ships were complete, forcing it to cancel follow-on ships.

With regard to unrealistic performance expectations, performance expectations, the National Polar Orbiting Operational Environmental Satellite System was designed to include 14 different environmental sensors on 6 different satellites, plus a ground system. Now, the system turned out to be so complex and unmanageable that the cost doubled, forcing the Department to eliminate one of the planned satellites and five of the planned sensors and make several of the other sensors less complex. The Department is now trying to figure out how to restore some of the capability that will be lost as a result of the elimination of the planned sensors.

With regard to immature technologies, the Army's Warfare Information Network-Tactical, WIN-T, program entered the system development and demonstration phase with only 3 of its 12 critical technologies at the appropriate level of maturity. As the Army struggled to develop these technologies or to substitute alternative technologies that were more ready for production, program costs grew by 88 percent and the program was delayed by more than 4-1/2 years.

With regard to changing program requirements, the Air Force has repeatedly restructured its Global Hawk program to add new and sometimes unproven technologies. While the new technologies have added to the capability of the Global Hawk, the changes have led to space, weight, and power constraints that have more than doubled production costs and have significantly disrupted the program.

Now, over the last few years this committee has taken a number of steps to try to address these problems. For example, we have required senior acquisition officials to certify that cost estimates are realistic and technologies are mature before new programs are started. We've required that program managers be held accountable for meeting measurable performance objectives to which they have agreed in writing, and we've tightened the so-called Nunn-McCurdy thresholds to prevent the Department from hiding underperforming programs.

The Under Secretary of Defense for Acquisition, Technology, and Logistics, who will be testifying before us today, has carried out our new certification requirements and he has used the Nunn-McCurdy process to require that serious reexamination of troubled programs. He has also required the military departments to establish configuration steering boards to prevent unnecessary and costly changes to program requirements, which is a constructive step that we proposed to enact into law in this year's National Defense Authorization Act.

However, those efforts have fallen far, far short. No matter how well intentioned Secretary Young and other senior acquisition officials may be, for example, they remain dependent upon the information that is provided to them by contractors and program officers. These contractors and program offices have every reason to produce overly optimistic cost estimates and unrealistic performance expectations because programs that promise revolutionary change and project lower costs are more likely to be approved and

funded by senior administration officials and by Congress. In other words, we get the information we need to run our programs from people who have a vested interest in overpromising.

In a draft report that will be issued later this month, GAO concludes that “The Department of Defense’s ability”—excuse me—“The Department of Defense’s inability to allocate funding effectively to program is largely driven by the acceptance of unrealistic cost estimates and a failure to balance needs-based”—let me start that again—“and a failure to balance needs based on available resources. Development costs for major acquisition programs are consistently underestimated,” they said, “at a program’s initiation by 30 to 40 percent, in large part because the estimates are based on limited knowledge and optimistic assumptions about system requirements and critical technologies.”

The consequences of using such optimistic estimates were correctly identified by the Department of Defense acquisition performance assessment panel 2 years ago. That panel found that using “optimistic budget estimates forces excessive annual reprogramming and budget exercises within the Department, which in turn causes program restructuring that drives long-term costs, causes schedule growth, and opens the door to requirements creep.”

It’s going to take a fundamental change in the structure and culture of the acquisition system to address that problem. For this reason, I believe that we need a Director of Independent Cost Assessment in the Department of Defense, with authority and responsibility comparable to those of the Director of Operational Test and Evaluation that we established 20 years ago. This new independent office would review cost estimates on all major defense acquisition programs and develop its own independent cost estimates to ensure that the information on which so many of our program and budget decisions is based is fair, unbiased, and reliable. I plan to offer an modernization to this year’s defense bill when it comes to the Senate floor to establish this office.

Today the committee will hear from John Young, the Under Secretary of Defense for Acquisition, Technology, and Logistics, who is the top acquisition official for the Department of Defense, and from Katherine Schinasi, who is GAO’s top expert on the acquisition system. We look forward to the testimony of our witnesses on these important issues. We thank both of you for your commitment and your service to improving these systems.

Senator Warner?

STATEMENT OF HON. JOHN WARNER, U.S. SENATOR FROM VIRGINIA

Senator WARNER. Thank you, Mr. Chairman. I join you in welcoming our witnesses today. I thought you laid out a very factual and pragmatic assessment of the situation as this committee views it, and therefore—I think I have it on, but it doesn’t seem to be functioning very well. I think somebody can hear me.

My point is, Mr. Chairman, that I roughly estimate that the Department of Defense over the next 5 years has \$900 billion which to inject in the procurement system. We simply must make the adjustments that are required to obviate what you have recited.

You and I have been on this committee a long time. I remember one very clear chapter when Dave Packard put forward the Packard Commission reports and that was to solve all the problems. It didn't seem to work. We awakened here one day and it was this committee that put a stop to the Boeing tanker situation, and it's taken these many years to remedy that and hopefully get back on the rails again.

So I join you, Mr. Chairman. I think the committee, the members on our side, are very much in favor of seeing what we can do to take positive action to correct the situation.

I'd like to put in a statement on behalf of Senator McCain at this point and amplify my own. Thank you. [The prepared statements of Senator McCain and Senator Warner follow:] [COMMITTEE INSERT]

Chairman LEVIN. Thank you, Senator Warner.

Secretary Young, I think we will begin with you. Again, our thanks to you.

STATEMENT OF HON. JOHN J. YOUNG, UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY AND LOGISTICS

Mr. Young: Thank you, Chairman Levin, members of the committee—

Chairman LEVIN. Is your mike on? Is your microphone on?

Mr. Young: Sorry, sir. Thanks.

Members of the defense acquisition team and I are working very hard to improve cost and schedule performance of defense acquisition programs and I welcome the chance to talk with you about this. I would ask that my written statement be made part of the record and I would like to open with a discussion of the key elements necessary for a successful program.

First, people devise and execute programs. The Defense Department procurement budget has experienced 34 percent real growth since 2001 and the research and development budget has risen 70 percent. The DOD acquisition workforce has actually decreased slightly in this time period and there has been a cap on management and headquarters staff to oversee these programs. Programs cannot be successfully executed without adequate experienced and capable people.

Indeed, I have recently reviewed several troubled programs and one factor was inadequate staffing in the government program office.

Next, I agree with the many assessments that suggest that systems should only move to the final stages of development when key technologies are appropriately mature. The Congress's requirement for certification of technology readiness at milestone B is a very helpful decision.

Third, a weapons program must have reasonable and stable requirements and understood certification standards. While many factors are involved, there's been a tendency, as you noted, to establish requirements which exceed the budget, schedule, and maturity of technology. Additionally, the application of certification and technical authority standards to program has driven dramatic cost growth and schedule impacts.

Finally, successful program execution is totally dependent upon a stable and adequately funded budget. In most cases we should fund major programs through an independent cost estimate. Fully funding the initial phases of a program is most critical. I've seen many instances where the Defense Department has underfunded programs and Congress has cut programs, ensuring cost growth and schedule slippage.

While there are other relevant factors, a summary of all of this is: Hope is not a strategy. As my previous comments suggest, many of the factors necessary to successfully execute programs are not currently in the control of the program manager. In the Goldwater-Nickles legislation, the Congress was amazingly prescient in assigning acquisition responsibility to the civilian chain of command working for the President.

I believe the defense and service acquisition executives are critical positions and these individuals are the key to many aspects of improving defense acquisition. Acquisition executives must support program managers in their efforts to moderate or adjust requirements to get best value for the warfighter and the taxpayer, must fight in the military personnel system for promotion of program managers, must prioritize jointness and interoperability above service equities, and must set high standards for program development and execution.

I'd like to talk briefly about some of the many steps I am taking to address these obligations. Program managers must have a forum to discuss program execution decisions and requirements changes with key stakeholders. Configuration steering boards, as you noted, sir, were used on programs like F-16 in the past and we are renewing this practice in the Defense Department. In hopes of constructing a joint, interoperable, executable and properly priced development program, we have used joint analysis teams with membership that includes all relevant DOD stakeholders to mature program plans or review portfolios of programs to avoid duplication.

The Department has often used blue ribbon panels or independent reviews to assess problems. I have formalized this process into defense support teams which seek to harness experienced outside experts to help us solve program execution programs and to assess the adequacy of our development plans and technologies. These defense support teams also help partially offset the Department's inability to hire adequate government personnel to manage our programs.

As DDRE, I began a practice of quick-look technology readiness assessments. It is of no value to reach milestone B and determine that we have technology which is immature. Quick-look assessments are necessary to drive investments in the maturation of technologies in advance of milestone B.

Historically, the Defense Department built prototype systems. The Department had evolved from this strategy to moving to paper competitions for contract awards for final development of systems. I rarely believe this is the best strategy. We need to build prototypes competitively to demonstrate the validity of requirements, to mature technology, to inform our estimates of development and procurement costs, and to insist in the development of concepts of operation.

At a more general level, DOD needs to pursue the development of prototypes to train our personnel in program management and systems engineering, to attract talented scientists and engineers to work on defense programs, and to inspire a new generation of people to pursue technical educations.

Shifting the culture and discipline of the enterprise will take time. In a small way, I constantly work towards this goal by sending weekly notes across, broadly across, the acquisition team highlighting the challenges, problems, and best practices which I see. Alternately, I would tell you that I do not think we can assure program performance through rules and certifications. Indeed, these processes diffuse accountability from the fact that responsible and accountable people must manage acquisition programs.

Finally, I'm grateful to the Senate for this chance to serve as the defense acquisition executive. My primary responsibility is to serve as milestone decision authority for major acquisition programs and set these higher standards. Recently I have sought to further address many of these issues through acquisition decision memorandums. In recent decision memorandums I have locked program requirements, prohibited changes, directed full funding, encouraged program managers to pursue trades which could reduce costs, and forced jointness. I recognize the need for improvement in the planning and execution of the defense acquisition programs and I'm seeking to honor your trust by making necessary changes.

I'm most grateful for the chance to talk with you today about these issues and I look forward to your questions. [The prepared statement of Mr. Young follows:]

Chairman LEVIN. Thank you very much, Secretary Young.

Ms. Schinasi?

STATEMENT OF KATHERINE V. SCHINASI, MANAGING DIRECTOR, ACQUISITION AND SOURCING MANAGEMENT, GOVERNMENT ACCOUNTABILITY OFFICE

Ms. Schinasi: Thank you, Mr. Chairman, Senator Warner, and members of the committee, for inviting me here today to talk about DOD's management of its acquisition—

Chairman LEVIN. Bring that mike also closer, a lot closer, if you would.

Ms. Schinasi: In preparing for this hearing, I looked at a statement that we had delivered in front of this committee a decade ago. The title of that statement was "Defense Acquisition: Improved Program Outcomes Are Possible." I'm trying hard to hold onto that optimism as I come before you today. Part of the reason I think I may be able to is some of the things that the Under Secretary has talked about.

But I'm going to start from a different place. I'm going to start from a position that says I believe DOD's acquisition process has failed in two important ways. First, it's failed the warfighter because it's delivering capability late and in fewer quantities than planned, or both. Many times when equipment is delivered to the field, it is not what's needed for the current operations. I think you've heard Secretary Gates's frustration lately with the Air Force, who continues to produce fighter aircraft when really it's unmanned aerial vehicles that are needed in current operations. The

Army is spending billions of dollars that it did not plan to on legacy radios because its development efforts for a new radio have gotten so bogged down. The Navy has apt to lose a net loss in its fleet, in its carrier fleet capacity, because it has been delayed in developing a new carrier beyond the point where it will have to start retiring its current carriers. The Marine Corps will have to wait at least 5 years to get half of the quantities of expeditionary vehicles that it has planned. And the space community, after years of trying and failing to develop the SBIRS-High program, is going to be left with a constellation of missile warning satellites that are nearing the end of their useful life.

I believe the acquisition process has also failed the taxpayer, as continuing and significant cost overruns mean less value for the dollar spent. There are concerns about what is known about program costs and, Mr. Chairman, you referred to a number of those in your opening statement. But there also need to be concerns about what is not known about program costs. The change that the Congress made in 2005 to Nunn-McCurdy I think is telling in that respect. In the 3 years before the rebaselining was done in 2005, the Department reported 12 cost breaches. In the 3 years since that change was made, the Department has reported 4 times as many, or 48 cost breaches.

In addition to that, the work we have done shows that cost growth is not recognized in the Department until after the critical design review, and there are many programs that the Department currently has in development that have not yet reached that point. So there is cost growth coming that we don't yet know about.

In addition to the individual program cost growth, there is also the matter of cost growth in the modernization account as a whole. As you know, the Department estimates its costs over the 6-year future year defense program. What we have seen in work that we have done for this committee recently is that that period of time does not really give a full picture of the cost of the programs overall. In fact, it obfuscates that cost. It is always the next year after the fiscal year DP program where we see that bow wave that we will not be able to continue to support.

If you look at the period 1992 to 2007, what you see is the costs needed to complete DOD's portfolio increased 120 percent, but over that time period the funding that was provided to do so was only 57 percent. So that bow wave is going to continue.

But an evaluation cannot just look at the acquisition process to see what's gone wrong and what needs to be fixed. DOD actually knows pretty well how to buy things, which is what the acquisition process does. DOD's policies are sound in that regard, some of those put in place because of legislation from this committee. The challenge is to figure out why managers and decisionmakers don't do what they say they should do.

But the evaluation must also include the proper focus on what to buy, because until that condition is fixed we will continue to see dysfunction in the acquisition process. And what to buy, of course, starts with the requirements process. requirements process is broken. Program requirements are established on wants, not needs, and moving from a threat-based evaluation to establish the need for new equipment to a capabilities-based evaluation I believe has

only exacerbated this problem. Solutions developed by the military departments and approved by the military vice chiefs reflect parochial service interests, rather than current and future warfighter needs.

What to buy also includes the resource allocation process and the resource allocation process is broken. Resource needs are almost an afterthought in requirements decisions. As a consequence, the Department has too many programs chasing too few dollars. When priorities are not established, the continual battle for funding that results creates damaging instability.

What to buy increasingly relies on a defense industry that has shrunk to just a handful of companies. The government has increasingly turned to industry to help them find and develop almost unbelievably complex technical solutions, without ensuring that sufficient in-house capacity exists to manage contractor activities. The defense industry is too willing a participant in continuing business as usual.

Finally, I need to say a word about oversight. Oversight has not made much of a difference. As much as I would agree with many of the policies that the current under secretary and his team has put forward, the transitory nature of leadership in the Department makes it almost impossible to get lasting change. Just as an example, Mr. Young is the seventh individual in the under secretary's position in the 15 years that I've been working in this area.

In fulfilling their own oversight role, the members of Congress have their own ideas about authorizing and appropriating individual weapons programs. It's the decisions on those individual programs that determine whether or not policies will work.

Some believe that more money is the answer, but DOD has already tried spending more money. Investment in the weapons acquisition programs is now at its highest level in 2 decades and the outcomes have only gotten worse. I have one chart that I brought with me today that has cost and schedule overruns and you only need to look at that to see the discouraging detail.

Chairman LEVIN. Do we have copies of that chart in your testimony?

Ms. Schinasi: Yes, I believe you do, yes.

What we have to do is redefine success. Success should be defined as producing needed equipment that can be delivered to the warfighter as promised and at a predictable cost that the country can afford. The goal of any changes as we go forward should be to create a system in which this is the natural outcome.

The perverse incentives now contained in the requirements, funding, acquisition, and oversight processes are there because success is currently defined as attracting funding and the way to attract funding is to get a program started. The system that has arisen as a consequence is one in which all participants get just enough so as to maintain the status quo—the military departments, the Office of the Secretary, defense companies, the press, Congressional sponsors, and even the auditors, who have lifetime employment. Negative consequences now accrue only to the warfighter and to the taxpayer, who don't really participate in the process.

We have to find a way to establish consequences. Another way of saying that is that we have to create a system in which we can assign accountability and then make it stick. Advocates in the system must be recognized for what they are. Their individual needs must be explicitly balanced in the context of constrained resources, and as a check independence must exist in key functions.

In some cases, changes to DOD organizations or the authority of DOD officials may need to be made. The Congress can help by reinforcing sound Department policies with laws and by providing or withholding funding as necessary.

As I said when I started, I'm trying to hold onto the optimism contained in our statement from a decade ago. But we have to start thinking in terms of the opportunity costs that we're facing.

Mr. Chairman, you made the point in your opening statement that the \$295 billion that was not planned that we are now spending on weapons programs could be used for so many other things. They say that if you do what you've always done you'll get what you've always gotten. I hope the witness appearing before you 10 years from now will have a different and better story to tell.

Thank you for your continued leadership in these matters and I look forward to your questions. [The prepared statement of Ms. Schinasi follows:]

Chairman LEVIN. Well, thank you so much and thanks for the work of the GAO in this area. We're also hopeful that the story will improve instead of getting worse over the years. And even though our efforts and your efforts and Secretary Young's efforts have not been successful in correcting these problems yet, to the extent at least that we want them to be corrected, and they've gotten worse in many instances, we've just got to keep plugging away at it. It's our responsibility and it's I hope a responsibility which the Defense Department accepts and feels.

Secretary Young, the GAO reported in March of 2006 that the Department of Defense was paying hundreds of millions of award and incentive fees to contractors without regard to acquisition outcomes. The GAO found that most contractors were paid 90 percent or more of available award and incentive fees even when they failed to meet basic cost, schedule, and performance requirements.

We responded by enacting a provision in the '07 National Defense Authorization Act which requires the Department to tighten up requirements for award and incentive fees and tie those fees more closely to acquisition outcomes and contractor performance. Is the provision that we enacted in the '07 Defense Authorization Act having any effect on the Department's behavior and do you believe that this provision succeeds in tying contractor profits to acquisition outcomes, or is further action needed?

Mr. Young: Mr. Chairman, there are so many things I want to tell you today. I want to try to be efficient. I believe the provision is helpful. As the Navy acquisition executive, I issued three memos on the use of profit and incentive fees. As the defense acquisition executive, I am constantly pushing to tie fees to objective criteria that are on the critical path of a program so that we pay taxpayer dollars for results. I am against the subjective award of fees based on a bunch of viewgraphs and other such things. I have consistently turned down or pushed down on base fees that are basically

awarded for people coming to work. So we are—it takes your efforts and my efforts to constantly change the culture to more objective award of fee.

Chairman LEVIN. You mentioned, Secretary, that some of the problems in our acquisition system can be attributed to a workforce that has been cut over the last 15 years. We addressed that or attempted to address that problem by establishing an acquisition workforce development fund to provide the resources needed to begin rebuilding the Department's core of acquisition professionals. Section 852 of the Defense Authorization Act for fiscal year '08 provided \$300 million to be transferred to the fund this fiscal year, starting no later than August 1st.

Has the Comptroller supported that change?

Mr. Young: We are working with the Comptroller to transfer those funds. We're working on a fairly thorough plan to execute that program. The one thing I would add to that is I think there are hurdles we have to work our way through. The personnel system is one of the most dysfunctional things in the government. You could have money, but not billets. You could have billets, but not money. And then the hiring process is excruciatingly long. All of these have not contributed to people with the right talents wanting to come to work for the government.

Chairman LEVIN. The \$300 million, though, to put additional people there has not yet been transferred?

Mr. Young: No, sir.

Chairman LEVIN. Will it be transferred no later than August 1?

Mr. Young: It is my expectation. The Comptroller understands that we have a plan to execute to that and they are working with us.

Chairman LEVIN. If it's not going to be transferred, will you let this committee know?

Mr. Young: Yes.

Chairman LEVIN. Unrealistic cost and schedule estimates have been really at the heart of this problem. The Department of Defense's own acquisition performance assessment panel concluded in 2006 that using optimistic budget estimates forces excessive annual reprogramming and budget exercises within the Department, which in turn causes program restructuring that drives up long-term costs, causes schedule growth, and opens the door to requirement creeps.

By the way, before I ask the question on this, let's have an 8-minute round for our first round, so our staff can alert me when I've hit 8 minutes, and the rest of us.

So now, I want to talk about these optimistic and unrealistic cost and scheduling estimates that are almost always based on information that comes from contractors, who have a conflict of interest obviously. Now, let me ask you this, Ms. Schinasi. What is your view of my suggestion that we establish a new director of independent cost assessment in the Department of Defense, with authorities and responsibilities comparable to those of the director of operational test and evaluation, so that we can attempt to ensure that the information on which we base program and budget decisions is objective and reliable?

Ms. Schinasi: Clearly that is something that is needed. In our work we have found that neither the program office cost estimates nor the independent cost estimates that are currently developed by the Cost Analysis Improvement Group come anywhere close to what the real costs of the program would be. An independent look at that, if the individual also has the ability to set policies that say we need to have cost estimates that actually are informed by knowledge, I think would help to ameliorate the situation that you've described.

Chairman LEVIN. And that knowledge has got to be objective information.

Ms. Schinasi: It does, and most of it has to do, frankly, with technologies, because what we see is we promise those programs based on technologies, again which oftentimes is with the industry, and we don't really understand what it will take to bring those technologies to the field. So cost estimates based on those immature technologies are not going to be very reliable.

Chairman LEVIN. We're going to bring an amendment to establish this new director to the floor and your testimony is very helpful in that regard.

Does the Department have a position yet on this, Secretary Young?

Mr. Young: I wouldn't say we have a position on this, but I would like to comment if I could.

Chairman LEVIN. Sure.

Mr. Young: Contractors don't build the defense budget. It starts with programmers. I labored in the Navy as programmers programmed at 18,000-ton DDX destroyer to cost about 15 percent more than a 9,000-ton DDG destroyer. Program managers should have never accepted that as his challenge, and across the board I need to get my acquisition team not to accept it.

In my ADMs, as I mentioned, I am directing the use of independent cost estimates, and I give the greatest weight to the Cost Analysis Improvement Group's director, who does do that independent cost estimate for the Department at every milestone, at milestone B.

Chairman LEVIN. Would you take a look at the language which we're going to submit to you? We've obviously not succeeded, despite efforts, good faith efforts, of people like yourself. It's a history of failure to keep these costs under control, and we've got to find ways and keep looking for ways that we can do better. We know what the problems are. We've not solved these problems. We've had these huge excessive costs, way above what were projected. We have the responsibility of trying to rein them in, and we're going to continue to see if we can't do that through various methods.

If you would take a look at this particular recommendation for a new director of independent cost assessment in the Department, we'd appreciate it, if you could do that in the next week or 2, because we're hopeful our bill will come to the floor in a couple of weeks.

3 years ago, we attempted to address the problem of immature technologies by requiring senior officials to certify that critical technologies have reached the required maturity level before giving the

so-called milestone B approval. I think you've made reference to that already this morning, Secretary Young.

I'd like to ask Ms. Schinasi, though, as to whether or not in her judgment, if she has addressed this issue, whether in her judgment the new technological maturity requirement has been effectively implemented and enforced? Have you gotten into that issue?

Ms. Schinasi: We haven't looked specifically at the total programs that have gone through that process. I am aware of some in which the director of defense research and engineering has turned back technology readiness assessments that were submitted by the programs because they were not ready, but there are others that have gone through even though the technology readiness assessments did not show that the technologies were sufficiently mature. So anecdotally I would say that it's been a mixed experience.

Chairman LEVIN. Did you want to comment on that, Secretary Young?

Mr. Young: I do, sir. I'd like to know which ones haven't gone through. We'll go back and find that out. I had one particular program recently, a major program, a billion dollars, Net Naval Command and Control, where there was a difference of opinion between DDRE and the program about technology readiness. I refused the milestone B.

The Department does have needs, though, that have to go forward. I granted a milestone A to go do prototypical work on that program, improve their process, to mature their technology, let DDRE review that, the readiness of the technology. They'll come back to me later for a milestone B. So I am not seeking to grant milestone approvals. There are certain programs that have unique features, like shipbuilding programs, where a radar may not be today at milestone B appropriately technology mature, but the radar's not needed for 2 or 3 years down the road for ship construction and delivery and they have a valid path to get to that appropriate technology maturity.

But in general, consistent with law, we are not approving programs without that technology maturity. We need to give this process a chance to prove that it's leading to better management of acquisition programs.

Chairman LEVIN. Ms. Schinasi, would you after this hearing is over get together with the Secretary and give him the items that you made reference to?;

Ms. Schinasi: Yes.

Chairman LEVIN. Thank you.

Senator WARNER?

Senator WARNER. Thank you, Mr. Chairman.

Perhaps no program in contemporary history here is of greater importance to the United States, not only from the standpoint of its own need for inventory of a weapon system, but some eight or nine other nations that are looking to the United States to build it, and that's the Joint Strike Fighter. Coincidentally, we're greeted this morning with a press report which reads as follows: "Lockheed Martin Corp. system for tracking costs and schedules has generated useless or suspect data on the F-35 Joint Strike Fighter ever since the program started in 2001."

Mr. Young, I think perhaps you should first address that issue. This rattles all across the world.

Mr. Young: Yes, sir.

Senator WARNER. And I don't know of any program that—we've spent a great deal of time on it here in this committee. How did this happen?

Mr. Young: Mr. Chairman, I've looked into the details, some level of the details of this. I think the goodness is that the DCMA—

Senator WARNER. What is?

Mr. Young: The Defense Contract Management Agency.

Senator WARNER. No, you said "the goodness"? I didn't get that.

Chairman LEVIN. You said "good news" or "goodness"?

Mr. Young: The goodness is that the Defense Contract Management Agency did an audit and discovered this issue. I want to make clear there are two aspects of this. The DCMA did not address the billing system, where valid bills and invoices are turned in and the government pays them. There is not a discrepancy in the billing process.

The discrepancy is taking that billing process and loading it into an earned value management system that lets us see our performance and predict our progress going forward, which is what I think you saw in the report. It says that the EVMS system does not provide a confident basis for projecting future performance of the program.

Within that, Jim Finley, the Deputy Under Secretary, has met with Lockheed and DCMA. They've outlined a corrective action plan for the next 12 months. DCMA meets with them every 2 weeks. Lockheed's agreed to the corrective action plan. Furthermore, there are milestones, 12 milestones. The first one's been met. At each of those milestones, if Lockheed does not meet the corrective action plan we will withhold \$10 million in payments from the corporation.

So we are working to rectify this situation. It does need to be corrected, you are right.

Senator WARNER. Ms. Schinasi, do you have some views on this?

Ms. Schinasi: Yes, Senator. We recommended—we found in the most recent work we've done on the JSF, and we issued that report earlier this spring, we found that the cost estimate was unreliable and we recommended that another cost estimate be prepared.

Senator WARNER. I hope both of you recognize the twofold problem here, and that is the essential need for this aircraft in inventories for purposes of our defense structure; and also, it's the image of the United States, being the principal manager of a major program, and a lot of trust and confidence of other nations was given to the United States to run it right.

Do we know why, at this late date in the program, we're discovering this deficiency?

Mr. Young: I'd like to come back to you on the record as to whether previous audits didn't uncover this. But the audits in general have focused on the billing system, where again we have paid properly for the work that's been performed. The changes—the loading of that information into the earned value management system, Lockheed made changes in that. They should not have and it undermined our confidence of projecting our current and future

performance. We're going to go fix that for exactly the reasons you said, sir. We have to have confidence in this aircraft.

Senator WARNER. Is our program manager accountable for this?

Mr. Young: Yes, the program manager is accountable for it.

Senator WARNER. Well, that's clear. I hope that you address that properly.

Do you have any views on why it took so long to catch it, Ms. Schinasi?

Ms. Schinasi: Senator, I believe that the cost growth in the program has been in place from the very beginning. This most recent review of the contractor's systems is new, but the program, the Joint Strike Fighter program, has had many of the same problems that we've seen in other programs. The original justification was that this would be a plane that would be very low cost to operate, which was a great idea when it was conceived. But the technologies required to get those low O and M costs were not mature, and I think the program has gone forward without getting the knowledge that it needed to understand what the true costs would be.

So many of these cost overruns could have been predicted earlier on.

Senator WARNER. Mr. Chairman, I think we should invite Lockheed to review this record and provide for the committee its perspective on this issue.

Mr. Young: Mr. Chairman.

Senator WARNER. Yes?

Mr. Young: Can I comment on this for a moment? There are definitely some accuracies in what Ms. Schinasi said. I'd like to—every program has unique details that we need to look at. We're applying a bumper sticker of cost growth to everything and we need to look at it. Here's one example where I believe the requirements have been well managed on JSF. We have a configuration steering board. The JSF was prototyped early on.

My frustration is we did not prototype the right things in JSF. So when we went into system design and development, we found the STOVL variant, the short take-off, vertical landing variant for the Marine Corps, was heavy. We had to take an extra 18 months to get the weight out of that program. That 18 months cost us about \$7 billion.

So we can explain how we got from there to here. Now, I have reported and have testified that we have some additional cost growth on Joint Strike Fighter. I can couple that directly to the fact that over the last 5 years the Department and the Congress have taken over a billion dollars out of the program. If you have a reasonably well managed and planned program and you take a billion dollars out, it probably shouldn't be a surprise that you need that billion dollars with some premium back.

So there were people who bet that the STOVL variant would not fly this year. The good news side of this is that variant probably is going to fly this week or next week. The software is largely done for the first deliverable aircraft. So I would appeal that we look at the details of some of these things and learn the right lessons going forward.

Senator WARNER. Just out of curiosity, Mr. Young, you're well known to this committee and to the Congress. You've performed

your services here in the Congress very ably and we were all extremely pleased you took this position. Ms. Schinasi, I presume you've had an equally distinguished career. Do you ever get together before you come here in Congress and square off on each other and try and avoid some of these hearings?

Mr. Young: Actually, I would say there's a good bit of common ground between us. We haven't personally done it, but members of my team have worked closely with GAO to understand the \$295 billion and agreed to work more closely going forward. So we are doing what you suggest.

Senator WARNER. Well, I would hope that you would share views and viewpoints without having to write up all these reports and come in to Congress and sort of set it out. That's the way government should work. You are the Government Accounting Office and he's government also.

Mr. Young: Yes, sir, and we try very hard when we make recommendations in our individual reports to make sure that we consult with the Department, because if we put something out that's not doable that doesn't help anyone.

Senator WARNER. Let's touch on just the prototyping, Mr. Secretary. When it comes to ships, you simply can't prototype an entire ship.

Mr. Young: yes, sir.

Senator WARNER. I think we learned some very tragic lessons with the LCS program. I think you ought to provide for the record what you felt went wrong with that program and what steps you've put in place not to have it reoccur.

Mr. Young: A short comment. You're exactly right and I am extremely hopeful—I've pushed for the signing of the contracts for the first two DDG-1000s. I think there is another program that's not talked about as much because the development program for DDG-1000 has gone very well. And you're right, we didn't prototype the ship, but we prototyped I think 12 different engineering development models. We installed a fire and battle damage control system in an old Navy ship and proved it. We had a land-based test site for the electric motor. There were a dozen, I believe, development models that built our tech maturity, technological maturity, and our confidence in designing the whole of the system, which are essentially component prototyping efforts necessary for that program.

So largely that development program has gone well, a very complicated development program. The remaining tests that the Congress is rightly asking us to pass is can you now build that ship for the price that you've advertised, and we've got signed contracts for that and we've got to prove we can go do that.

LCS, I'd be happy to offer comments about.

Senator WARNER. As we look back in our oversight, I recall very specifically that the Department of Defense made a decision under the late Secretary that he's going to bring in the top industrial leaders and their portfolio was to solve these various problems on procurement. While the committee had some different views as to different types of individuals that might serve as service secretaries, his view, Rumsfeld's view, prevailed: I'm going to bring in the top proven executives of industry.

I guess history is going to have to judge how successful they have been in this problem, which they presumably had the expertise coming in to solve. Would you not agree with that?

Chairman LEVIN. I think I'll take the Fifth Amendment on that one. It's too—I think it's an important question, but my response is really too complex and mixed. I just think that there are people, obviously, in industry that can make a difference, but there's also people who have expertise outside of industry that sometimes can be stronger and have a bigger impact. So it's a blend you need, I think, essentially of the industrial experience, but also experience in government and the academic experience that needs to be put in place.

So I hate to duck a question from a friend like you, but I think I'd have to give a more complex answer to that. I do agree that Secretary Rumsfeld did put in place this system and the people in it. That part of it I surely agree with, and I don't think that we've seen the kind of success that was promised.

Senator WARNER. Or hoped for.

I thank the chair.

Chairman LEVIN. Thank you, Senator Warner.

Senator Reed?

STATEMENT OF HON. JACK REED, U.S. SENATOR FROM RHODE ISLAND

Senator REED. Thank you very much, Mr. Chairman. I think this is a very important hearing and I commend you and Senator Warner for hosting it.

Secretary Young, one of the major challenges is reducing technical risk in these programs. Sometimes we discover it too late and it costs a great deal of money. What is your view with respect to investment in science and technology, investment in the defense laboratories, to systematically try to reduce technical risk as a way of lowering costs? Is that a useful option?

Mr. Young: Absolutely, sir. I've consistently gone on record, mostly at Secretary Gates's request, explaining that science and technology investment has not kept pace with the numbers I mentioned earlier, that the procurement account is up I think 35 percent, 34 percent, and the R and D budget is up 70 percent; S and T is not comparably up. We need in several areas more robust science and technology investment.

To his great credit, Secretary Gates responded to that and he's increased and provided real growth in basic research, as well as some augmenting incentives in the science and technology base for key technologies that we think are enablers of the future.

Then another piece of the process, if we execute prototyping we'll need to pull money back in later stages of development into the science and technology program and invest it in these prototypical efforts that again inform us. They develop management skills, they inform us on the engineering and technology maturity, they inform us of the costs if we decide to take it forward into development. I believe that's a critical element of what the Department did well in the past, 20 and 30 years ago, and we need to go back to.

Senator REED. So this is a deliberate, conscious approach in order to reconnect the science and technology, the defense laboratories, with the procurement process?

Mr. Young: Yes, sir.

Senator REED. Very explicit.

Ms. Schinasi, could you comment on that?

Ms. Schinasi: Yes, Senator Reed. We've made that recommendation in the past. I think what you're seeing is that the Department tends to push those leading edge disruptive technologies inside of programs, and that's a lot of the reason that we're seeing the problems that we're seeing, cost growth and schedule delays.

If in fact they would use the tech base to develop those technologies, you can afford to fail in the tech base and that's what it takes to do that kind of development.

Senator REED. Just a question, Secretary Young, about—you've made the point, and I think Senator Levin's question was right on target, about the need for additional resources in contracting, oversight, etcetera. First, is there I think a difficult tension between our requirements in Iraq today, because everything we read is of the need for additional contracting officers, additional people on the ground, which is basically taking away from your potential pool of procurement and contracting officers? Is that accurate?

Mr. Young: I think it's more complicated than that. The higher demand issue, as Secretary Gates has testified, is that the Defense Contract Management Agency in 2000 had 12,550 people, and if you go back to 1990 they had over 20,000 people. Today we project at the end of the year that they'll have 9,899 people. That's for a normal course of business. We don't have a normal course of business. We have Iraq and Afghanistan and a procurement budget that's up 34 percent, an R and D budget that's up 70 percent, and the challenge of finding people with the skills necessary to come in and perform those contracting management and contract oversight functions.

It will take us time to recover from this. It took time to get here. But there is no question we are understaffed in these areas.

Senator REED. Is there another area, which is the maturity level of your existing workforce I presume would be 45-plus rather than 35-minus?

Mr. Young: Yes, sir, you are very correct. We have an older, an experienced workforce. We really need to do some hiring and get some knowledge transfer, and we will have to use other tools, such as these defense support teams I mentioned, that use people who have retired and are willing to come back and help the government to help us go troubleshoot and problem-solve on programs.

Senator REED. Do you have a nominal kind of workforce structure with different levels of expertise that is available to this committee, so that we can see the matchup between what you think is the best and what you have at the moment? Again, these are very capable and dedicated and extraordinarily talented people.

Mr. Young: If I could for the record, I'd give you a longer answer, but we are working in the enterprise—it involves heavily the Defense Acquisition University—to build a competency model that will assess the skills we have, the skills we need, and so where

some of our gaps are, and help us work more deliberate workforce planning going forward.

That's in progress. It's an important tool to be used in conjunction with the \$300 million fund in the section that Chairman Levin referenced.

Senator REED. First, Ms. Schinasi, if you want to comment on any of these issues, please.

Ms. Schinasi: If I just may comment on that last point, I think the focus lately has been on oversight, which clearly we need more oversight, but I think there's a more basic question about attracting people to the acquisition workforce. A report that was put out by the acquisition advisory panel about a year and a half ago now went out and looked at the private sector. One of the things that they found was that companies invest very large resources in their acquisition workforce because they realize how important that workforce is to in their case getting a profit. In the Department's case, I would say to accomplishing a mission.

This is something we're looking at across the government as a whole. You need to pay more attention and raise the prominence of the acquisition function in order to be able to attract and retain good people.

Senator REED. Do you have a comment?

I have one more question, Mr. Chairman.

Mr. Young: At some risk, I'd like to comment about that. I made—the first thing I said is that people manage and execute programs, and that's important and I mean that. At this point in time, I mentioned that we have a dysfunctional personnel system. I have virtually no hope of hiring a midcareer person back into government from industry. 20 years ago, Johnny Foster and some of the great people that had this job—I cite in my written statement I think one example. Johnny Foster called and asked for an expert in electronics technology and he got Jacques Gansler on the DDRE staff, and Jacques Gansler eventually became an ATL.

That can't happen today. Industry people will not come into the government because of the restrictions that have been placed. At this point in time, I will have increasing trouble getting government people to stay in the acquisition workforce because of post-employment restrictions. We are at serious risk of being able to keep competent people in the government acquisition process.

Senator REED. Thank you, Mr. Secretary.

Ms. Schinasi, can I focus. You made the distinction between threat-based programs and capabilities-based. Could you elaborate on, first, the difference in your mind and the consequences to the acquisition process?

Ms. Schinasi: For a number of years in the post-Cold War environment, we had a system whereby requirements were developed based on what we thought an enemy was likely to be able to do. Once we lost that peer competitor, we also lost the ability, or we changed our process from going to that peer competitor threat-based to one which said capabilities, we need to look at the capabilities we need.

That some people would argue sort of opened up the floodgates for a wants-driven requirements process as opposed to a needs-driven requirements process.

Senator REED. Is it your recommendation or comment on whether that—that we should return to a threats-based? Would that help us in this endeavor?

Ms. Schinasi: I think what we're seeing now is the need for flexibility in the requirements process. So we would argue that what you need to do is bring resources to the requirements determination process at an earlier point in time than it is right now, because there is no limit to the kind of capability that we would want to have.

Senator REED. A quick response, Mr. Secretary. My time has expired.

Mr. Young: I think I would agree strongly with her comments and go beyond it. One of the cancers on the enterprise right now is the competition for resources and it is fueled by setting a threat level, setting a requirements level, and then saying, I must have budget resources to deal with that, and the competition among the services for resources.

It really is one of the underlying problems in this space, combined with—it combines with other factors and is why I'm constantly in favor of the Congress's Goldwater- Nickles legislation, because I believe that the service chiefs do have control of that requirements process and it is critical for the Congress to hopefully continue to understand that you do not want to move the acquisition process under the service chiefs. What you did in Goldwater-Nickles was the right way to handle the business.

Senator REED. Thank you very much.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Reed.

Senator Collins?

STATEMENT OF HON. SUSAN COLLINS, U.S. SENATOR FROM MAINE

Senator COLLINS. Thank you, Mr. Chairman.

Secretary Young, your comments on the Joint Strike Fighter brought to mind the realization that part of the problem with cost growth is attributable to the failings of the contractors, part of it is attributable to changing requirements and insufficient oversight by the Department of Defense, but part of it is the failure at times of Congress to provide predictable, stable funding.

I see you're nodding in agreement. I think we have an example of that with the DDG-1000 program, where we're seeing the House move in the direction of pausing or perhaps terminating the DDG-1000 program after the first two ships. The Senate, far more wisely in my judgment, fully funded the budget request for a third DDG-1000.

What would be the impact if the House position should prevail on the cost of the first two DDG-1000, shipbuilding in general, and the industrial base for shipbuilding if the House position were to prevail?

Mr. Young: I think we should assess that in more detail, but I am extremely concerned about several aspects of the House mark in that deliberation. When we've established a manufacturing—these processes take time to put into place and then they execute, as you know, very well over a period of time. To stop the DDG-

1000 program at two ships would unquestionably add substantial costs to that program.

To restart the DDG-51 program, which is stopped, has been stopped for several years, it is difficult for us to properly estimate the cost of that. Then the question becomes, do you buy more ships after that, because just buying a couple of DDG-51s will be inordinately expensive and I am confident we cannot estimate that. Suppliers will talk to you if you want to buy many of things over several years. If you want to buy a few things for 1 year, I have no idea what that will cost.

So the DDG-1000 will go up. I don't know what those DDG-51s will cost, but I can offer to get you some information for the record. It will destabilize the destroyer industrial base. And then it's a requirements issue, as we've discussed today. We have 62 DDG-51s. The Navy is moving forward because it needs additional capability, it believes. The discussions I've had with the Navy, they do not seek more DDG-51s; they seek a DDG-51 possibly with plugs to carry a bigger radar, and that ship will quickly approach the cost or exceed the cost of a DDG-1000, so we will not be addressing the issues that I think the House has tabled.

We need to look at this combination of requirements, stability of the industrial base, and cost to get a better solution here.

Senator COLLINS. It would be helpful to have your information on the cost estimate.

Are you familiar with the May 7, 2008, letter that the Chief of Naval Operations sent to Senator Kennedy attempting to compare the cost of restarting the DDG-51 line versus pursuing continuing with the DDG-1000?

Mr. Young: I've recently learned of the letter and, based on reviewing it, have a number of concerns with the letter that was provided to the CNO for his signature. The letter's numbers are based on key assumptions and are incorrect in some cases. The DDG-51 prices assume continuing DDG-51 procurement, as I said. So those prices in that letter mean you would buy more DDG-51s. If those were the only ones, they would be more expensive, I believe.

Second, the DDG-51 prices assume that the two ships, in the case of the two-ship case, could be awarded to one yard. I have no process right now to give two DDG-51s to one yard, as you well know, and if I build them between yards that will be significantly more expensive.

It's questionable whether the DDG-51 prices are accurate if no DDG-1000 is built in fiscal year 2009, because, to talk more technically, this is about overhead absorption and use of the business base. If there's no DDG-1000 beyond the first two, then those DDG-51s will be more expensive, I believe, than the record suggests.

Then the DDG-1000 prices for the two lead ships, as we already discussed, would certainly increase. Operations and support costs are reported in the Defense Department's selected acquisition reports. The DDG-51 ship costs \$10 million more per year to operate and I don't think that's correctly reflected in the letter.

But I can expand on this and reply to you if you would like. [The information referred to follows:] [COMMITTEE INSERT]

Senator COLLINS. That would be very helpful to me and to this committee.

Two more points on that. It's my understanding that the DDG-51 requires a reduction gear that is no longer in production and that you would have to start up that line, which is very expensive. Is that accurate?

Mr. Young: I believe that's correct for that and several other cases, because again I believe the last DDG-51s were bought in fiscal year 2005. I have programs that are in current development that experience obsolescence issues. This is a program that's been out of production, so there's no question we will have multiple obsolete parts issues.

Senator COLLINS. Do you believe that the current contract strategy for the DDG-1000 has sufficient cost control elements to meet the program's objectives?

Mr. Young: The best thing I can do is what I had a chance to state to the chairman, I believe: The DDG-1000 R and D program has gone very well. The drawing designs have been produced. The technology is matured. We did I believe in that case the right component prototyping to inspire that maturity. And we've recently successfully negotiated priced contracts with both yards for the lead ships.

We have to go prove we can execute that, and so, in light of this hearing, I'm anxious about putting my credibility and guaranteeing that performance, but I believe every measure has been taken to try to ensure that performance and I'm optimistic about it.

Senator COLLINS. Finally, the Navy's requirements for at least seven DDG-1000 have not changed, have they?

Mr. Young: I'm not aware. That's obviously a question for the Navy. You know, we contemplated some of these issues going forward. The very simple version for me is the Navy needs to study carefully removing the guns from the DDG-1000s and replacing them with missile cells, and then you have the potential for a first generation cruiser with modest changes. That was my goal in setting up the strategy for DDG-1000, to balance the Navy's long-term cruiser requirements with the Marine Corps's fire support requirements.

Senator COLLINS. Thank you.

Chairman LEVIN. Thank you, Senator Collins.

Senator Lieberman?

**STATEMENT OF HON. JOSEPH I. LIEBERMAN, U.S. SENATOR
FROM CONNECTICUT**

Senator LIEBERMAN. Thanks, Mr. Chairman.

Secretary Young, Ms. Schinasi, thank you. I was thinking as I listened to the testimony, I've been privileged to be on this Armed Services Committee of the Senate for 16 years and in that time I've developed the highest regard for the Pentagon, for our military, in just so many ways. I must say that this area of acquisition is the one really unsettling exception.

When you think of the consequences, I find the report that you, Ms. Schinasi and GAO, have issued to be exasperating and embarrassing, and ultimately very harmful to our attempts to provide for our National security in exactly the strong, and appropriately

strong, and eloquent terms that the chairman and Senator Levin spoke in his opening statement. In the work of this committee and the various subcommittees, we hear constantly of the shortfalls in major systems that our military needs down the road.

We are far from the 313-ship Navy that was the goal and we're not closing that gap. We held a hearing in the Airland Subcommittee a while back, the Navy and the Air Force talking about projected shortfalls of aircraft some years down the road which are really troubling.

I could go on and on. I thought Senator Levin's opening statement, in which he basically took that \$295 billion, which is what GAO reported earlier this year had been the cost growth on these programs, and talked about what we could buy with that money. It's really a shame.

So in that spirit, Secretary Young, I wanted to ask you this question. You've talked—I have high regard for you and you've spoken here today about memoranda issued and decisions rendered that caused persons responsible to act in compliance with recommendations and best practice.

I want to say to you today that I think those people who are responsible for acquisition ought to be held accountable, and that accountability should include consequences for failure, because our military, our National security, is now paying the price of the consequences of, in other words, lack of real personal accountability?

Mr. Young: Yes, sir, I'm aware of several. It's not a large number, but I'm certainly aware of a handful of instances where government and industry program managers were held accountable and relieved of their responsibilities for program issues.

Senator LIEBERMAN. So this is not—this is not just the system? I understand the problem with recruiting and retaining personnel in this area. But you agree that some of this is just a failure to do the job that we expect people to do?

Mr. Young: I'd be happy to talk to you in this hearing or aside. I've had—I could cite for you easily ten programs that have come all the way to the Under Secretary level for approval that I felt failed to meet the standards that we're talking about meeting today and I have directed changes in those programs. So I am working with the whole of the acquisition team to shift that culture to greater discipline, and we've got to make progress there.

Senator LIEBERMAN. But there are some cases in which adverse career actions have been taken?

Mr. Young: Yes, sir.

Senator LIEBERMAN. What are those kinds of actions? What are the adverse—do you know the number on your watch?

Mr. Young: I could get you some information for the record. Off the top of my memory, I know on one particular program a flag officer and a program manager who were relieved. On the industry side, I've known of both a flag officer and a major corporate program leader being relieved. I could probably cite for you seven or eight. But I'll get some information for you for the record.

Some of these are a little harder because these are done with some grace here, because there are people that make mistakes, but they can still contribute in other places. [The information referred to follows:] [COMMITTEE INSERT]

Senator LIEBERMAN. I'd like to see that report. Nobody wants to be punitive without justification, but the point is when you think about the consequences of the failures in acquisition then we've got to hold people accountable and hope that that's part of the message we send that improves the process.

I think it's gotten, in the time I've been here, notwithstanding all the efforts of a lot of people, I think the problem has gotten worse, not better.

Mr. Young: Could I address this with a couple of brief examples?

Senator LIEBERMAN. Go right ahead.

Mr. Young: The one I use frequently is T-45. The Navy bought the expected number, I think 221, T-45 aircraft. But beyond the control of the program manager, although he should have complained and objected, the programming and budgeting process bought those planes at ranges from six per year, at which point they're about \$30 million a copy, to 18 a year, at which point they're \$20 million a copy. Optimal is about 15.

Had we bought at the optimal rate, we could have bought that program and saved \$632 million. It is the program manager's fault that the taxpayer paid \$630 million extra dollars for absolutely no more capability. So in my enterprise I have a source document where I ask program managers to behave in certain ways. One way is exactly as Chairman Levin said: Look to save money every day on your program; fight the programming process, fight the comptrolling process, and ask for economic order quantity.

To emphasize that, I sent a note on the T-45 example to Secretary Gates a month ago. He wrote back and said: Bring me some of these examples. And I just last week sent him a memo of things we can do to buy more efficiently and help avoid that, because the source document says what you are saying and what GAO is saying; that is, every time I pay more for no more capability, I'm essentially denying the warfighters a tool that we could have.

Senator LIEBERMAN. That's the ultimate victim here, is the warfighter.

Let me ask you a question, the question on the other side. What about a program manager who really does the job, an acquisitions official who really does the job and saves money? Are you able to reward that person?

Mr. Young: Especially if they're a military person in uniform, I have nothing to give them other than end-of-service commendations.

Senator LIEBERMAN. Well, that's something we ought to think about.

Let me go on to one more question briefly, because we've seen a lot of progress in the private sector in the reduction of waste. The Pentagon I know has tried to embrace some of those systems. But the report suggests that it's not just the business model and efficiency systems that are being used, but how closely the programs are being followed.

Here I want to get really to the question of organization. While a private sector business has a CEO with wide-ranging control of programs, as you've touched on briefly a while ago, each military department is organized differently. So I want to ask you to deal for a moment with these two questions: Is each service organized

ideally to manage these programs; and then, more broadly, does the senior acquisition official have authority equivalent to a CEO in a private business on not only the process, but on requirements, costs, and what's required to manage the system?

Mr. Young: I believe—as I stated earlier, I think the service acquisition executives are critical functions in the enterprise. I do not believe that that responsibility has been adequately exercised to achieve jointness and interoperability. I also do not believe in every case that authority—they have the authority to refuse to sign contracts, and I'll give you an example.

The Navy and Marine Corps wanted to pursue an LHAR, a new amphibious ship, that was basically going to be taking an LHS and put two plugs in it and make it ten feet wider and change 80 percent of the drawings and spend a billion dollars in nonrecurring. I stood up and said: Why do we have to do this? Is the requirement adequately compelling to spend that money? That ended up in discussions with even the Commandant of the Marine Corps, but in the end the Commandant agreed that requirement should be relooked and we didn't go down that path and we saved that money.

So I give you an example that the SAE does have the authority to refuse to sign contracts and call into question the requirements. That's the power of them reporting and working for the President under Goldwater- Nickles. Have we adequately exercised that authority? I think the answer is no.

Senator LIEBERMAN. Okay. Needless to say, and you know it and we all know it, this is real important. So let's work together to try to make it better.

Thank you.

Chairman LEVIN. Thank you, Senator Lieberman.
Senator Thune?

**STATEMENT OF HON. JOHN THUNE, U.S. SENATOR FROM
SOUTH DAKOTA**

Senator THUNE. Thank you, Mr. Chairman.

Secretary Young, I have a question that regards a current program that's at least in the formative stages that I'd like to get your reaction to, to how that's progressing and what can be done to keep it on schedule. But the Air Force is currently undertaking a new major weapons system acquisition program in the Next Generation Bomber. As this is a brand new acquisition program with an aggressive time line of being fielded by the year 2018, what acquisition strategies is the Department exercising to successfully field this platform on time without significant cost growth?

Mr. Young: I would think, consistent with what the committee I believe would expect of me, I take this as one of my fundamental responsibilities. I cannot afford for the Department to embark on a new bomber and not do it accurately. So a couple of things would happen. One, I would give the Air Force credit; they have laid out a program that includes some level of prototyping and the things that I've insisted upon.

I have independently asked the Defense Science Board team to review this program and help advise me on the technology maturity, the achievability of the requirements, and those factors. Then

I've personally gone out last week and looked at the potential for this program.

All those pieces—through the work of that process, already the Air Force has concluded that more money and possibly a little more time is required than they initially laid out, and I am determined to try to bring and present to the Congress an achievable program that's properly resourced, properly scheduled, and has appropriate technology maturity in it.

That's the goal. I strongly support the need for the new bomber, but I do not intend to put my name on a piece of paper that will start a program that is going to be in the next hearing a few years from now about how the costs grew on it.

Senator THUNE. One of the issues that's related to that, and the GAO report noted that, is that the long development cycles make it difficult to estimate cost and funding needs. Some development cycles take 10 to 15 years from start to finish. The GAO recommended constraining cycles to 5 to 6 years.

I guess my question is is that recommendation realistic? How can we continue to shorten the development time of these very complex programs?

Mr. Young: I think I believe the chairman has mentioned a few times the defense acquisition performance assessment report, which advocated a tool called time- defined acquisition. I think it's a very potentially useful tool, but it's only useful if you can define requirements that can be achieved in that time period. If you set out and say, I'm going to do something in 5 years, but the something you have set out to do in terms of requirements can't be done, then it'll just be another program that misses its schedule and its budget.

So I do think we need to look at that. In many of those things where you define short windows of time, you will be looking for incremental improvements in capability, and that may be a reasonable and very affordable strategy for the Department. In other places the Department does have requirements that go beyond an incremental change and so I don't know that I can always demand that time-defined approaches be the strategy.

Senator THUNE. The GAO also noted that the DOD typically uses cost reimbursed contracts, in which the DOD generally pays the allowable costs incurred for the contractor's best efforts to the extent provided by the contract. It further notes that this may contribute to an acquisition environment that's not conducive for incentivizing contractors to follow best practices and keep costs and schedule in check.

Would you agree with that statement and, if so, what's being done to correct these misdirected incentives?

Mr. Young: I think we have to—I believe there's work to be done in this space. We have to balance risks and costs. Where we are seeking to push the state of the art in technology, industry will not do this on a fixed price basis and I'm not sure it's reasonable to ask that it be done.

The other place is we possibly could look at a more aggressive contract structure that will help keep in check the requirements and help us deliver for affordable costs.

Then there are other places where we've used cost-type accounts, contracts, that I think have been unfair to the government and we need to seek reform in that area. The best example I can give you is on the LPD-17 ship, where some significant fraction of the welds in that ship were flawed and had to be redone. At some point in time, I should expect some reasonable level of performance by industry on a cost basis. I shouldn't be able, forced, if you will, to pay on behalf of the taxpayer any price for any level of deficient performance. That's an area where we need to do some work on our contracts.

Senator THUNE. The GAO testimony concluded with the statement that in practice DOD's decisions made on individual programs often sacrifice knowledge and realism in favor of revolutionary solutions. Would you agree with that assessment, and if so what are the two or three biggest initiatives that you think could correct that problem?

Mr. Young: I think—if I misunderstood your question, please correct me. But I believe the key to that is technology readiness. So there are a couple of steps to that. One, I am a strong advocate of the acquisition team working with the requirements team to try to make sure the initial requirements are set in a reasonable place and informed by what technology can do.

Then, to a finer level of detail, you have to do what the Congress has rightly asked us to do, and that is at the milestone points ensure that the technology is appropriately mature to move to the next phase of development. So in both those cases I think we need to address those issues.

Senator THUNE. Thank you, Mr. Chairman.

Thank you.

Chairman LEVIN. Thank you so much, Senator Thune.

Senator McCaskill?

**STATEMENT OF HON. CLAIRE McCASKILL, U.S. SENATOR
FROM MISSOURI**

Senator McCASKILL. Thank you, Mr. Chairman.

There are depressing failures in this area of the Department of Defense. The saddest thing about these failures is that we pass laws and we talk about them, and we pass laws and we talk about them, we have audits and we have audits, and it just keeps getting worse. What do they say, that insanity is keep doing the same thing over and over again and expecting a different outcome.

It seems to me we ought to implode something here. The system needs to be really looked at in terms of a crisis of leadership. There is—if you look at two broad principles in terms of any government program, it's, first, what's the definition of success; and second, is there accountability? Because people aren't going to change what they're doing if they're not held accountable for it.

We've discussed that briefly in this hearing. But it seems to me that the definition of success, and that's part of the problem, in acquisitions is get the money and keep getting the money. Well, if the definition of success is to get the money and keep getting the money, then we're going to continue to have these problems.

That's what the whole community's about, is getting the money and keeping the money. And it doesn't—well, I think that's what

the contracting community's about. And I think that that's what sometimes the leadership of the various branches is about, and certainly it's about what members of Congress are about sometimes, is getting the money for their own individual systems that they care about, their pet systems based on what contractors they have in their States or whatever.

So I want to focus in on turnover. I asked my staff why the military branches were not going to be represented today and they said, well, two out of the three positions are vacant. Ms. Schinasi, how long have you had your job?

Ms. Schinasi: 30 years.

Senator MCCASKILL. And how long have you been focusing on this area?

Ms. Schinasi: About 18.

Senator MCCASKILL. So for 18 years you have watched these problems.

Secretary Young, how long have you had your job?

Mr. Young: Which one?

Senator MCCASKILL. The one you have now.

Mr. Young: I was made acting at the end of July. I was confirmed by the Senate in November 2007.

Senator MCCASKILL. How long did the person serving before you have that job?

Mr. Young: Approximately 2 years.

Senator MCCASKILL. Do you know off the top of your head how long the average program manager stays in place in your system?

Mr. Young: I do.

Senator MCCASKILL. And it's 17 months, correct?

Mr. Young: That's not correct.

Senator MCCASKILL. Well, the GAO audit says it's 17 months.

Mr. Young: I asked my team yesterday to go through the data and identify, and at least for the places where you had data, the Army and the Navy, we surveyed program managers who have left since 2000 and the average tenure of those program managers was 37 months.

Senator MCCASKILL. Well, you all need to get together, because the audit says that of the 39 systems since 2001 the average length of a program manager was 17 months, and that is half the life of the development of those systems.

Now, how do we expect any accountability if you know you're going to be gone before the you-know-what hits the fan?

Mr. Young: I think I will certainly let Ms. Schinasi speak, but we have a snapshot in time that says today the current average is about 24 months, but that's a snapshot in time. It doesn't say how much longer they'll serve, and we are seeking to address this very issue with program manager tenure agreements that says that—where program managers agree to serve for a period of time or to the next nearest milestone.

So I agree with you about this. If I could, I'd use this opportunity to say there's another dimension to this. When I was the Navy acquisition executive for 4-1/2 years, I had I think four rotations in the senior requirements officer. The requirements officers are a party to this situation. They rotate on much more regular intervals. They come in and they potentially want to change the require-

ments, and then I have my acquisition program manager trying not to change and to keep stability and a requirements officer who just came in from the fleet and has the potential to make flag saying you've got to change, and it creates a lot of tension in the system.

That's why I believe again the acquisition executives have to take care of their program managers who try to manage with discipline, because it's not an easy discussion with the flag officer requirements person who says: You must change this part of the contract.

Senator MCCASKILL. Where are these people going when they leave?

Mr. Young: The program managers?

Senator MCCASKILL. Yes, or where are the senior acquisition people at the Navy and the Air Force, where are they going? Where do they go? When they leave these jobs, where are they going?

Mr. Young: Well, I was the Navy acquisition executive and I got moved to be the Director of Defense Research and Engineering, and I got moved to be the Under Secretary for Acquisition. Others, SAEs, my colleagues that I knew, one's at the Defense Acquisition University now, one's in industry. Most people I do believe return and work in industry in general, is the vast majority.

Senator MCCASKILL. So what would it take for us to—and I mean the sky's the limit here. What would it take for us to get someone like Ms. Schinasi to stay in some of these jobs for a decade maybe, something remarkable like 10 years, where they could actually manage and be accountable for these programs? Is it a matter of money?

You know, you talked about that you're having trouble getting people to come back because we are limiting what they can do when they leave. If you could write your wish list, why is it that somebody at GAO—I guarantee you she's not getting rich. I guarantee you she's not in this job for the money or the fame. And I'm not implying that people that leave DOD are going for money or fame.

But something is terribly wrong when the Government Accountability auditor stays 18 years and the average program manager—and we want to quibble about how long—are turning over like hotcakes. There is something terribly wrong with this system, and there's no way we're ever going to fix it if we don't have longevity in these leadership positions.

Mr. Young: The questions I had were largely about politically, presidentially appointed senior leadership positions in the acquisition community. If you move levels down from that, we have lots of government civilians who are just like Ms. Schinasi, have been in place for 20 and 30 years. I believe Senator Reed asked about this. In fact, my issue is refreshing that leadership with people that are about to retire.

So at the deputy under secretary levels and the next level and even in other places, we have a lot of that leadership. In general, we have a bias to run programs and oversee portfolios of programs with program executive officers who are military. In that regard, the acquisition system parallels to some extent the military assignment system, where people don't serve indefinitely in those jobs. Again, acquisition rotates far less frequently. I have program exec-

utive officers and program managers for at least 3 years. Many of the line officer organizations—commands of ship rotate on an 18-month to 24-month basis.

Senator MCCASKILL. Well, shouldn't we fix that? Shouldn't we change it? Obviously it's not working. We have cost overruns, we have scheduling. This is a disaster. We're talking about hundreds of billions of dollars. Isn't it time for someone to stand up and say, this is a crisis and we can no longer use this model in terms of the kind of longevity it's producing in these critical oversee and accountability positions?

Mr. Young: The issue has multiple dimensions. I believe this is one that's reasonably addressed when people are serving 36 to 40 months. I have program managers serving more than 4 years. I think we should look at it, but I would urge you that more significant factors are rotating the requirements officers and letting the requirements officers lean very hard on those program managers to change things. Then as I cited in the T-45 example, it's also programmers and comptrollers giving acquisition team members a budget they can't execute, and they need the backing to stand up and say: I can't execute that budget.

Senator MCCASKILL. Well, we'll follow up with you and with you, Ms. Schinasi, because I think it's time that we try—and I know that the chairman talked about a new position that might be outside of the process at this point in terms of the oversight. I think that might be a key example.

But I'm new here, but this is sickening. This is unacceptable. This would never be tolerated in the private sector. The reason it's tolerated here is because we care about our military, we want them to have the best, and because, frankly, it's not our money. It's taxpayer money.

I just, I think we need to do something dramatic and different in terms of how these processes are working.

Let me finally address a question about the number of contractors. We're down to six. I think all of us that are being honest about this know that this is a cross-pollinated incestuous deal here, that the contractors and the military—I'm aware of an incredibly inappropriate incident that occurred with the highest ranking of our military in an acquisition contract dealing with a PR screen for the Thunderbirds that we will go into another day.

But when we get down to one or two contractors, what should we do, Ms. Schinasi? I mean, when we've gone from what, something down to six, what do you recommend? How do we create more competition if we're down to six, and how do we keep it from going to one or two? And if we're going to do that, why don't we just bite the bullet and say that we have in fact become like other countries, where the government controls the business of supplying equipment to the government, because right now we kind of do; we just don't admit it.

Ms. Schinasi: I'm going to give you an answer that touches on a couple of the issues you've raised, and that is it would be good if we could get more production going, because production is where contractors look for efficiencies for themselves. That's where you can go into a fixed price environment and you can rely on them to

do what's in their best interests, that's also in the government's best interest.

One way to do that is to shorten these development cycles, and shorter programs will also address the problem that you talked about for accountability of program managers. If we only need somebody to stay 5 years, we're more apt to get that kind of match between what the system wants out of its program managers and what the system needs out of the program managers. So that would be one part of the answer.

I think you are right in that we cannot rely on competition the way the procurement system has been set up, because that is the bedrock of our procurement system, is competition. So we have to put more rules in place and we have to legislate more and we have to have more oversight. I'm not sure that's the most efficient way to do things, but that's where we are left right now.

There are ways to encourage competition if we look at the supplier base as a whole. The six companies I talked about are the major defense contractors, but there is an industry out there that can be created. Congress has looked at different ways to do that, the use of other transaction authority, for example, or other ways to bring in nontraditional contractors. I think some of those initiatives have merit, that we can get companies involved in government business that will provide some of that incentive and initiative to the ones who are already there to do their job better.

Senator MCCASKILL. Secretary Young, do you have any comments about that?

Mr. Young: I think I would agree completely with that. I've issued—I mentioned that I issue weekly notes to the broad acquisition team to try to keep moving the culture forward. At least two or three of those notes are aligned with the chairman's comments. I have asked people—and your comments. I have asked people to stop viewing success as getting more money, growing your program office, getting more people. In fact, I view that as a failure if you're doing it at the expense of contributing more capability. I'd be happy to give you that note for the record.

I have issued notes that said we have to have more open competition and do it as fairly as possible. I created acquisition strategies where a smaller business and a larger business were going to go head to head and the large business went and bought the smaller business. So I've watched an acquisition strategy through competition fall apart. We need some serious attention in this space.

We have another problem where I've seen some of the venture capital models work well, like In-Q-Tel for CIA. I've talked to those companies and those companies in general won't come and do business with the Pentagon because of the complexities of trying to do business with us. So we need to go attack some of those issues.

All these small companies may not have adequate cost accounting systems, but they have technology that our warfighter needs. We need to find a way to deal with that.

Senator MCCASKILL. Well, the irony is that because we are pretending like we have a competitive system, we are putting myriad rules and regulations in place to actually compensate for the fact that it's not true competition, and it's those myriad rules and regu-

lations that are keeping venture capitalists out. So it is a circle of failure. This is like—it's almost surreal, how ridiculous it is.

I don't have any more time—

Chairman LEVIN. Senator, I'm afraid your time is up.

Senator MCCASKILL. I'm out of time. Thank you very much.

Chairman LEVIN. Thank you, Senator McCaskill.

Senator Martinez?

**STATEMENT OF HON. MEL MARTINEZ, U.S. SENATOR FROM
FLORIDA**

Senator MARTINEZ. Thank you, Mr. Chairman.

Secretary Young, I want to focus on the issue of shipbuilding. I know the CNO has had a goal of a 313-ship Navy. We've talked about that a little bit this morning. We also know that from time to time in recent years this plan has not been meeting the goals that we need in order to see that to fruition.

We've also heard from shipbuilders that they argue that the formula for bringing down construction costs has to include volume and stability. My question to you is essentially, do you believe that the Navy at this point has adequately addressed the concerns in the shipbuilding plan which will then enable the Navy to get on the road to a 313-ship Navy?

Mr. Young: Well, I believe the Navy—I have not seen the latest iteration—the Navy is building, possibly with modest changes, the shipbuilding plan for the program objective '10 to '15 budget. You current plan as it exists in the current President's budget I believe provides moderate stability. Certainly you wouldn't call it robust, but a moderate stability and a path to the 313-ship Navy.

DDG-1000, as you know, is an important piece of that plan. I believe trying to regain cost control on the Littoral Combat Ship is an important piece of that plan for capability reasons as well as some degree of industrial base concern.

Senator MARTINEZ. In your prior job you worked on the Littoral Combat Ship procurement program. Specifically on that, where are we today in your estimation in terms of—I know we have the two prototypes and they're about to come out I guess in the next 2 or 3 months. Once those are sea-tried and a model is selected on which to go forward, do you think that the system, the procurement system, is ready to go so that we can then proceed to the construction of a Littoral Combat Ship and get a production line going that's going to be successful?

Mr. Young: A couple of things. One, the Littoral Combat Ship was formed ahead of really Operation Iraqi Freedom, where the Department did several thousand—I went to Fifth Fleet and they did several thousand boardings in the Gulf. We were boarding small ships that could have been a danger with billion dollar DDG-51 destroyers. We need a smaller, faster ship in our Navy.

I couldn't be more frustrated than all of you that that ship, which we set out based on some commercial designs that we were going to make modest changes to, has now grown, more than doubled in cost. I would like the Navy to revisit, trying to get some cost control of that program. But I believe the capability is still needed and I think you will see in the POM10 budget the Navy

tries—because you can't deny the capability—the Navy will try to buy those ships and restore that program.

The cost cap right now is causing a problem. I was asked, and I will provide extended comments for the record, but one of the fundamental issues is we took a more commercial-like ship that we were going to add some systems to and applied a lot of Navy technical authority and turned it into a militarized ship. We drove that cost growth. I don't even know—it's some mix of cost growth and the fact that we made new demands on this ship that drove the price of it to a higher level. "Cost growth" is such a general word applied here.

Is it a more capable ship at the price of \$400 million plus? Yes, it's a more capable ship. Is it as affordable to the Navy as it should have been? Absolutely not.

Senator MARTINEZ. Well, given that, do you think that the vision for the Littoral Combat Ship can be actually accomplished, given where we are today?

Mr. Young: I think I'd stay with the first—I think the vision has to be accomplished. I need a ship that can go 40 or 50 knots and chase down the small vessels. Our adversaries buy ships now that are faster than DDG-51s. DDG-51s really weren't intended for the maritime interdiction operation missions. We need a ship in this class for the missions our Navy faces in today's environment.

I think this is very consistent with Secretary Gates' comments about what are the threats and the missions we will have to execute in the next few years. There's a gap in the Navy to do this job. Can we now go in and undo some of the changes that were done to the Littoral Combat Ship to make it more affordable for the Nation so we can buy them in quantity for our Navy's warfighter?

Senator MARTINEZ. So give me some confidence that we're on the right track to be able to get that done. Because I agree with you, we need the ship.

Mr. Young: I think—

Senator MARTINEZ. Is the Navy on track to be able to pull this off? Is the acquisition system in place? Once we select the prototype, are we ready to go?

Mr. Young: Are we able to buy the ship that the LCS has become? Probably, but it's not as affordable as it should be. Has the Navy made enough effort to get costs back out of that ship? I think that's not answered yet and I intend to have discussions and meetings with the Navy to seek to accomplish that goal.

Senator MARTINEZ. In terms of the overall ship acquisition challenges, do you believe that we have reversed or have taken the steps necessary to reverse this long-term trend which we've seen that has not allowed us to get the ships that the Navy needs, just in the overall fleet, not just the LCS?

Mr. Young: I think, unfortunately, the requirements process has driven us to ships that are more expensive because they have more capability. You have to look at those factors. I face this constantly in the Navy, and that's my job, is to try to find that middle ground. There are places where I could buy a less capable ship and it would be more affordable and run some risk of the threat being able to match that ship.

So I think the Navy's trying to find that reasonable balance. I believe we've restored some degree of stability to the Navy ship-building program. The program is expensive, more expensive than we would like it to be. But it is linked to the capabilities that reasonable people have assessed the threat to have, particularly when you look at nations that are building capable ships out there.

So I think the Navy's finding that some degree of reasonable ground—unfortunately, ships are more expensive. They're more expensive—I think, as Ms. Schinasi pointed out, we're not buying anything in the quantities we bought them in the past. That alone is driving a significant cost into our systems across the board, not just ships.

Senator MARTINEZ. This last question for both you, Secretary and Ms. Schinasi as well. In the 109th Congress this committee passed legislation that was enacted into law which requires that the Defense Department give a preference to fixed price contracts for major developmental defense programs. Fixed price contracts shift the risk to the contractor and incentivize the contractor to increase the reliability of the system components.

GAO has determined that cost-type contracts cost the taxpayer \$80 billion in cost overruns in the past decade. So what has been the practical effect of this legislation in helping the military services to end the practice of overpromising capabilities and underestimate cost of development in buying weapons systems?

Ms. Schinasi: I would say that the contract type should reflect the risk associated. So when we have a preference for fixed price contract, what we're saying is let's get some of the risk out of the programs that we're trying to develop and produce here. There have been experiments in the past with fixed price development contracts that have not worked because we have not taken on the more difficult piece of the risk of the technology maturity and the other things that are associated with all the cost growth that we've been talking about this morning.

A program I would look at now is the Joint Strike Fighter, where we are going into production and still looking at costs with some cost-type contracts, which says that perhaps the cost of the program is a little bit greater than we would expect to see going into production.

But again, the contract type has to be put in place associated with the risks that the government is undertaking.

Senator MARTINEZ. Mr. Secretary?

Mr. Young: Could I? I would agree with Ms. Schinasi's comments and add to that. One thing I have to ask—I don't have any way around—I have to ask your patience with is, you pass legislation and it takes time to implement steps in that regard and move forward. Then it takes some years to see. I've been frustrated with the discussion about that transition. To me this isn't a transition business. I have something like 16 programs seeking milestone B's this year and all of those programs will execute over the 3 to 8 years beyond the end of this administration.

We need to make those decisions well. We will make those decisions well. We have done exactly what she said. I have asked the program office and Lockheed to look at fixed price incentive contracts at the right point for these Joint Strike Fighter aircraft. So

we will, with your legislation—and partly because it’s just the right thing to do—I will continue to push in this space to get better terms and conditions for the government, and it will take us a couple of years to see the benefits of all those activities.

Senator MARTINEZ. Thank you both very much.

Chairman LEVIN. Thank you, Senator Martinez.

Senator Akaka?

STATEMENT OF HON. DANIEL K. AKAKA, U.S. SENATOR FROM HAWAII

Senator AKAKA. Thank you very much, Mr. Chairman.

Ms. Schinasi and Secretary Young, in that order, I want to welcome you here today to talk to me about the problems that have been going on for years. I want to deal with production process control and also with best practices. I think there’s an agreement that achievement of—I think there’s agreement that achievement of quality and production is nearly impossible without process control, and it also makes for casting of cost and timelines extremely difficult to do accurately.

One of the many problems we’ve heard today deals with poor business and engineering practices. Specifically, I am most concerned that in all cases there was not a single instance where all critical production processes were in statistical control prior to the beginning of the production phase.

My question to both of you is, could you please describe why this previously identified best practice has failed to be enforced? Second, what steps the Department is taking with its current programs that are still in the pre-production stage to break this trend? We’re talking about attacking and breaking these trends?

So these two parts of the question, about describing the best practice and also what steps are you taking.

Ms. Schinasi: Senator, I will defer to the Under Secretary on the enforcement piece, but I would like to say, on the manufacturing the process control, that is an indicator that we use to look at whether or not a system is ready to go into production. What we find in many cases is the reason that you don’t have process controls is because you don’t have a stable design, and in some cases you don’t have stable design because you’re working with immature technologies.

So it’s a cascading problem that we see in a lot of programs. Process controls is one way that you can measure the readiness of your manufacturing to go forward. It’s not the only one. But the thing that I think is most troubling to us is that in many cases, even if program offices do not capture that metric, they do not capture any metric because they don’t—they have not seen the importance of getting the manufacturing processes ready.

Senator AKAKA. Secretary Young?

Mr. Young: I would add a comment. This is one of the more difficult decision spaces that I face in the business. I’ll use a couple of examples. Joint Strike Fighter will be one. Right now we have 15 system design and development, the end of the development of JSF, aircraft in construction. So we have teams of people that are learning, improving the processes to build that aircraft. We have signed for two low-rate production contracts for that aircraft.

My choices are to build the SDD aircraft, come to a halt and test and design that production process and then start it back up. That guarantees me a loss of time and a loss of learning and an increased cost to the taxpayer. Or the risk issue that's come up many times today: Do you take some appropriate level of risk and begin the process of fabrication and production at low rates and continue to gain maturity in the processes?

I certainly can't disagree with the GAO comment that you'd love to have everything. But I believe the everything path will cost me more and so I have to take some measured and prudent risks, I believe, on the heels of developmental aircraft construction to begin to do low rate production, and then seek to go to rate production. I believe that in our rate production decisions we seek to have much more maturity, if not good maturity, in that production process control you've talked about.

Senator AKAKA. To both of you: To what degree has the current security environment and the wars in Iraq and Afghanistan contributed to what you call a sense of operational necessity that allows waiving of requirements established in recent legislation regarding these practices?

Mr. Young: Can I comment on that?

Ms. Schinasi: Yes, please.

Mr. Young: I had a meeting yesterday that I think potentially answers your question, sir. The H-1 upgrade program to get new helicopters to the Marine Corps, known as the Y and the Z, the H-1Y and the H-1Z. The program manager came to me and there are pieces of the AH-1Y that are not ready for test. They are in operational test right now, and successful operational test would have paved the way for a decision this September to buy low-rate production Z's, and then again in '09 the issue before you is to buy low-rate production Z's.

The Marine Corps has a gap and they need these aircraft. So they come to me and all the risk comes to me and they say: We didn't go—we cancelled operational tests, we're now not going to do operational tests until 2010, and still we seek to buy and deliver aircraft in 2011, hoping for success. And I'm faced with the challenge of how do I come talk to you, when you're asking me to execute more discipline in the system and demonstrate that greater discipline. And yet the best way to do this would be stop. If I stop on the Y-Z—on the Z program right now, the Marine Corps will not get helicopters in 2011, they will be short of helicopters, the costs will unquestionably go up, but I could possibly deliver the program more confidently, for a known increase in cost. Or I'm faced with the alternative, is to stay the course and take some reasonable measures to demand testing and operational assessments and developmental tests that will help build my and your confidence, with the idea that I possibly need to go ahead and buy the Z aircraft for the Marine Corps's operational need.

I haven't made that decision yet, but that's a perfect example of the kind of decisions, where I'm trying to balance the risks and your request to me to execute the program with more stability and the warfighter's need today in the theater.

Ms. Schinasi: I think the Under Secretary was correct earlier when he said every program has its own story and it's important

to recognize the story in every program. But I also think it's important to step back and look at what is happening across the board. So the question I think that's important from the question that you just raised and the example that was just given is why are we in this position? Why are we in a place where we have to rush, where we have to push through, where all of a sudden it's urgent, urgent, urgent, because in many cases once we say it's urgent and we move forward, it takes us longer to get where we're going anyway.

Mr. Young: Maybe could I offer another example, because here we have great alignment. Another example I dealt with this year is the Multi-User Objective System. It's a replacement for the UFO satellite. I feel like the requirements and budgeting enterprise should have recognized the need for that satellite earlier and budgeted for it. Instead, we were late to need, and they came to the acquisition team and said: We need a replacement for the UFO satellites in 60 months. The Department historically had taken 78 months to build every communications satellite.

The program office accepted the challenge, said, we'll try to do everything we can to meet the 60-month schedule. They are going to deliver MUOS in 77 months. So they beat the average by 1 month. Is this viewed as program office failure? In one sense it is, because they never should have agreed to do it in 60 months.

Are they the sole responsible party? Absolutely not. The programming and requirements community could have recognized this need, I think, as Ms. Schinasi said, if I could borrow her words, and budgeted for a program that has a reasonable probability of succeeding to meet that schedule and budget.

Senator AKAKA. Thank you very much, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Akaka.

Senator McCaskill?

Senator MCCASKILL. I have looked at the audits that were done by DCAA concerning Lockheed cost estimating systems and also the report that was issued in November of last year by the Defense Contract Management Agency that called Lockheed's systems "deficient to the point where the government is not obtaining useful program performance data to manage risks."

There is a GAO audit also that was highly critical. This is not a new issue. Back in 1998, the president of Lockheed Martin said: "Our current program and functional reviews are not capable of providing what we need."

I understand there was a meeting in February between the Lockheed officials about the cost estimating system problem, and obviously this is a big, big problem, because we're talking about the Joint Strike Fighter. We're talking about almost a trillion dollars, and we're basing payments on a system that all of our auditing agencies and management agencies are saying doesn't work.

Back in 2005 you withheld 2 percent of your payments to Bell Helicopters under a circumstance, frankly, that sounds as egregious as this. Are we going to expect and are you planning on withholding payment from Lockheed because of the deficiencies in their EVMS?

Mr. Young: Senator, you're obviously well-informed on this. One thing I want to distinguish here is to make clear, the report addresses the Earned Value Management System and not the billing

system. So the government has valid invoices for the moneys that we have paid Lockheed Martin, and I've had this discussion with the CEO. We believe the money paid and the billings match. The translation by Lockheed Martin of invoicing and billing into an Earned Value Management System to assess their progress and their projection of future success on the program, there were flaws in that practice found in that report.

We met with Lockheed, as you noted. Secretary Finley, the Under Secretary for Acquisition and Technology, met with them, highlighted the report, and then he and the Defense Contract Management Agency outlined a plan to address and remedy all these issues. There are 12 milestones in that plan. The first milestone's been met. The other 11 are ahead of us.

DCMA meets with Lockheed's staff every 2 weeks to address progress on this, and we will withhold \$10 million for every milestone that is not met as we continue to progress, with the goal of remedying the Lockheed Earned Value Management System within a year.

Senator MCCASKILL. So you're going to withhold \$10 million every time they don't meet one of these. I do want to—that's good, and I would love to be kept apprised of that as to how much is withheld and what the milestones are and what is being reached, because clearly this has been a continuing problem.

I think the thing as an auditor that concerned me most is in the audit they also noted their control environment and accounting at Lockheed was inadequate. Well, when an auditor cites a control environment the sirens and bells and whistles should go off. That means that there is an environment where bad, bad things could happen if the controls are not in place and if it's a matter of their accounting system.

So I would specifically like that issue to be addressed if possible in a follow-up, as to how they are taking steps specifically based on the audit findings about their control and accounting. [The information referred to follows:] [COMMITTEE INSERT]

Mr. Young: We'll provide you more detail for the record or personally, or both, whichever you like.

Senator MCCASKILL. Both would be great. Thank you so much. Thank you, Mr. Chairman.

Chairman LEVIN. Thank you so much, Senator McCaskill, and thanks for your energy and commitment in this area. It's absolutely invaluable to us.

I want to pursue a matter that you made reference to earlier today, and that's this so-called Thunder Vision contract, which has come up many times now. But there's an IG report that was issued in May which identified an additional seven contracts on which senior Air Force military officers were perceived to have used the powers of their position to award contracts to specific companies.

I'm wondering, Secretary Young, whether or not you're aware of that IG report and, if so, what steps you've taken to provide accountability where you thought accountability was needed.

Mr. Young: I'm aware of the IG report. It is working in the normal disciplinary process, first to the Air Force, and I need to see what actions they take. Many aspects of that report highlight an issue I've talked about around today, where I believe the report

cites that the acquisition team members sought to have a competition and felt like they needed standards against which to compete. And the report talks more about people outside the acquisition process seeking to exert undue influence on that process.

Those are disciplinary matters that are not within my purview, but they exist. They exist in lots of different ways and manifest themselves with people who have authority becoming frustrated with an acquisition team who is explaining, we need to do this in a competitive manner, in an open manner, and consistent with the laws and regulations. We run into that challenge on a regular basis, Mr. Chairman.

Chairman LEVIN. Well, I think that it's clear to us the issue of accountability is critically important. Senator McCaskill this morning has highlighted it. It's been raised also in your testimony, I think, Ms. Schinasi. It's critically important. So even though this may not be precisely in your area of jurisdiction, would you let this committee know on this particular report that the Inspector General has issued in May as to what the outcome was relative to accountability?

Mr. Young: Yes, sir, I'd be happy to. [The information referred to follows:] [COMMITTEE INSERT]

Chairman LEVIN. If there's no other questions, we will, with thanks to our panel, stand adjourned.

[Whereupon, at 11:41 a.m., the hearing was adjourned.]