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SENATE COMMITTEE
ON ARMED SERVICES**

TESTIMONY OF

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UNDER SECRETARY OF DEFENSE

(ACQUISITION, TECHNOLOGY AND LOGISTICS)

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SUBCOMMITTEE ON READINESS

AND MANAGEMENT SUPPORT

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Acquisition Policy and Outsourcing

The Honorable Edward C. "Pete" Aldridge, Jr.
Under Secretary of Defense
(Acquisition, Technology and Logistics)

Chairman Ensign, Senator Akaka and Members of the Subcommittee:

Thank you for inviting me here today to talk with you about acquisition policy and competitive sourcing as part of your review of the Defense Authorization Request for Fiscal Year 2004. We have made great progress in addressing barriers to efficient acquisition, and we thank the subcommittee for its assistance in the creation of a professional acquisition corps, as well as for its support for pilot programs and other transaction authorities to speed the fielding of state of the art technology and better equipment to our warfighters.

Our current national security situation once again reveals a truth often forgotten during times of peace – that the most important duty of government is the protection of its citizens. The support this subcommittee has demonstrated for our men and women in uniform honors that covenant. The successes of my office in our ongoing quest for excellence in defense acquisition are a measure of our attempts to honor the same covenant.

For example, in the past year we have been quite successful in pursuing the five goals I established at the beginning of this administration. These goals were directly derived from those established by Secretary Rumsfeld for the Department as a whole. These goals are: improve the credibility and effectiveness of the acquisition and logistics support process; revitalize the quality and morale of the Acquisition Technology & Logistics workforce, improve the health of the defense industrial base; rationalize the weapon systems and infrastructure with our defense strategy; and initiate high leverage technologies to create warfighting capabilities and strategies of the future.

Toward these goals, I've restructured the Defense Acquisition Board, and designated evolutionary acquisition and spiral development as the preferred approach. The opposite side of that coin must be the proper pricing of programs, which I have insisted upon. I have also approved a new process for the acquisition of services by DoD, mandated interoperability at program initiation, institutionalized the use of "Technology Readiness Assessments", consolidated and improved our acquisition education ("Electronic Distance Learning"), developed a comprehensive Future Logistics Enterprise, made changes to improve the health of the defense industrial base, instituted a new profit policy, increased Progress Payment schedules, developed a process for sharing of cost savings from excess facilities, eliminated inappropriate R&D cost sharing, encouraged non-traditional commercial companies to do business with DoD, accelerated the close-out of over-aged contracts, and exploited the enormous potential of Advanced Concept Technology Demonstrations (ACTDs).

Of course, we still have many things to accomplish. We need to further eliminate inappropriate "management" functions and marginal activities, continue to devolve functions that can be better accomplished elsewhere, further reduce acquisition cycle times, continue to minimize program risks, enhance program stability, continue to stress keeping costs under control, further establish a clear vision by which our logistics will better support our operational requirements, and accelerate the Flow of Technology to the Warfighter with a vibrant and robust research program.

I would now like to discuss in some detail the issues you identified as being of particular interest to you at this time.

I believe that increased use of evolutionary acquisition and spiral development is the key to reducing the acquisition cycle time. I have designated Evolutionary Acquisition and spiral

development as our preferred strategy for fielding operationally useful and supportable military capabilities. They deliver advanced technology to the warfighter as rapidly as possible—with the explicit intent of delivering improved or updated capability in the future. Evolutionary Acquisition success depends on the consistent and continuous definition of requirements, and the maturation of technologies that lead to disciplined development and production of systems that provide increasing capability to the right materiel solution. Achieving the optimum benefit from Evolutionary Acquisition and spiral development requires early and frequent collaboration between the user, tester, and developer. We have been implementing evolutionary acquisition and spiral development over the past year and have instituted it in some of our major programs. Several examples of our evolutionary programs that will transform the battlefield are:

- The Joint Strike Fighter (JSF) Program will develop a family of strike aircraft, capitalizing on commonality and modularity to maximize affordability while addressing the needs of the Air Force, Navy, Marine Corps, and United Kingdom Royal Navy and Royal Air Force, in addition to those of numerous other international partners.
- The DD(X) program will continue development of a suite of technologies to be applied to the whole family of 21st century surface combatants, including: littoral combat ship, DDX destroyer, CGX cruiser, and maritime pre-positioning ship.
- Unmanned Aerial Vehicles, such as Global Hawk, where we continue to add new and upgraded capabilities;
- The new aircraft carrier, CVN-21, whose evolutionary strategy and innovations include an enhanced flight deck, a new nuclear power plant, allowance for future technologies, and reduced manning; and

- The Future Combat System (a system-of-systems of aerial and ground, manned and unmanned combat vehicles linked via a command and control network).

Proper pricing of programs is the predicate required for successful evolutionary acquisition and spiral development. Without it, program managers tend to exhaust their funding, scavenge funding from other sources, and slip their schedules. Without the proper pricing of programs, the advantages conferred by evolutionary acquisition and spiral development are eliminated before they can be brought to bear.

On a similar note, more realistic funding and costing are important to establishing and maintaining the credibility of our acquisition process. The FY04 budget request continues the process we began in FY03 of funding many of our major programs to more realistic cost estimates. I generally require the Services to meet the Department's full-funding guidelines, and to budget to what I believe are realistic and executable cost estimates, based on a variety of inputs including the OSD Cost Analysis Improvement Group (CAIG) independent cost estimate. For example, on the F/A-22 program we have essentially capped the total program cost. Recent cost increases in the Engineering and Manufacturing Development (EMD) phase have been funded from within the total program budget through tradeoffs between the pace of modernization efforts, the procurement rate, and total quantity. We reduced production in FY04 by five aircraft while increasing the budget by \$89M and adjusted the overall production profile consistent with a "buy to budget philosophy." These were hard decisions made necessary by escalating costs within the program.

The Acquisition Policy improvement initiatives we are pursuing internally will make a tremendous difference. The first of these is the complete rewrite of the DoD 5000 series of documents. Over the last year we have been taking a hard look at our acquisition policies and we

determined last fall that the old policies were much too prescriptive. We concluded that they required revision to create an acquisition policy environment that fosters efficiency, flexibility, creativity, and innovation. Consequently, we cancelled those policies and issued interim guidance while we completed the final policies. I have also worked with the Joint Staff as they revise the policies concerning the requirements definition process. Our goal is to harmonize these processes and reduce the friction associated with unrealistic requirements or processes previously geared to produce the “100% solution”, when an 85% solution could be achieved much faster without significant risk to the customer – the warfighter.

The final policies will shortly be published. They will take a long step toward achieving my objective by giving our senior acquisition decision makers much greater authority to tailor program strategies to fit the needs of their program; by placing greater emphasis on evolutionary acquisition as the preferred strategy for rapidly acquiring advanced warfighting capability; and by giving Program Managers the flexibility to be creative and efficient in the way they apply policy to their programs.

The flexibility that we have built in to these streamlined policies reflects the confidence I have in our highly talented workforce and in the dramatic improvements we have made to our acquisition education system.

I don't want to leave you with the impression that we are done. For as long as I hold this office, I will continue to aggressively pursue the development and implementation of new policies that will ease the burdens on our managers while producing stable, affordable and well managed programs that serve the needs of our warfighters.

The Department recently started another major transformation initiative to improve the acquisition process by dramatically changing the Defense Federal Acquisition Regulation

Supplement and the processes we use to create and maintain it. The DFARS is nearly 20 years old and is about 1400 pages long. The last major review of this regulation was done in the late 80s. We've already determined that about 60% of the DFARS is driven by internal policies and procedures and not by statute or Federal policies. Our regulatory processes have been in place since the early 50s and take far too long to implement needed changes to policy and guidance. As part of the Department's overall transformation goals, we are taking a hard, new look at the purpose and content of the DFARS.

We chartered a task force under the direction of the Director of Defense Procurement and Acquisition Policy to identify changes to procurement policies, procedures, processes and authorities and submit proposals to me by early May. The task force will also identify opportunities for legislative change for possible consideration by the Congress in the FY 05 legislative cycle. We will remove or dramatically change parts of the regulation if we determined that doing so would improve and strengthen the efficiency and effectiveness of acquisition processes, reduce unnecessary costs and administrative burdens for Government and industry, and create an environment that fosters creative solutions to the unique challenges that face our acquisition workforce. Similarly we will retain those policies and processes that today, ensure adequate internal controls, implement our stewardship responsibilities to the taxpayer or maintain fundamental principles of integrity and fairness in our business relationships with industry.

We are aggressively challenging the acquisition community, including industry and the general public, to participate by proposing opportunities for change. We have contacted a broad range of industry associations that are already considering how they can provide input to the task force efforts. There is significant potential benefit to reducing regulatory burdens. While many

policies and procedures in the DFARS are sound they may not always be the most effective approach for every situation and certainly do not require restrictive regulations in every case. Our main focus is to improve our processes and add value. However, we are on a clear path to reduce regulatory burdens under this initiative.

The Acquisition Workforce initiatives must be focused, as President Bush stated in a speech to government employees on July 10, 2002:

“We must be able to get the right people, in the right place, at the right time, with the right pay. We need to be able to reward excellence and ensure accountability for individual performance.”

In order to get the right people in the right place at the right time, we have been conducting human capital strategic planning and are using the authorities in the Acquisition Workforce Demonstration.

We began the human capital strategic planning effort two years ago, concentrating on developing a process and methodology. We are beginning to see the Services embrace that process and use it. So, this year we are concentrating on two key functional components of our workforce – systems engineers and logisticians. We are working with the functional leads for those two career fields to describe a desired future end state. We are also working with the workforce managers in each Service and the key Defense Agencies to look at current manpower, projected into the future, and how to move from where we are today to where we need to be. We are also identifying the actions we need to close those gaps. Human capital strategic planning is hard work, and

we won't be where we want to be for another few years, but we've begun that process and it will pay dividends for us.

The Acquisition Workforce Demonstration also helps us get the right people at the right place at the right time, through its flexible personnel practices, but it also adds the element of right pay by linking pay to contribution to mission. In the FY2003 National Defense Authorization Act, you provided us an extension of the Acquisition Workforce Demonstration project until 2012. We appreciate that support.

I would emphasize one more element of the President's direction. We need to have a workforce with the right skills. The Defense Acquisition University (DAU) has been in the forefront of providing certification training to our AT&L workforce. But, we have also recognized the need to move beyond certification training. DAU has embraced a new performance learning model for training, upgrading their certification courses to include critical thinking and case studies, adding web-based continuous learning, providing on site support to our workforce from regional campuses, and offering web-based practitioner sharing of best practices and lessons learned. DAU has done so well implementing their performance learning model that they have been accredited by the Council on Occupational Education and recognized by their peers by winning a Corporate University Best in Class (CUBIC) award for the Best Over All Corporate University in 2002. DAU is now turning their attention to developing rapid training for emerging policies as a result of requests from the front-line. You have been supporters of DAU, and we thank you for that.

No discussion of the workforce would be complete without addressing workforce size. Since the mid-1990's, DoD has defined our AT&L workforce to include all people

who are doing AT&L work, regardless of their organization. That workforce now numbers a little over 132,000 people (as of September 30, 2002), down from the almost 146,000 people we counted in 1998. That workforce today is managing over \$1,700,000 per person in total acquisition dollars, up over 40% from 1998. As we discussed, we are using human capital strategic planning and the acquisition workforce demonstration to get the right people at the right place at the right time with the right skills and the right pay. And we are in direct competition with the private sector seeking talent for many of the same skills in a shrinking demographic pool. While we are continuing to use these to examine our workforce needs of the future, we believe that our workforce is where it should be today to manage our workload. We will continue to make adjustments as they become necessary, but adjustments should be left to the Department, not enshrined in statute. We can reduce the size of the support structure surrounding our AT&L workforce. We will do that by using the tools you have given us – BRAC and competitive sourcing. Providing relief from our statutory reporting burden and flexibility in our personnel process will help with that effort.

This leads us to the last area you asked me to focus on – competitive sourcing. The Department must continue to do business better, faster and at reduced cost to maintain our focus on readiness. In order to focus on what we do best - - our core mission activities - - we must become more efficient in our support, or non core, services. When subjected to competition, our workforce, as dedicated as they are, as well as other service providers, can and do provide support services at not only a lower cost, but with greater speed and efficiency.

The Department of Defense has, by far, the most experience in the federal government in competing its support services using the public-private competition process defined by OMB Circular A-76. During the Fiscal Years 2001 through 2002, we completed over 330 A-76 competitions with about 42,000 positions, and we are scheduled to complete A-76 competitions on an additional 15,000 positions by the end FY03. The 330 completed A-76 competitions have resulted in either a contract or in-house decision that will generate about \$3.6 billion dollars in savings (cost avoidance) over the life of the contracts, normally about 5 years. This demonstrates the power of competition. Our studies verify these savings are real and persist over the entire performance period.

The public-private competitive process is not easy. In fact, it is often lengthy, complex and frustrating for all involved. That very frustration is, in part, an outgrowth of the A-76 process, which has evolved over time to address legitimate concerns for establishing a level playing field to protect the interests of all participants: government employees, private sector competitors, federal managers and taxpayers. But the old A-76 process has become too lengthy, adversarial and distrusted by all participants.

The Office of Management and Budget (OMB) has now issued a proposed revision to OMB Circular A-76 to address recommendations made by the Commercial Activities Panel. We believe the proposed revision offers promising and overdue improvements to the A-76 process, especially with respect to aligning it more closely with procedures already used under the Federal Acquisition Regulations. The proposed revisions were published in November for review, and we have supplied comments as have all interested parties. We have continued our dialog with OMB as they work to finalize the Circular.

The Department has long been the leader in the federal government in competing commercial functions with the private sector under OMB Circular A-76 and fully supports the President's Management Agenda for competitive sourcing. OMB identified for DoD a long-term competition goal for 226,000 positions (50% of the FY 2000 FAIR inventory of 452,000 positions). DoD is on track to meet our interim 15% goal of completing A-76 competitions on 67,800 positions by the end of FY 2003. The remaining 35% will be met using both A-76 competitions and "Alternatives to A-76". While the Department continues to conduct A-76 competitions, we believe the Department and taxpayers are best served by employing a wide range of business tools designed to make our operations more efficient. The respective Military Departments are developing plans for submission with the FY 2005 program to meet the President's long term management agenda targets.

I've talked about some of the things we could do on our own to transform this department -- to eliminate waste and duplication and to demonstrate greater respect for the taxpayer's dollars. In the past several years, we have made significant progress. We've reduced management headquarters staffs in the department by about 11 percent. We have streamlined the acquisition process by getting rid of hundreds of pages of prescriptive rules and regulations, and allowing program managers -- we hope -- to be more innovative, flexible and creative. We have eliminated onerous regulations that make it impossible or unattractive to do business with the Department of Defense, and to expand authority for competitive outsourcing so we can get military personnel out of non-military tasks and back into the field. There is really no reason, for example, that the Department of Defense should be in the business, as we are, of making eyeglasses.

The private sector, I suspect, makes them better and faster and possibly even cheaper.

These types of things need to change.

However, in some cases we need your help to make needed changes. This year we are proposing a series of changes to the acquisition statutes, some bolder than others. These proposals address several kinds of problems. Some address burdensome requirements, such as relief on contracting out expansion and contracting of support services for security and firefighting beyond that allowed in prior years. They also attempt to better clarify the Buy American definitions such that we don't cause excessive record keeping to gain diminimus compliance, or inadvertently benefit foreign suppliers. And finally we're proposing several flexibility changes, starting with seeking management relief from moving funds within a program to provide management margin where it is needed. We recognize the significance of some of the changes requested, but again seek a dialog to make the business of defense more efficient.

As the Secretary of Defense has said in his Town Hall meeting on March 6, *"To truly bring DoD into the 21st century we need legislative help. We are now working with Congress to fashion proposals that will help transform the department: how we move money, how we manage people, how we buy weapons. Final decisions on this package of legislative authorities have not been made. We are currently in discussions with the Office of Management and Budget about them and we are still in a consultation process trying to make sure that we get it right"*

Thank you, Mr. Chairman for the opportunity to testify before the Subcommittee. I would be happy to answer any questions you and the Members of the Subcommittee may have.