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**TESTIMONY OF**

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**PRESIDENT**

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**BEFORE THE UNITED STATES SENATE**

**COMMITTEE ON ARMED SERVICES**

**AIRLAND SUBCOMMITTEE**

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## **Improving the DoD Acquisition System**

**Mr. Frank J. Anderson, Jr.**  
**President, Defense Acquisition University**

Chairman McCain, Senator Lieberman, and Members of the Subcommittee:

Thank you for the opportunity to appear before you today to discuss improving the DoD acquisition system. I know this is a very important subject for you and also for the Department of Defense. Today there is a broad consensus (among the Congress, the DoD leadership, private sector senior leaders, and others) that DoD must act now to improve acquisition outcomes. This is important for all stakeholders. The challenge is in maintaining this consensus, collaborating effectively and developing and implementing specific changes. You requested that I provide my views on three areas: 1) acquisition organization structure and what laws, regulations, and practices governing defense acquisition policy may need modification and improvement; 2) structural problems associated with the dramatic rise in the cost of, and widespread delays in developing, testing, and fielding major defense systems; and 3) the effects of the U.S. industry consolidation, the effects of competition on defense contracts, and my assessment of how critical the defense industrial base may be to defense acquisition policy.

As you know, the pending National Defense Authorization Act for Fiscal Year 2006, S.1042, Section 806, would require Defense Acquisition University (DAU), acting under the leadership of the Under Secretary of Defense (AT&L), to conduct a review of the acquisition structures of the Department of Defense. Also,

the Acting Deputy Secretary of Defense initiated an “integrated acquisition assessment to consider every aspect of acquisition, including requirements, organization, legal foundations, decision methodology, oversight, checks and balances – every aspect.” The results of this effort will be provided to the Deputy Secretary of Defense and to the Quadrennial Defense Review (QDR) team this month. Based on what I have seen and believe, I am convinced the Honorable Ken Krieg, USD (AT&L) and the DoD Senior Leadership team shares your concerns and sense of urgency about the need to improve acquisition outcomes and they will share their recommendations with you in the near future.

Now, to the issues you highlighted in your letter and my views on required actions relative to improving acquisition outcomes. My thoughts are on producing acquisition outcomes that are both responsive and better in terms of cost, schedule, and performance commitments. Acquisition structure is certainly a contributing factor in achieving improved acquisition outcomes. However, I do not believe our most pressing issue is the way DoD is organized to accomplish the acquisition mission, and I do not believe a single focus on organization alone will address our most significant issues. There are several longstanding, systemic issues I think, must be addressed first, and if they are not, I believe we will only produce marginal improvements. These issues are 1) program stability; 2) creating an integrated and aligned “Big A” process; 3) cost growth in our programs; and

4) competition and the industrial base. Changes of the type needed will not be easy and will require an unusual willpower by leadership and all other key stakeholders.

### **PROGRAM STABILITY**

Virtually every major study of the defense acquisition process has identified the lack of program stability as a driving factor influencing cost growth and schedule delays. It is still a major issue. Funding instability is created by a number of factors and leads to a continual reallocation of funds between programs to address near term priorities. Some funding reallocation is absolutely necessary but this area must be thoughtfully addressed. Repeated reallocation of funds between programs ultimately leads to a ripple effect of cost growth and schedule delays on multiple programs, not just the original program. We must find ways to fund programs at the “most probable cost” instead of the “most optimistic cost,” and this includes smartly addressing risk factors up front. This will be painful and require hard decisions, however, we must start a process to address the issue of “too many programs chasing too few dollars.” If we fail to address this systemic issue, the detrimental perturbations created by program instability will continue to drive undesirable outcomes.

### **AN INTEGRATED & ALIGNED “BIG A” PROCESS**

One of the common observations about the defense acquisition process centers on how long it takes to acquire today’s complex weapons systems. The serial sequence of decision making for acquisition programs (starting with the

requirements process, then proceeding through the budgeting and acquisition processes) has been repeatedly identified as a driving factor. The “Big A” concept, which includes integrating and aligning the major decision support systems (Requirements, Budgeting, Technology, Acquisition, and Sustainment), is attractive, among other reasons, because it could create a robust, yet more streamlined, decision making process. This would allow leaders of each of the decision support systems to make a “360 degree” assessment before deciding to proceed with a major acquisition program. This process would support the emerging concept of capability portfolio management.

### **COST GROWTH**

Program cost and schedule growth has attracted widespread criticism from the Congress, the war-fighter community, and our DoD senior leadership. This is a major issue. The exact causes of cost growth are numerous and difficult to precisely quantify. Some of the contributing factors are: requirement changes, stretch cost goals, initial program underestimation, known and unknown technical issues, and planned/unplanned schedule slips. In addition, the pressures of the marketplace, in many cases, push contractors in the heat of competition, to significantly under bid their cost of delivering products and services. As noted above, our tendency is to fund at the most optimistic price and the fact that most of our programs have no formal management reserve creates an environment that is primed for cost growth.

One of the most promising strategies to help manage cost growth is evolutionary acquisition. In the past, many new weapon systems were designed to achieve dramatic leaps forward in capability. This often led to using immature technologies that contributed to cost growth and schedule delays. By using evolutionary acquisition, new technologies and capabilities are tested and fielded in carefully planned increments. Evolutionary strategies allow us to field more mature capabilities first, thus allowing us to better address cost and technical risks. As promising as evolutionary acquisition is, it is not without risk, and also requires that we smartly address the issue of technology readiness.

### **COMPETITION AND THE INDUSTRIAL BASE**

You also asked for my views regarding the effects of the U.S. industrial base consolidation, and the effects of competition on defense contracts. Over time, the U.S. has experienced a significant reduction of prime contractors in the Defense industrial base, moving to the current configuration of the “Big 5,” with a supporting first-and-second-tier-structure, and small business industry sector. This consolidation has impacted our ability to leverage competition. In spite of this drawdown and consolidation, the U.S. defense industrial base is still the best in the world. We must continue to smartly increase the use of commercial solutions and best practices in supporting both DoD and Federal requirements. This will require that we operate successfully in both competitive and limited or non-competitive markets. Our goal must be to consistently define smart business strategies and solutions. We must also be sensitive to the evolving and growing influence of the

global market place and global competition while ensuring a strong role for small business as part of our defense industrial base. I believe the Department of Defense, industry, and the Congress work must work together to ensure the defense industrial base continues on a path of integration with the commercial sector, while remaining globally competitive. Finally, I think we must provide competitive opportunities for our small business suppliers, as well as our first-and-second-(and lower) tier suppliers.

### **CONCLUSION**

Mr. Chairman, I believe the goals and desired outcomes that you, members of the Senate and House, and our DoD senior leaders have communicated, are on target. But, to successfully improve will require significant cultural change.

There are some significant cultural hurdles we must address if we are to successfully produce better acquisition outcomes. Finally, I would feel remiss to not mention the critical role the AT&L workforce must play in both shaping and implementing any future improvements. We are developing a thoughtful human capital strategic plan to address future workforce capability needs. I note the Honorable Ken Krieg has committed to the Senate and the House to have an AT&L human capital strategic plan within 120 days of the QDR completion. We have started that process and we are working it hard.

Mr. Chairman, thank you again for the opportunity to testify before the Committee on these important topics. I would be happy to answer any questions you and the Members of the Committee may have.