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Before the

Subcommittee on
Readiness and Management Support

COMMITTEE ON
ARMED SERVICES

UNITED STATES SENATE

HEARING TO RECEIVE TESTIMONY ON
REFORM OF THE DEFENSE ACQUISITION SYSTEM
IN REVIEW OF THE DEFENSE AUTHORIZATION REQUEST
FOR FISCAL YEAR 2016 AND THE FUTURE YEARS
DEFENSE PROGRAM

Wednesday, April 22, 2015

Washington, D.C.

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9 U.S. Senate
10 Subcommittee on Readiness and
11 Management Support
12 Committee on Armed Services
13 Washington, D.C.

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15 The subcommittee met, pursuant to notice, at 2:39 p.m.
16 in Room SR-232A, Russell Senate Office Building, Hon. Kelly
17 Ayotte, chairman of the subcommittee, presiding.

18 Committee Members Present: Senators Ayotte
19 [presiding], Ernst, Kaine, and Heinrich.

1 OPENING STATEMENT OF HON. TIM KAINE, U.S. SENATOR FROM
2 VIRGINIA

3 Senator Kaine [presiding]: If I can get everyone's
4 attention. We are in the middle of six votes. We just cast
5 vote two. I am going to go ahead and get the hearing
6 started. Senator Ayotte and I will ping pong a little bit,
7 as will committee members. But if I could have the
8 witnesses take their seats and bring you all in, the meeting
9 of our subcommittee is now called to order.

10 This is a SASC Readiness Subcommittee meeting on the
11 very important topic of defense acquisition system reforms.
12 It is a matter that is deeply important to all committee
13 members. I know that the chairman of the committee, Senator
14 McCain, has a keen interest in this, and you will see us
15 taking it up not only in Readiness but in the larger
16 committee.

17 And I am very honored to work with Senator Ayotte
18 together on the Armed Services Committee and this particular
19 subcommittee.

20 You are the key executives, service acquisition
21 executives, who say grace and have control over this very,
22 very important part of what we do. I certainly know from
23 close family and friends in the military how much they rely
24 upon the acquisitions that you make to help them perform
25 their missions. And so this is about a process of

1 understanding reforms that are already underway. We do not
2 need to do things that get in the way or cut across efforts
3 that the service and DOD are already working on.

4 But we do know that there are a number of challenges in
5 the management of acquisition programs. How do you develop
6 the most technologically advanced solutions to some of our
7 challenges, complex weapons systems, under both the
8 constraints of budget with sequester and other budget
9 constraints and also with a diminishing defense industrial
10 base? Consolidations and other activities in the broader
11 economy are shrinking that base.

12 How do we balance risks? We want to try to promote
13 flexibility and speed but also try to balance some of the
14 financial risks that can come with flexibility and speed,
15 and what is the right balance there?

16 What is the right level of oversight either by the
17 SecDef's office of the service branches or by Congress over
18 the services themselves? Appropriate oversight is needed.
19 Excess oversight slows us down and impedes our
20 effectiveness.

21 And then a huge issue that I feel -- and I talk to my
22 own people about in northern Virginia and elsewhere. What
23 is the right way to make sure we have the best acquisition
24 workforce within the DOD? This is a huge issue. I as
25 Governor once faced a challenge of taking a massive

1 organization, our State's department of transportation, that
2 had been built up to be basically project providers and
3 project managers, but over time the industry changed and
4 what they really needed to be was contract managers for
5 outside organizations doing a lot of the work. And the
6 skill set is not exactly the same. You have got to have the
7 right skill set to manage acquisition programs, and that is
8 also complicated by furloughs and sequesters and some of the
9 budgetary constraints we are under.

10 So you are grappling with all of those things, and we
11 want to hear about them.

12 As I said, Chairman McCain has repeatedly made plain
13 that he knows that we can improve acquisition programs and
14 we have to do it. You will not find a more passionate
15 advocate against the foolishness of sequester than Chairman
16 McCain, but he always says we are going to do our best job
17 of convincing others to release foolish budgetary ideas like
18 sequester if we do our best job of convincing everybody that
19 when we have the resources, that we are going to use them in
20 the best possible way in acquisition programs and elsewhere.

21 So how do we get a system that is more agile that keeps
22 up with the accelerating pace of technological change? How
23 do we continue progress that you have already made as a
24 result of the Weapon Systems Acquisition Reform Act of 2009
25 that the DOD is doing?

1 So there is ongoing debate about the various role of
2 different governmental agencies, and we are looking forward
3 to hearing from you what the appropriate level of oversight
4 is.

5 With that, I want to go ahead and move forward.
6 Chairwoman Ayotte will be here presently. She was going to
7 cast one more vote and come, and then as I say, you will see
8 us moving back and forth. But this is the opening of a
9 discussion on a matter that I think is going to play some
10 importance as we work this month and next on the NDAA for
11 this year. And I thank the chairwoman for calling this
12 hearing. Thank you for attending. And I would like to ask
13 each of you to go ahead and give your opening statements.
14 And maybe I can just begin with Secretary Shyu.

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1 STATEMENT OF HON. HEIDI SHYU, ASSISTANT SECRETARY OF
2 THE ARMY FOR ACQUISITION, LOGISTICS AND TECHNOLOGY

3 Ms. Shyu: Chairman Ayotte, Senator Kaine, and
4 distinguished members of the Subcommittee on Readiness and
5 Management Support, thank you for this opportunity to
6 provide comments on our collective efforts to make the
7 defense acquisition process more effective and responsive to
8 our national security needs.

9 Defense acquisition is a highly risk-averse,
10 compliance-based process with a checklist mentality that has
11 become unduly cumbersome. Prior to my service to the
12 Government, I spent 33 years working in the defense
13 industry. I would like to provide you some insight and
14 share some of my program management experience in industry
15 and compare and contrast that to that of a Government PM. I
16 was able to develop a sophisticated radar system in record
17 time with authorities that simply a Government PM does not
18 have. So I would like to expand upon that.

19 When I was in industry, I controlled my budget. The
20 Government PM, on the other hand, does not really control
21 his or her budget. On an annual basis, there is budget
22 perturbation that occurs without regard to program impacts.
23 So it is very difficult to sustain a program based on an
24 annual basis it is perturbing.

25 I had the ability to hold reserve budget at my level to

1 mitigate unanticipated risks. There is no way you will have
2 100 percent visibility on all potential risks that could
3 happen in the life of a program. But I was able to pivot.
4 Within the Government, you are unable to hold a reserve
5 budget because it is deemed early to need.

6 The requirements -- we fully understood the
7 requirements that are desired, and we were able to do the
8 trade space to identify its impacts of performance versus
9 cost versus schedule versus technical risks. On the
10 Government side, what I have seen requirements are derived
11 or changed without the full knowledge of cost, schedule, of
12 technical risk to the program.

13 Let us talk about stakeholders. In industry, the
14 functional staff -- that means engineering, finance,
15 manufacturing, contracts, you name it -- are actually
16 incentivized to help the PM to achieve the cost, schedule,
17 and budget. In the Government, there are many, many
18 stakeholders. They are all stovepiped with different
19 interests directly impacting programs. So what happens is,
20 however, none of them are responsible for program cost,
21 schedule, and performance. Just the PM.

22 Let us talk about tests. When I was in industry, I was
23 able to coordinate testing plans with the testers. In the
24 Government, an operational tester can add additional tests
25 without consideration of programmatic impacts.

1 Documentation. I was able to move fast because I can
2 tailor documentation to my program needs. In the
3 Government, there is an extensive amount of mandatory
4 documentation that you have to compile before you can go
5 through a milestone.

6 Senator Ayotte: Let the record show she showed a pile
7 with her hands.

8 [Laughter.]

9 Ms. Shyu: Taller than me.

10 Financial incentives. I am able to hire employees,
11 incentivize them to work overtime with overtime pay, with
12 stock options, with bonuses. I do not have such flexibility
13 within the Government.

14 Hiring. I used to get very upset in industry when it
15 took me a month -- when the human resource person took a
16 month to hire somebody. Here I am delighted we can hire the
17 person in 8 to 9 months.

18 So I think the best way I can talk about the process
19 that we have in industry versus the Government, I would give
20 you an analogy that is simple to understand. Over here, I
21 have an acquisition bus. The PM, as you know, is in the
22 front. That is bus driver. All of the stakeholders within
23 the Army, as well as OSD and CAPE and Comptroller and
24 Congress, by the way, is on this bus. Everybody on this bus
25 has a separate steering wheel and a brake, but no

1 acceleration pedal.

2 So what happens when a program gets into trouble? The
3 best analogy I can give is the bus is turned upside down.
4 So what happens in industry? Everybody would jump in to
5 bail out the program manager because you are bleeding cash.
6 There is a financial incentive to reduce loss. So everybody
7 helps out the program manager. You will throw the best and
8 brightest across the company to help out.

9 In the Government, what I have seen the 4 and a half
10 years of being in the Government, they will shoot out the
11 windows, the tires, and the kneecap of the bus driver. Why?
12 It is an opportunity to actually take the program manager's
13 money and use it for their stovepipe purpose.

14 So compared and contrasted to, it is so starkly
15 different. So it is this fundamental lack of program
16 manager authority that is commensurate with the
17 responsibility, as well as the failure to properly align the
18 various stakeholders' responsibilities for the program's
19 success that has contributed most heavily to the critical
20 shortcomings in the acquisition process in my opinion.

21 I urge Congress to empower the PM's with authority
22 needed. Help them guide the program successfully to
23 completion in a manner that is similar to industry, which I
24 could move very rapidly. More documentation does not enable
25 agility.

1 So, Mr. Chairman, members of the subcommittee, thank
2 you for your steadfast and strong support of the outstanding
3 men and women of the United States Army, Army civilians, and
4 their families. I look forward to your questions.

5 [The prepared statement of Ms. Shyu follows:]

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1 Senator Kaine: Thank you, Secretary Shyu.
2 Secretary Stackley?
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1 STATEMENT OF HON. SEAN J. STACKLEY, ASSISTANT
2 SECRETARY OF THE NAVY FOR RESEARCH, DEVELOPMENT AND
3 ACQUISITION

4 Mr. Stackley: Yes, sir. Senator Kaine, Senator
5 Heinrich, thanks for the opportunity to appear before you
6 today.

7 Let me start by saying that I concur wholly with
8 Secretary Shyu's characterization of the challenges
9 particularly that the program manager faces inside of our
10 acquisition system. Now, I would provide a slightly
11 different perspective in terms of how we are going about
12 dealing with some of these challenges.

13 First, it cannot be lost on this subcommittee that as
14 we talk about acquisition and the need for improvement, that
15 in fact we deliver extraordinary capability to our
16 warfighter today. The challenge is that we do so at great
17 cost, and it is a cost which is proving increasingly
18 difficult for the Nation to bear.

19 Foreseeing the budget challenges of our current day,
20 Secretary Gates gave guidance and warning back in 2010
21 remarking, given America's difficult economic circumstances
22 and perilous fiscal conditions, military spending on things
23 large and small can and should expect closer, harsher
24 scrutiny. As a matter of principle and political reality,
25 the Department of Defense cannot go to America's elected

1 representatives and ask for increases each year unless we
2 have done everything possible to make every dollar count.

3 Shortly after Dr. Carter, who was then the Under
4 Secretary of Defense, issued his directive on how we buy
5 what we buy, which today we know as Better Buying Power.

6 So today in building our budget, every program, things
7 large and small, is subject to answering four most basic
8 questions. What will it cost to buy it? What will it buy
9 us in performance? What can we afford? And what can we do
10 to make it more affordable? Simply put, we must change the
11 cost equation.

12 We have gone about adhering to this by using five basic
13 principles.

14 First, get the requirements right. Requirements
15 definition is the most critical phase in determining the
16 outcome of a major weapon systems program. Requirements
17 that are well informed by a thorough assessment of technical
18 feasibility and a realistic cost estimate are inherently at
19 lower risk of overrun or delay during execution.

20 And two, because today our services' requirements
21 exceed our budgets, the Department of the Navy has made
22 affordability or a cost requirement alongside performance in
23 defining a system in order to drive capability trades needed
24 to reduce the cost of our programs. Properly define and
25 seamlessly transition from requirements to design to build,

1 test, and field to do so within agreed budgets and schedules
2 based on realistic estimates necessitates total alignment
3 between requirements and acquisition, and it all begins with
4 getting the requirements right.

5 Second, perform to a stable plan. Our most successful
6 programs are underpinned by stable requirements, stable
7 designs, and stable budgets. Stability translates into
8 predictable, reliable performance, unit cost reduction,
9 improved material purchasing and workforce planning,
10 retention of the skilled labor, and the ability for industry
11 to invest in facility improvements, all resulting in more
12 efficient production and a more affordable program. And
13 further, program stability enables the use of multiyear
14 procurements to further reduce the cost of our acquisitions.
15 Alternatively, uncertainty, delay, or changes to
16 requirements or the budget or the acquisition plan all
17 destabilize a program ultimately leading to cost growth and
18 schedule delay.

19 Third, in Secretary Gates' words, make every dollar
20 count. It is essential that we pursue efficiencies by
21 procuring at efficient rates, leveraging investments across
22 multiple programs, maximizing competition, employing open
23 architectures, reducing overheads and bureaucracy, and
24 sustaining a constant effort to pursue cost reductions, and
25 change practices that would meaningfully reduce program cost

1 or risk without substantively impacting key requirements
2 regardless of what phase the program is in. In short,
3 return to the basics of what our systems should cost.

4 Fourth and most importantly, build a skilled and
5 experienced acquisition workforce. To meet our objectives,
6 we must be smart buyers and, two, tough customers, and to be
7 so, we must possess a skilled and experienced acquisition
8 workforce. The Department, with strong support from
9 Congress, is taking measures to strengthen this workforce,
10 and we must stay the course. This is the single most
11 important fundamental in achieving strong performance in
12 defense acquisition.

13 Fifth, foster a healthy industrial base. In the end,
14 improvements to acquisition rely upon performance by
15 industry. The critical skills, capabilities, and capacities
16 inherent to our weapon system developers inarguably underpin
17 our dominant military position. Accordingly, in the course
18 of considering policy to improve acquisition, the effect of
19 such policy on the industrial base must be closely weighed.
20 From research and development to production, implicit to
21 each of these principles we must pick up the pace. Time is
22 money, and time is stripping much-needed capability from the
23 hands of our sailors and marines. We demonstrated the
24 ability to accelerate capability in response to urgent
25 needs. The MRAP was a great example. Production increased

1 100-fold in a year's time, saving countless lives while meet
2 the most urgent need of the warfighter. While the rules and
3 process may differ, we need to bring a similar sense of
4 urgency to major program acquisition to deliver a capability
5 not at the speed of bureaucracy but at the speed of
6 technology. We must pick up the pace.

7 In closing, I would like to return to Secretary Gates'
8 remarks at the Eisenhower Library. What is required going
9 forward, he said, is not more study, nor do we need more
10 legislation. It is not a great mystery what needs to
11 change. What it takes is the willingness to make hard
12 choices. In order to remain the most capable military in
13 the world, we will always face hard choices. Making the
14 right choices -- that returns me to the need for a highly
15 skilled, experienced acquisition workforce.

16 Thank you, Mr. Chairman -- Senator Kaine and Senator
17 Heinrich, for the opportunity to appear before you today. I
18 look forward to your questions.

19 [The prepared statement of Mr. Stackley follows:]

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1 Senator Kaine: Thank you, Mr. Secretary.
2 Secretary LaPlante?
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1 STATEMENT OF HON. WILLIAM A. LaPLANTE, ASSISTANT
2 SECRETARY OF THE AIR FORCE FOR ACQUISITION

3 Dr. LaPlante: Senator Kaine, Senator Heinrich, thank
4 you for holding the hearing.

5 And I too endorse strongly my colleagues here, both the
6 bus analogy, as well as everything that Mr. Stackley said.
7 It is an honor to be here with them today. These are two
8 remarkable public servants. They are actually role models
9 for a lot of folks in the Government, as well as in academia
10 and industry, and they are exactly the kind of people that
11 we need in the Government. So I just want to call them out.

12 This is an important hearing. We have a solemn duty to
13 the taxpayer and the warfighter to get this right. But this
14 is a well studied topic. I was on the Defense Science
15 Board. At one point we had a moratorium against doing
16 acquisition reform studies. It lasted for about 2 years,
17 but then we got back into it again. It is important that
18 this ground, though, be looked at and continually improved.
19 I welcome what this committee is doing, as well as its
20 counterpart in the House, to help us here.

21 I want to mention one thing about agility. Senator
22 Kaine, you mentioned agility as a fundamental issue that we
23 are trying to get. I had the privilege of co-chairing a
24 study on adaptability and agility for Secretary Gates back
25 in 2010. What you fundamentally find out in agility and

1 adaptability is the metric is speed. Speed is the
2 fundamental metric. If you do things fast, do it fast,
3 failing fast is better than doing things slow that may or
4 may not succeed.

5 The second thing you can do if you cannot do it very
6 fast, if it is a modular type approach laid to a big
7 platform, then build in hooks, build in open architectures,
8 ability for you to pivot as the threat changes, as
9 technology changes, as the warfighter learns things. So
10 agility has to be fundamental to how we do acquisition. And
11 so I am a very strong believer in that. I think it echoes
12 what my colleagues here have said.

13 I also think I am going to spend a few minutes here in
14 the opening remarks just the level-set everybody. In
15 science, it is usually good to get definitions on the table
16 because a lot of times you find out people are not talking
17 about the same thing. So if you bear with me, I am going to
18 go through a few definitions and come back to this issue of
19 people.

20 So, first, let us take your plain, generic acquisition
21 program. Most of the time what the means is we have three
22 phases to that program. We develop it. We procure it, and
23 then we sustain it. Now, in the Government for the complex
24 weapons systems that we deal with, we do not have the luxury
25 -- we wish we did -- to go to a parking lot and buy

1 something off the parking lot. We have to develop it. We
2 have to pay industry to do the research and development.
3 That means get to a mature design, get the test articles
4 done, do the developmental testing where you learn where the
5 problems are, get ready for production, get all ready to go.
6 That is the first phase. That is RDT&E money. The skill
7 set for that is usually a very sophisticated, deep
8 understanding of engineering.

9 The second phase is procurement. You are now in the
10 production line. There it is usually a different color of
11 money, different type of contracting, typically a fixed-
12 price type contracting. There you are after learning. You
13 are after cost reductions.

14 And then the third phase. The third phase is
15 sustainment. Actually it turns out most people believe, who
16 have looked at it, 70 percent of the lifecycle cost of the
17 program is actually in the sustainment. So what you do in
18 that first phase or that second phase, even if it might be a
19 little bit more expensive, might actually save you money if
20 you think it through for the third phase. Now, what is
21 sustainment? Sustainment is about performance-based
22 logistics, understanding the depots, understanding how we
23 spend our operations and sustainment. And I have found in
24 my time in the Government that you can have an expert in
25 sustainment, 20-25 years, and you can have an expert in

1 acquisition, 20-25 years, I have not found hardly one person
2 who is an expert in both.

3 Okay, so that is just the standard three-phase
4 acquisition. What else are we not talking about? Services.
5 The Department of Defense last year spent \$156 billion in
6 the acquisition of services. Services can be anything from
7 cutting the lawn to launching our most precious national
8 security payloads into space. Those are all services.
9 Different skill set. Right? Totally different skill set.
10 Different management.

11 Okay. Then the third category, which Secretary
12 Stackley mentioned. He mentioned MRAP's, rapid acquisition.
13 Over the last 15 years, we have had a proliferation of rapid
14 acquisition offices. Most of them are responding to rapid
15 UON's we call it. That is a totally different model as
16 well. Usually it is an 80 percent solution. Usually the
17 sustainment part is often put aside. Very different skill
18 set. Very different contracting.

19 So imagine what all of that has in common. Very
20 little, except one thing: people. The experts you need in
21 each part of that system have to be customized to where they
22 are. And that is what you were getting at, Senator, right
23 at the beginning about your experience. So that is
24 important to this, is the people.

25 So I just want to make sure we are all level-set on

1 that because oftentimes when I hear people talking about
2 acquisition, I am not sure which phase or which aspect they
3 are talking about.

4 There are promising signs. There are good things going
5 on that should be built upon. I am always a believer in
6 looking at what is going well and building upon it. The
7 Better Buying Power initiatives that Secretary Carter
8 announced that Secretary Kendall initiated is paying off.
9 The "should cost" savings that all three of our services are
10 having are real and they are incredible. They are not cost
11 avoidance. People sometimes say it is cost avoidance. No.
12 Very specifically, they are real savings. That is paying
13 off.

14 We also do have outreach to non-trationals. We are
15 running experiments in the Air Force with non-traditional
16 ways to bring in academia or small businesses. Open
17 architectures, which I mentioned earlier, for adaptability
18 are a great way to bring in non-traditional companies and
19 players into our system. We are trying things in the Air
20 Force. I know the other services are -- outside the
21 acquisition 5000, doing something that is called "other
22 transactional authority." We are doing an experiment next
23 month on one of our systems to try to get folks under
24 contract within a week if they impress us with one of their
25 algorithms. So there are lots of these little experiments

1 going on that I think we need to watch, pay attention to,
2 encourage.

3 And I would just look forward to working with the
4 committee as we work on this. Thank you very much.

5 [The prepared statement of Dr. LaPlante follows:]

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1 Senator Kaine: Excellent.

2 We are going to stand in a quick recess so Senator
3 Heinrich and I can -- I have not voted in number three.
4 Senator Heinrich, I am not sure you have either. We will
5 stand in recess, and we will likely start back up with
6 questions. And I suspect the chairwoman will likely arrive
7 first because I think she has voted. Senator Ernst, you
8 just voted on the second or third?

9 Senator Ernst: Actually it was the third.

10 Senator Ayotte: If you would like to begin with
11 questions. We just finished opening, and Senator Heinrich
12 and I have to go vote. So we will do that and return.
13 Great. Thank you all.

14 Senator Ernst: Thank you everyone for being here. I
15 appreciate it. A lot of activity on the floor today.

16 First, I will go ahead and get started. I will go back
17 and review some of the information that you have given
18 already today.

19 But, first, to Secretary Shyu, if you would please, I
20 have been looking into a number of different areas regarding
21 program and project management. And this is an issue that
22 we had actually discussed in visiting with the Government
23 Accounting Office last week in the Homeland Security and
24 Governmental Affairs Committee. And for years, the GAO has
25 categorized the Department of Defense's program management

1 as high risk. And it shows up year after year on the
2 infamous list with still very large problems and processes
3 that need to be fixed and improved. And what specific steps
4 are you taking to improve program management at DOD, and is
5 there any way that we as legislators can assist in that
6 process?

7 Ms. Shyu: What we do to ensure the skills of our
8 program managers are adequate, we actually have different
9 levels of courses that program managers have to take.

10 And the other thing that we do -- there is actual
11 structure. So you do not jump in as early level being the
12 most senior program manager. There is different lower level
13 program management than the senior level program managers.
14 So within the acquisition process, we actually do train our
15 program managers.

16 They are mostly military with some civilians also as
17 program managers, but primarily the ways that we train them
18 are from DAU courses that they take. Also, internally we
19 bring them up for assignments into the Pentagon so they can
20 sit and listen and see, observe how programs are being
21 reviewed. So there are many different ways we are actually
22 training our program managers.

23 Senator Ernst: I appreciate that.

24 And then any comments from either of you gentlemen?

25 Mr. Stackley: I would simply add I was a career Navy

1 officer. My last job in the Navy was as a program manager.
2 Course training is interesting, but the greatest experience
3 you get is on the factory floor, rolling up your sleeves,
4 being hands on the project. That is irreplaceable when it
5 comes time to actually be in charge of a major weapon
6 system. So we are ensuring that in our pipeline for program
7 management the first tour coming out of grad school will be
8 an industrial tour so they can get that hands-on experience
9 and continually put it to work as they climb the ladder and
10 become more competitive for the program management.

11 I sit on the panels. I review the panels, and I
12 approve the program managers. I will tell you it is very
13 competitive. We have stellar program manager candidates,
14 civilian and military. The challenge we have got is depth
15 and breadth to fill that base that needs to be there for the
16 overall acquisition workforce.

17 Senator Ernst: Very good.

18 Secretary?

19 Dr. LaPlante: Thank you, Senator.

20 I would add to that that the best indicator of whether
21 a program manager is going to be successful at a program is
22 whether they have been successful before at a program. And
23 so what we have to do is do what Secretary Stackley said,
24 which is give them experience early so that they can, in a
25 safe environment, learn the ropes so that when they get up

1 to the bigger environment, they have already been a program
2 manager.

3 When I came into this job 2 years ago, I came in from
4 academia and FFRDC community. The stereotype I had heard
5 ringing in my ears, particularly in the Air Force, was that
6 we would take pilots and switch them from being a pilot one
7 day and they could go in and be a program manager. That was
8 kind of a stereotype, but I was surprised at what I found.
9 The average acquisition professional running a program in
10 the Air Force has 17 years of acquisition experience. They
11 start as a second lieutenant and they go up to 17 years.
12 They have actually experienced more than 17 because they
13 have done a tour somewhere else to give them experience.

14 The second thing is they are competitively selected,
15 the same thing as Secretary Stackley said in the Navy. We
16 always can do better, but I was shocked at how different I
17 saw the program managers and the PEO's, which is one level
18 above it, which is typically 25 years of acquisition
19 experience.

20 And I also do not understand when people say, well,
21 there is not an acquisition career field for the military.
22 My military deputy, Lieutenant General Ellen Pawlikowski, is
23 an acquisition professional. She is now going to be a four-
24 star AFMC commander next month, the top of her game. There
25 is a career path. So I think that maybe are not explaining

1 the situation as well as we could. There are challenges
2 there, but there is a lot of attention put into training our
3 program managers.

4 Thank you.

5 Senator Ernst: Yes, and I appreciate that very much.

6 You mentioned there are different ways to gain
7 experience, whether it is on a factory floor, actual hands-
8 on experience, whether it is civilian courses. And I was
9 just going to jump in and mention an identifier or MOS. And
10 I do recognize that it takes a lot of time developing those
11 skills.

12 But at the same time, it seems that the DOD has had
13 some significant trouble in keeping program managers. Once
14 they gain that skill, they seem to move on into other areas.
15 What can we do to improve that, keep those people that have
16 gained those skills in that area in program management?

17 Mr. Stackley: I think we all have some comments to
18 that one.

19 Let me first describe that. Yes, you are correct. In
20 terms of a military career path, when you reach program
21 manager for a major weapon systems program, you are a senior
22 O6. And in order to continue on, you either need to be
23 promoted or you might have some runway left in your career
24 to move on to a graybeard type of position.

25 What we are exploring is how do you, in fact, retain

1 those senior military to stay past that program manager
2 position. What would encourage them? In fact, it takes an
3 appeal, frankly, to an individual's -- it is a patriotic
4 appeal. Now, that you are at the peak of your career, now
5 that you are at the height of your experience, and now that
6 you have completed your major command tour, we are going to
7 ask you to go ahead and continue on to serve because we need
8 your experience. We need to continue that experience in
9 military in uniform in the Government. That is a challenge.
10 And so what we are trying to identify is are there
11 opportunities that would make it less of a challenge, make
12 it more attractive for an individual, post major command, to
13 continue to serve.

14 Senator Ernst: Are there any specific suggestions?

15 Mr. Stackley: I can just give you one example. So I
16 know the Naval Academy and I believe West Point has a
17 similar program where they actually take on senior O6's and
18 put them in a permanent military position. In that case, it
19 is as an instructor, but what they are able to do is
20 continue to accrue benefits that come with military service,
21 and in certain cases in the past, what you have had is O6's
22 that actually gain benefits beyond their rank by continuing
23 to serve. In certain cases, it is non-monetary. In other
24 cases, it is monetary benefits. So we are trying to see
25 what makes sense, work with the service chiefs and see if

1 there is a program in the making there that makes for select
2 individuals, not across the board, but select individuals
3 that you want to retain for the long haul.

4 Senator Ernst: Very good.

5 Yes, ma'am.

6 Ms. Shyu: I would like to expand upon that. I
7 absolutely concur with Sean.

8 I will give you a couple examples that actually
9 happened. For example, it is actually the senior 06 that
10 runs the more complex, what is called the ACAT 1D programs.
11 And we have had very senior 06's retire, then come back in
12 as GS-15, and also be a program manager. So that is a way
13 we can entice them to come back even after they retire as a
14 great program manager to hiring them back in as a civilian.

15 The other thing is a lot of the outstanding program
16 managers get promoted to program executive officers to run
17 an entire PEO. So this is a way they can then mentor all
18 the PM's underneath a PEO.

19 Dr. LaPlante: And I would just add to that. One thing
20 that when I came into Government that even though
21 intellectually I knew it, but what broke my heart was seeing
22 the people like we were just talking about -- let us say a
23 very, very talented senior 06 or in some cases a one- or a
24 two-star who the country has invested 30-35 years in, has
25 incredible knowledge -- retire. And it just breaks your

1 heart.

2 And so programs like what Sean was mentioning about
3 perhaps the academies -- now, one question there is, okay,
4 let us say you get on the academies. Can they still be a
5 program manager? You know, that is a question.

6 I have another case right now, which I do not want to
7 give the specifics on because we are still working it.
8 Clearly we have a star. We have an absolute star in one of
9 the most important programs you could imagine. And we are
10 trying to keep this person as a highly qualified expert, the
11 Highly Qualified Expert program. I am hoping it will work.
12 But what you find even with the HQE program is it is not
13 nearly as easy to do as you might think, and then you still
14 know that you are going to have to appeal to the patriotism
15 of this individual and their family to take this job and
16 stay as a civilian. And we may pull it off; we may not.

17 But we have got to do something about that because you
18 would not do that outside. You take your best program
19 managers and put them on your hardest programs. You do not
20 sit there and say, wow, they are at the peak of their game,
21 go find another job, thank you very much. So we need to
22 figure out a way to do this.

23 Thanks.

24 Senator Ernst: I would agree. Really bottom line, we
25 need to make sure that we are working with these programs to

1 make sure that our taxpayers are, of course, getting the
2 best bang for their buck as they can while making sure that
3 our service men and women have exactly what they need
4 through these programs.

5 Do you find that a number of these qualified, wonderful
6 individuals are being drawn away into private industry? Are
7 the benefits and salaries that they might receive as a GS-15
8 competitive with what they would see in the private
9 industry? No. And I think I knew the answer to that before
10 asking.

11 But we have invested a lot of time, energy, money in
12 these individuals to make sure they are appropriately
13 trained. It would be nice to use that expertise in these
14 programs and the management. Secretary, any thoughts there?

15 Ms. Shyu: You are absolutely right. I think the
16 example we have had is we have some great colonels, senior
17 colonels, who did not make it to the GO level. That does
18 not mean they are not great because there is a pinnacle.
19 Very few get selected to the GO, but they are outstanding
20 program managers with lots of years experience. So we have
21 had the opportunity to hire them back. So we have done a
22 pretty good job of hiring back. Again, this is because they
23 want to serve. They can make a lot more money in industry.
24 I can tell you that from experience, being there.

25 Senator Ernst: Yes.

1 Ms. Shyu: It is because their heart is in the
2 services. They want to continue to serve. So that is where
3 we leverage their desire to continue to serve and bring them
4 back as a civilian and keep them in the program management
5 side.

6 Senator Ernst: Fantastic.

7 Mr. Stackley: I cannot add too much except to say that
8 there is no single solution here. Secretary LaPlante
9 described flag potentials. We have 18 acquisition flag
10 officers in the Department of the Navy, and those are the
11 best and brightest. We have a number of post-major command
12 program managers that are continuing to serve. They have
13 been enticed and they are continuing to serve. We found the
14 right job for the right individuals because they love to
15 serve. And as Secretary Shyu described, we have others that
16 in fact retired and have come back as a civilian and are
17 civilian program managers. Again, it is a great win-win for
18 the Department and the individuals.

19 And then there is the larger number that after they
20 complete their major command, they move on. They move on.
21 Then what we look to do is, frankly, we look to have them to
22 continue to serve except in a different capacity out of
23 uniform and see if those skills can continue to contribute
24 to what we are doing in acquisition, which is trying to
25 develop and field the best weapons we can for our sailors

1 and marines.

2 No single solution. It is a case-by-case basis, and we
3 work with the individuals. One thing about the acquisition
4 workforce is you get to know all of your program managers
5 personally and you work with them to find the right best fit
6 for that individual and what the Department needs.

7 Senator Ernst: Great. Thank you.

8 Dr. LaPlante: I have just a couple, two quick things.
9 The Highly Qualified Expert program I think is potentially
10 one we could use more.

11 Second is the program called IPA -- it is a personnel
12 assignment, interagency personnel assignment. My experience
13 is we are using it much less than we used to, and I have
14 views why. So there are flexibilities like that that we can
15 investigate to bring highly qualified people in.

16 Remember during World War II there was the "dollar a
17 year men" is what they were called, very wealthy people. I
18 heard a recent term for them called "post economic people"
19 that come into the Government. Of course, we all want to be
20 post economic. But we have to do something to get the
21 highly motivated, talented people in this country to get
22 into the Government.

23 Thank you.

24 Senator Ernst: Thank you. And again, I just want to
25 reiterate thank you very much for being here today. We do

1 have some challenges out there with acquisition. We want to
2 make sure that we are retaining good qualified people in
3 that program management. Whatever we can do to benefit our
4 taxpayers is greatly appreciated, as well as making sure
5 that we are protecting our men and women in uniform. So I
6 thank you again.

7 I turn the floor back over to the chair.

8 Senator Ayotte [presiding]: Well, thank you, Senator
9 Ernst, for holding down the fort, and thank you, Senator
10 Kaine, for doing the same. As you know, we are voting on
11 the floor.

12 I want to thank all of our witnesses for being here.

13 And I am just going to submit for the record my opening
14 statement and just go right to questions for all of you.

15 I wanted to ask a question about lessons that we have
16 learned from prior acquisition failures. Each of the
17 services have had their share of programs plagued by major
18 cost overruns, schedule slippages, and performance
19 shortfalls. For example, we have seen important programs
20 like the Air Force's evolved expendable launch vehicle
21 managed badly resulting in a 270 percent unit cost growth.

22 We have had the ECSS. I am not picking on the Air
23 Force, but that is another Air Force one. That increment
24 one program took over 9 years and expended over \$1 billion
25 before it was canceled and shut down. We never had an

1 acquisition program baseline on that one.

2 Another example. The Marine Corps ground air task-
3 oriented radar program has seen 175 percent growth in
4 research and development costs and 151 percent unit cost
5 growth. An expert panel chartered by the Navy last year
6 found that the program cannot achieve its current
7 reliability requirements within the program's planned cost
8 and schedule and that the requirements do not reflect Marine
9 Corps operational needs.

10 We can go on and on. As you know, there are too many
11 examples like that where our constituents say to us, listen,
12 we want to defend the Nation. We want to support our
13 military, but you all better address these issues.

14 So rather than getting updates on each of those, would
15 you each share with the subcommittee what you have learned
16 from your service's acquisition failures and tell us how
17 those lessons are informing your efforts to improve how your
18 service conducts acquisition going forward.

19 Dr. LaPlante: I can start with at least one of the
20 examples you said representing the Air Force. You asked me
21 at my confirmation hearing -- you may not remember this --
22 about ECSS.

23 Senator Ayotte: You have a better memory than me.
24 Apparently I have been on this program --

25 Dr. LaPlante: No. It is a good one to be on because

1 it is a great --

2 The Air Force has done this process that I think is
3 really a useful thing. They started it 2 years ago. I
4 cannot take credit for it. But it was, you know, when you
5 have an accident, a crash, there is a safety investigation.
6 Remember we had this last year with the F-35. We are doing
7 the same thing when we have an acquisition crash. So the
8 first one that was done was an independent review of the
9 ECSS program, the one you mentioned. The second one was a
10 small business program that had a problem.

11 And I will just tell you what the lessons learned from
12 ECSS. The Senate Armed Services Committee has also studied
13 ECSS.

14 First of all, to make a long story short, I think it is
15 one of the reasons why the position that Peter Levine has
16 been nominated for was created, was to prevent things like
17 ECSS.

18 The lessons learned on that came down to about six root
19 causes, and they are very fundamental: not understanding
20 the data of the business system that you were talking about
21 using; not doing the business processes, because the whole
22 reason you do an IT system modernize is you are trying to
23 modernize your business processes. And you are supposed to
24 change your culture. That was not done. And the analogy
25 that the reviewer of this report did for ECSS said imagine

1 like it is like the Big Dig in Boston. If you have been to
2 Boston, maybe you know this. Remember for many years it was
3 if you went into the airport up there. Well, the easiest
4 part of doing probably that project was going to a map and
5 drawing a line and saying would it not be great to have a
6 tunnel from here to here. That is the vision. That is the
7 "to-be." That was done in ECSS.

8 Here is the part that was not done. What do we have
9 today? What is the traffic using today? What do the cars
10 look like? What is the volume? That is the data. How are
11 the users using the system? And here is most important.
12 What is the transition plan? How are we going to get
13 workers to work in the next 5 years while we build this
14 thing? The today and the transition plan were not done. So
15 these are fundamental errors.

16 What we did in the Air Force after this report is we
17 took those same lessons learned and went with our DCMO, the
18 new position, and went program by program and said do we
19 have any of those same root causes. And when we started to
20 see them, we were addressing them.

21 So it was a big learning experience, and I would
22 recommend anybody who has not read that report -- it has
23 been provided to Congress. Very interesting reading.

24 The second one -- I will not go into any more detail --
25 was a personal beacon that we had a failure. It was

1 actually a small business and it came down to -- I am going
2 to over-summarize it -- systems engineering. The Government
3 program office did not do the systems engineering on that.
4 It was something we call the technical baseline. We are
5 trying to build back into our program offices the ability to
6 be a smart buyer. So those are two examples I will bring
7 up.

8 Senator Ayotte: Thank you.

9 Mr. Stackley: Yes, ma'am. I am going to go back to
10 about a decade ago where there were a number of major
11 programs in the Department of the Navy that had significant
12 failures in terms of cost and schedule performance. It
13 brought to light, as you did the forensics on each of these,
14 that we failed in step one of the process which is
15 understanding the requirements and what we refer to as
16 getting the requirements right. So this is not challenging
17 the operational requirement. This is when you set the
18 operational requirement having acquisition right side by
19 side and identifying that in order to meet this performance,
20 it is going to require this level of technology. Here is
21 the risk that goes with it. Here is the cost that goes with
22 it. So when you lock down the requirement, you understand
23 maturity, feasibility, cost, and risk, and then you hold
24 that firm as you move forward in the program.

25 So with that in mind, we basically went back and

1 rewrote our acquisition governance process to a thing that
2 we call the "gate review process" where today the
3 requirements in the acquisition community are lockstep, side
4 by side, around the table in each step of a program,
5 starting with the definition of the requirement, moving from
6 that definition of the requirement to transition to
7 specifications to a request for proposal right down to
8 contract award and execution of the contract so that there
9 is no separation between requirements and acquisition
10 throughout the process. You keep control over not just the
11 requirements but also the cost and schedule to meet those
12 requirements.

13 So we have found that to be a very effective process.
14 The partnership that exists today between myself, the CNO,
15 and the Commandant -- I would say that we are inseparable
16 when it comes to end to end from requirements to delivering
17 the requirements in terms of the budget. And this has been
18 a learning experience going back to some major failures
19 perhaps 10 years ago, and we are continuing to improve as we
20 go.

21 Ms. Shyu: So based upon my background -- by the way, I
22 have had 33 years in the defense industry before coming to
23 the Government in the last 4 and a half years. I was a PM
24 back in industry as well. So I have lots of experience
25 actually designing, developing, producing products.

1 So based upon my experience, when I have seen a failed
2 program, I have seen unrealistic requirements. The
3 requirements were set not by what Sean had talked about,
4 namely it was not necessarily informed by technical risks,
5 by cost and schedule realism. So if the requirements said
6 that I want to have this capability and nobody challenges,
7 that becomes the requirements. And then they are lobbed
8 over to the acquisition community, go design, develop
9 something that meets this goal. Every contractor will say,
10 yes, I can do it. Right? I can do it until you are
11 pregnant. That is what happens.

12 So one of the things you have got to do up front is do
13 the trade space. What are the requirements you desire?
14 What type of technology can actually give you that
15 performance, and what is the cost associated with that? And
16 what is the schedule it will take to develop it? You got to
17 go through that entire trade space before you lock down on
18 requirements and say, yes, I want to get going on this
19 program. On the Army side, I do not see that being done
20 very well.

21 The second piece I want to talk about is realistic
22 schedule. Just because somebody dictated you are going to
23 produce this next year, engineering does not always follow
24 what you dictate. So if you set an unrealistic schedule up
25 front, you are just setting yourself up for failure. I have

1 seen that on a program in which it squished the milestone
2 because somebody somewhere said I want this by this date.
3 So you work backwards into the art of possible. Well, if
4 that was your end goal and worked backwards in a development
5 program that has high risk, you are doomed to failure, and I
6 have seen that happen.

7 The third thing, really important, stable budget. If
8 you hack away at the program budget on an annual basis, your
9 baseline is constantly moving. You are standing on
10 quicksand. How on earth do you build a foundation of a
11 program if your every single year is changing.

12 Three biggest things that impact stability of our
13 program.

14 Senator Ayotte: Thank you all. That is excellent.
15 Appreciate it.

16 I want to turn it back to Senator Kaine for any follow-
17 up questions he has.

18 Senator Kaine: Thank you all.

19 And I understand that Senator Ernst asked some
20 questions about the talent workforce, you know, PM. And I
21 do agree. And all of you said that that is absolutely key
22 to this. I will not ask questions about that, but I think
23 that is important.

24 As we are looking at reform, the Better Buying Power
25 initiative is already about reforms. We do not want to do

1 reforms that are overlapping, just creating more
2 documentation requirements. We would like to do reforms or
3 be part of reforms that are streamlining requirements so
4 that they find that sweet spot between enough oversight to
5 avoid problems but not so much as to get in the way of
6 agility and timing.

7 What advice would you have for us as we are looking at
8 drafting an NDAA on what we ought to be doing to try to find
9 that sweet spot?

10 Mr. Stackley: Sir, I am going to go back to my opening
11 statement and the quote from Secretary Gates with regard to
12 we do not need more studies and we do not need more
13 legislation. And I mean that in the most respectful manner.
14 We have a tremendous amount of oversight, process, a
15 minefield of rules and regulations that we are trying to
16 navigate.

17 With regard to a sweet spot, I think we have paved over
18 the sweet spot. If it is possible, as you review this, to
19 delay some of the rules and regulations, this framework
20 that we operate in -- Secretary LaPlante described the Big
21 Dig. Let me give you a different view of the Big Dig. I am
22 going to guess, Senator, that you have driven in and around
23 Boston.

24 Senator Ayotte: I sure have.

25 Mr. Stackley: So asking what the sweet spot is is like

1 asking how would you fix traffic in downtown Boston. What
2 would you do to the roads? And after hundreds of years of
3 trying to improve the roads by adding more roads, they
4 realized that it only gets "worsen" the more you try to make
5 it better. And so they decided that you cannot drive
6 through Boston. You have got to get, in this case, under
7 it. And that is what gave us the Big Dig. And so \$10
8 billion and a decade later, it is much improved, but it was
9 not by trying to straighten out the roads in Boston.

10 So I would start by trying to figure out how do you
11 roll back to Goldwater-Nichols. I mean, it was actually a
12 pretty good starting place, and since then we have added 20-
13 plus years of -- 30 years almost of additional rule and
14 regulation in how to improve things. And it has made it
15 harder, but it has not necessarily made it better.

16 Senator Kaine: Secretary LaPlante?

17 Dr. LaPlante: Yes. I mentioned in my opening remarks
18 that we did a study on adaptability and agility. What we
19 did on the Defense Science Board is we looked at cases in
20 the Department of successes and in industry successes and
21 failures. The ones that were successes all had a few things
22 in common, which was interesting, maybe by accident. They
23 all were relatively small, small activities usually
24 protected by leadership.

25 The F-117, the stealth fighter. We interviewed Paul

1 Kaminski, who was the colonel at the time who ran that
2 program. Paul said it was a small functional team, about 7-
3 8 people. They could make decisions. They were protected
4 by leadership. They had a lot of things that Heidi Shyu
5 talked about in her opening. They controlled the budget,
6 the requirements. They were allowed to fail, and they were
7 left alone. But they were held accountable.

8 Whenever we went around and said what was this
9 successful here, it all had the same characteristics, very
10 highly skilled. What I see when I see those activities
11 going on in the Defense Department, I see they are either
12 there because the leader is protecting them. They are
13 hiding and nobody knows they are doing this great stuff. Or
14 they are highly classified.

15 So something tells me we know to do this. If it has
16 those characteristics, if we can streamline the way that
17 Sean describes, we can be successful. I do not believe you
18 can scale these things. I do not believe you can take
19 something that is really highly agile, mobile delivering
20 things and make it three times as big because then it will
21 be slow. I think you can multiply those models. So we do
22 know how to do it. There are success stories in the
23 Department, but they all have those characteristics.

24 Thank you.

25 Senator Kaine: Secretary Shyu?

1 Ms. Shyu: So number one, streamlined oversight. I can
2 tell you coming from industry and coming to the Government
3 was mind boggling to see the layers of oversight that you
4 have. And also my program manager will have to -- to get to
5 a milestone decision, one of our major programs, the PM will
6 drag through into the Pentagon 31 separate times to give
7 briefings to various stakeholders. It does not happen in
8 industry because you cannot afford that. So there are
9 things that we are doing to ourselves within the Government
10 that just does not make any sense. It slows you down.
11 Increased bureaucracy does not enable you to be agile.

12 The other second thing is there is mutual
13 accountability in industry. Namely, when I was a PM and
14 then moved on to become director and vice president, while I
15 was managing multiple programs, on the monthly operations
16 review you would report to the president. If I am short 12
17 engineers, this is why I am red on my program, I need your
18 help, he does not just beat me up. He turns to the VP
19 engineering and says what are you doing about it. So there
20 is mutual accountability here. That does not happen inside
21 the Pentagon. We are just beating the crap out of the PM
22 while everybody else has a steering wheel and a brake. So
23 mutual accountability is very important.

24 And nobody makes things better just because you filled
25 out 79 documents. So you can spend your time managing the

1 program or you can spend your time filling out documents.

2 Senator Kaine: Can I ask one more question, Madam
3 Chair, or do you have a question that you want to ask?

4 Senator Ayotte: I definitely do, but go ahead.

5 Senator Kaine: How about each of you just brag? What
6 is an acquisition program you are engaged in right now that
7 you really think is doing great and that you want to brag
8 about? Because, yes, we talked about problems, but you have
9 got some that you think are going well. So that is just an
10 opportunity for each of you. What is going great and why?
11 And try to be quick.

12 Mr. Stackley: I am going to tell you one you already
13 know about. Virginia. Virginia is going great. And why?
14 One, stability.

15 Senator Ayotte: We like that.

16 [Laughter.]

17 Senator Kaine: Yes, that is right. That is one we can
18 both agree on.

19 Mr. Stackley: The program has stability. It has
20 stability and it has got a quality team that is running it.
21 And when you put those two together, it has got the support
22 of the Department of Defense. So everybody is pulling in
23 the same direction on the Virginia program. Everybody is
24 pulling in the same direction. That is not the case in all
25 programs.

1 Senator Kaine: Even with a little friendly competition
2 to drive it ahead, as each side shows that their module is
3 fantastic.

4 Mr. Stackley: They pulled faster.

5 So there is something that comes with stability and
6 quality leadership and getting the alignment of the
7 organization all pulling in the same direction that drives
8 success.

9 Senator Kaine: Secretary Shyu, Secretary LaPlante?

10 Ms. Shyu: I will give you the Paladin Integrated
11 Management, the PIM program. Why? We had an outstanding
12 program manager who just drove this program through. This
13 is what you need. You need tenacity to succeed in this job,
14 and you need God to be on your side.

15 On top of that, we had congressional support to help us
16 protect the budget because otherwise, our programs are just
17 vulnerable to be hacked away on the budget on an annual
18 basis.

19 Senator Kaine: Great. Thank you.

20 Dr. LaPlante: I am very proud of our munitions
21 portfolio in the Air Force. A lot of the preferred
22 munitions that are being used right now in the fight, a lot
23 of them are done by our guys in the Air Force. At the big
24 picture level, they have carved out about half a billion
25 dollars in "should cost" savings. A lot of them bought back

1 more weapons, things that are being used in the fight today.
2 I am very proud of them.

3 A specific program I want to call out, though, is
4 something called small diameter bomb 2. It has got a tri-
5 mode seeker, all-weather weapon. Think of it as something
6 that will go against highly moving targets in all weather
7 with very low collateral damage. This program was initiated
8 -- very interesting. It was initiated in about 2009-2010
9 right when WSARA legislation had come into play, right as
10 the Better Buying Power initiative. So I was very
11 interested in looking at this program. It is going to a
12 milestone C in the next couple weeks. Milestone C is where
13 you make the decision to go to full-rate production.

14 Here is the thing. The program has come in under the
15 cap. It was fixed-price development. Very unusual. It is
16 coming in under that cap. The cost per weapon is coming in
17 about \$60,000 cheaper than the objective requirement which
18 is the stretch goal. And what it is is what my colleagues
19 said. The requirements were not changed. There was
20 singular focus by the contractor.

21 Here is the fascinating thing for us acquisition nerds.
22 The milestone C took about 6 months/8 months longer than we
23 expected. How did they come in under the ceiling? Because
24 everybody thinks time is money. Well, it turns out, you
25 know, if you have worked in industry and outside, you know

1 that actually you cannot take engineers and charge to a
2 project that they do not have work to do. So this
3 contractor, maybe because it was a fixed-price contract,
4 maybe not -- but I would like to find out -- actually took
5 the engineers off when they stopped flight testing to fix
6 their problems. So even though the schedule slipped a
7 little bit, we still came under the ceiling. Really
8 remarkable. And it is going to be a great weapon.

9 Thank you.

10 Senator Ayotte: I have some additional questions. So
11 I am going to start this, but then we have a vote on the
12 floor that we have to be back in 4 minutes. And so if you
13 do not mind, I might recess and then come back.

14 But I am going to have the staff give you out -- all of
15 you have touched upon this, but maybe not all of the details
16 are correct on this, but it is pretty close. You know, I
17 heard from each of you that we do not need more layers.
18 What we need to do is eliminate some of the layers. I mean,
19 it is crazy. Look at this. I do not know how anyone could
20 work through this process. And truthfully, in many ways, if
21 you have that many layers, it actually does, as you have
22 already touched upon, eliminate responsibility because you
23 can pass it on to the next layer versus having people just
24 take responsibility for the area of oversight rather than
25 layering.

1 So I think one of our goals in this acquisition reform
2 is actually to streamline and to actually make this a more
3 efficient yet accountable system for all of you and for us
4 so that we know who to hold accountable. You know, we are
5 making our contractors jump through so many hoops that I
6 worry that we are going to stop not only the contractors
7 that work in this space, but I am hoping that we can better
8 attract some new folks that are more on the high-tech side
9 that we need in terms of innovation of new products who are
10 not normally used to operating in this type of space.

11 So any thoughts you have on how we can streamline this,
12 which I think will be good news for all of you, but also
13 make it just a better system. I think that is our goal in
14 this markup.

15 Mr. Stackley: We have been working on streamlining
16 this since this flowchart was started. I actually have a
17 pocket version that I break out --

18 [Laughter.]

19 Mr. Stackley: -- to show people that this is the
20 problem.

21 Senator Ayotte: You really need reading glasses for
22 that one.

23 [Laughter.]

24 Mr. Stackley: I had a conversation with the CNO about
25 6 weeks or so ago, and we talked about the service chief's

1 role in acquisition. And he asked me can you lay out how a
2 bill becomes a law. In other words, how does a requirement
3 become a weapon.

4 Senator Ayotte: It reminds me of Schoolhouse Rock.

5 Mr. Stackley: When you take this and up in the upper
6 left-hand corner is where the service chief signs off on a
7 requirement. And at that point in time, he believes he just
8 made a decision, not recognizing that what he as the service
9 chief decided was necessary to meet his statutory
10 responsibilities to man, train, and equip the force then has
11 to be agreed upon by literally hundreds of individuals who
12 do not have accountability to man, train, and equip the
13 force.

14 So how to improve upon this? We are working with the
15 service chiefs to be able to come back to you all to
16 describe some things that we believe can be done. It might
17 not delay this, but what it should not do is strip away
18 the service chief's authority when he says I need this
19 capability, I am putting this money against it to deliver to
20 the warfighter to meet our responsibility.

21 Senator Ayotte: So I will have to interrupt for a
22 minute so I can go and vote. But let me just say this, that
23 I think that working together on this, it is the service
24 chief getting what the service chief needs for his or her
25 service, but also there will be more accountability for the

1 service chief. But that is okay if it is not a morass that
2 no reasonable person could actually make their way through
3 in terms of the layers here.

4 So I am going to run and vote, and we will take a quick
5 break and come back and we will reconvene. Thanks.

6 [Recess.]

7 Senator Ayotte: I know that I had a chance to hear
8 from Secretary Stackley on his take on this whole thing, but
9 anything that any of the other Secretaries wanted to add, I
10 would be happy to receive.

11 Dr. LaPlante: I was mentioning during the break that I
12 think it was the first time I saw as exhibit A where
13 somebody did this was Jack Gansler who did a DSB study on
14 urgent operational needs in 2009. He showed this chart, and
15 he said "exhibit A." That is all I need to say. We cannot
16 do rapid acquisition with it.

17 The next year, on our adaptability study, we showed the
18 same chart and said "exhibit A." But then what we did --
19 and I think others have done this -- they have taken -- they
20 have gone to non-defense industry and they have said what is
21 your version of this chart. And it is, of course, much,
22 much simpler than this. And I would recommend as a way to
23 go is look at the work where people have done that, where
24 they have taken and they said how in the commercial world do
25 they make this realization. And people have done that and

1 said why can we not make it more like that.

2 Senator Ayotte: Well, they have used process like the
3 Lean Process that can be used in companies to be able to
4 look through each step and eliminate steps that are
5 unnecessary.

6 Ms. Shyu: So I will say we absolutely need to
7 streamline the processes, but enable us to tailor it. That
8 is what we do in industry when we are designing, developing
9 programs. We have a standard engineering process that you
10 have to go through, but we allow the program manager the
11 flexibility to tailor it. If it does not apply to my
12 program, I can axe it off. It does not apply. Just focus
13 on the piece that is relevant to what you are doing. The
14 tailoring does not exist. This is why we have dumb things
15 we end up doing like you go to go through corrosion -- if it
16 does not matter if it is a software program.

17 Senator Ayotte: Right. Thank you.

18 I wanted to ask a question about foreign military
19 sales. With regard to contracting for foreign military
20 sales, it seems that the U.S. Government is, in essence,
21 negotiating on behalf of foreign governments against U.S.
22 defense companies. And that is done by imposing the same
23 standards, auditing, and regulations, what we would do if
24 the U.S. Government were buying using taxpayer dollars to
25 buy a U.S. product. And after working to negotiate a better

1 deal on behalf of the foreign taxpayer, in reality then we
2 add as much as 8 to 10 percent markup for U.S. Government
3 services and transaction costs. These cost dollars then go
4 to subsidizing money, I guess, back into the DOD, not to
5 maintaining the industrial base. And given that foreign
6 sales are intensely competitive, is the foreign military
7 sales contracting process really in the best interest of the
8 United States and the long-term health of the defense
9 industrial base?

10 You know, one of the challenges I think we are facing
11 is as we spend less on defense, we want to maintain our
12 industrial base and, where appropriate, we want to allow
13 them to engage in foreign military sales. Obviously,
14 anything that infringes on our national security interests,
15 that is really where the focus needs to be from our
16 perspective on regulation and the Department of Defense.
17 But things that do not do that we can sell to our partners,
18 it seems to me it benefits us because it helps keep our
19 companies robust.

20 So can you help me understand this process? Because I
21 learned more about it the other day, and I was somewhat
22 surprised by the fact that we would be pushing back on our
23 companies on prices on behalf of foreign governments and
24 wondered whether that was the best use of DOD time when the
25 market itself would adjust any kind of exorbitant prices

1 that the buyer was willing to pay.

2 Mr. Stackley: Ma'am, I will start and ask my
3 colleagues here to join in.

4 First, when it comes to foreign military sales, it is a
5 win-win. It is a win-win-win. It helps our industrial
6 base. It helps our international partners, and that helps
7 us from the standpoint of security and affordability of our
8 programs. So it is in our best interest to foster increased
9 foreign military sales, particularly now that you see our
10 defense spending flattening out. And so particularly our
11 major defense contractors, they are in pursuit of increased
12 foreign military sales, and we are supporting that to the
13 extent that we can.

14 When it comes to the mechanics of the foreign military
15 sale itself, that foreign country looks to us to protect
16 their best interest in the sale.

17 Senator Ayotte: Why?

18 Mr. Stackley: Because they do not sit down at the
19 table to negotiate with industry.

20 Senator Ayotte: It is the strangest thing I have ever
21 heard because usually in a buyer-seller relationship, why
22 would we negotiate on behalf of taxpayers in other
23 countries? That is what I am trying to understand. I
24 understand our interests in making sure that we are not
25 engaging in foreign military sales that could undermine

1 technology and interests that we want to remain protected,
2 but I guess I do not understand why we are negotiating for
3 them when we are dealing with scarce dollars and we could be
4 better focusing our resources on oversight of our own
5 taxpayer dollars.

6 Mr. Stackley: In almost all cases, the thing that is
7 the subject of the foreign military sale is something that
8 we are producing for our own military.

9 Senator Ayotte: Right.

10 Mr. Stackley: So quite often, they are either buying
11 off of our contract or an extension of our contract. And so
12 there is a single negotiation that typically is taking place
13 associated with this product line, and then if it is
14 Australia buying F-18's, for example, they are going to work
15 off of our pricing for the F-18. We strive for a singular
16 effort when it comes to negotiating.

17 Senator Ayotte: So it never happens that they are just
18 doing an add-on to our contract. So it never happens that
19 they independently want something that we are not at the
20 moment procuring?

21 Mr. Stackley: There are going to be some exceptions
22 where they might be ahead of us in terms of procurement, but
23 those are --

24 Senator Ayotte: You understand why conceptually I am
25 having a difficulty with this in the sense that some of the

1 feedback I have heard is that we often push our companies,
2 but we are not pushing our companies on behalf of our own
3 taxpayers. It is on behalf of our foreign partners, which I
4 am all for our partnerships with our allies. It is just
5 that usually would be the role of that government doing
6 this. I am just trying to understand why that is necessary.

7 Mr. Stackley: There is a separate avenue called direct
8 commercial sale where that other country could go direct to
9 the vendor to procure the item. Then you start to get into
10 security issues in terms of releaseability, but that is an
11 alternative. What they look for is they look to stay as
12 compatible with the U.S. version as possible for
13 interoperability purposes, and if we are in production and
14 we are procuring, they want to get as close to the same deal
15 that we get with industry as possible.

16 With regard to a surcharge --

17 Senator Ayotte: What if they did not get the same
18 deal? How does that hurt us? Like what if they are willing
19 to pay more but we are not because we are negotiating on
20 behalf of taxpayers. How does that undermine our interests?

21 Mr. Stackley: Okay.

22 Senator Ayotte: I am just being honest. I just want
23 to know. I am trying to figure out how that undermines our
24 interests.

25 Mr. Stackley: The process starts with the foreign

1 military sales customer identifying what their requirement
2 is, and if the requirement matches something that we are
3 currently procuring, then what we do is we put side by side
4 what the requirement is versus what we procure and whether
5 or not it is releaseable to them as is.

6 Senator Ayotte: Which is important.

7 Mr. Stackley: If it is not, there will be some deltas.
8 If there is something that they want, they might want their
9 own missile integrated into an aircraft, that type of thing,
10 then those are further deltas. But we have a baseline in
11 terms of the cost of the item.

12 Senator Ayotte: So if they want their own missile
13 incorporated into an aircraft or some other piece of
14 technology and yet that is not what we want, we would
15 actually still, though -- we would be the ones trying to
16 negotiate the best price for that delta as well. Correct?

17 Mr. Stackley: If it is being done over here. We do a
18 pricing check in terms of pricing as provided by industry.

19 Senator Ayotte: It is hard for me to get my head
20 around.

21 Dr. LaPlante: I think you are asking good questions
22 about exactly what the --

23 Senator Ayotte: We are in a scarce resource
24 environment, and so I want to understand where is the best
25 use of our resources. You know, our number one job is to

1 protect U.S. taxpayers. That is what I am trying to get at.

2 Dr. LaPlante: I think one thing. When I see companies
3 going the FMS route versus direct military sale -- they can
4 do direct military sale -- what they are usually getting for
5 that is they are getting the Government expertise, the
6 Government-furnished equipment. For example, if the
7 government buys a radar that would be put on it, they are
8 getting the Government's benefits. Right? What comes with
9 air worthiness, sometimes when you are buying an airplane,
10 you want to make sure that the U.S. Air Force, U.S. Navy
11 have certified it for air worthiness. So they are getting
12 these kind of -- think of them as Government services. But
13 what they also get with that is all the joy of contracting
14 with the U.S. Government as well. And the contracting
15 officers, who are trained to do their job as contracting
16 officers for a fair and reasonable price for using things --
17 and so that is the dilemma that you are seeing here.

18 If it was a direct military sale, then it would be the
19 Government is not involved. Once the Government gets
20 involved, then we have to do all the things that the
21 contracting officers are trained to do. And I think that is
22 what you are getting at.

23 Senator Ayotte: Yes. I think it is worth considering
24 whether every step needs to be followed through with the
25 contractor. Like it would be a U.S. contractor versus --

1 with taxpayer dollars a purchase here versus a purchase
2 there.

3 I also wanted to ask about -- New Hampshire has, of
4 course, many small- and medium-sized defense suppliers who
5 do some incredible work. And obviously, especially on our
6 small- and medium-suppliers, the sequestration effect is
7 even greater because they cannot necessarily reallocate in a
8 way because they are a small supplier. Many of them,
9 unfortunately, I think are going out of business.

10 So I wanted to get your perspective as we look at the
11 impact on small suppliers. And have you had a situation
12 with where we are in the fiscal climate toward having to go
13 toward more sole suppliers or foreign suppliers for critical
14 components?

15 Ms. Shyu: I will talk about that one. We do look at
16 the industrial base and not just on the first tier. We look
17 at the impact on the second tier and potentially the third
18 tier as well because the first tier guys will tell us our
19 production rate has gone down to half of what it used to be
20 and here is the impact that I am worried about to small
21 businesses.

22 So we have had multiple workarounds. For example, one
23 program that we had had a supplier that builds transmissions
24 that was really going bankrupt. So what happened, the prime
25 actually floated money financially to help this company to

1 keep going until they could get a buyer. So that is one
2 example of what happened.

3 In another situation we had, we worked with another
4 company that built a very unique product for the Army. But
5 we already have a 7-year supply of that product. So we got
6 lots of inventory just sitting on the shelf. We do not need
7 to buy more. But we told the small company, hey, you got to
8 diversify. You cannot have one egg in this basket. Right?
9 That is very risky. So over a period of 2 years, this
10 particular supplier went from 90 percent dependent upon the
11 Army down to 50 percent because that person diversified into
12 the commercial space.

13 So those are a couple of real-life examples that we
14 have experienced the last couple years.

15 And I will say one third thing to give you one other
16 example. So when we have had congressional plus-ups, what
17 we have done, as an example, is look at the second tier,
18 what is also potentially vulnerable, and taken some of the
19 congressional plus-up money to fund the second tier to make
20 sure that we have the base at a minimal, sustainable rate.

21 Dr. LaPlante: I think there is a tactical like near-
22 term aspect to this and then there is the strategic. The
23 tactical near-term is a focused effort all the time in every
24 program to see are you maximizing opportunities for small
25 business.

1 Senator, you mentioned New Hampshire. One thing you
2 learn about small business -- they say all politics is
3 local. All small businesses -- it is kind of a local thing.
4 In other words, the small businesses that we have around
5 Hanscom Air Force Base up in New England tend to be the type
6 that work on command and control applications because that
7 is what we do up there. And contrast that with Maxwell
8 where we have a lot of IT small businesses. What we are
9 finding is doing a lot of regional roundtables with small
10 business to customize and open up opportunities for them is
11 the way to go as opposed to a wide sweep. Our small
12 business numbers are up, but it takes a lot of work.

13 The strategic comment I would make is I think this is
14 why open and modular systems are really important. I really
15 want to make sure people understand that. As we build our
16 platforms with open and modular systems where the standards
17 are open standards, then there is no reason that small
18 business should not be a competitor for a sensor, an
19 algorithm, as we refresh them every 1 to 2 years. That is
20 the benefit of going to open systems as opposed to a prime
21 where the system is closed, which is traditionally the way
22 we do it. We need to get small business into the open
23 system market is what I believe.

24 Mr. Stackley: I would simply add that the comments
25 that Secretary Shyu made regarding what happens with regard

1 to cash flow and how we have to fill in the cash flow when
2 we have delays for a continuing resolution or in the case of
3 sequestration, things of that nature, working either
4 directly through use of things like advanced procurement,
5 which we get in our contracts, or with a large defense
6 contractor.

7 However, what I have found is small businesses are not
8 on the radar screen for most of our program managers. And
9 so what we need to do is put it on the radar screen. So
10 each program has a deputy program manager, and so each
11 deputy program manager in the Department of the Navy has
12 been assigned a responsibility to be the small business
13 advocate for all things associated with his program. So to
14 have a watch on the health of his second tier, lower tier
15 small businesses that are directly affected when we have ebb
16 and flow in terms of cash on a program and also when we
17 change our production rates or if we are going to shut down
18 production and go into a sustainment mode to understand not
19 just your prime, not just your major subcontractors, but
20 what is happening down at that small business level because
21 quite often they are not just unique. Quite often they are
22 the sole source. And in fact, your question, have you seen
23 vendors go out of business, the answer is yes, we have. And
24 we have had to go offshore as a result because the
25 manufacturer in the U.S. was "one of" and we have had to go

1 offshore to replace that company.

2 Senator Ayotte: Excellent.

3 Before I conclude the hearing, is there anything that,
4 as we look at this markup and trying to improve our ability
5 to perform with the dollars we have -- and, you know, we
6 talked about this, but anything that you feel like we did
7 not ask you that you want to make sure that we are focusing
8 on?

9 Dr. LaPlante: I think one specific thing is the DAWDF
10 fund for the acquisition workforce has been very, very
11 useful for us. All of us are suffering from when the
12 acquisition workforce was decimated in the 1990's. With the
13 DAWDF fund and other tools, we have gotten the workforce
14 back up from levels to kind of almost where it needs to be.
15 And so that is really important for us to continue to do
16 that. So I would just call that out.

17 Thank you.

18 Mr. Stackley: I am going to pound that point. You
19 asked about failures, what have we learned from certain
20 failures. This dates back to WSARA in the 2008-2009
21 timeframe. One of the more noted failures in the Department
22 of the Navy was the LCS program and how it got out of the
23 starting blocks. And one of the things that came out of
24 that was the lack of oversight on that program, right down
25 to the deck plates. So you trace that. Well, what drove

1 that? Well, the fact was that the acquisition workforce had
2 been drawn down in terms of size to the extent that we were
3 stretched too thin.

4 So in terms of the Department of the Navy, setting out
5 a strategic plan for the size and shape of its workforce and
6 Congress -- you know, basically putting the weight of
7 Congress behind that as reflected in WSARA and the Defense
8 Acquisition Workforce Development Fund, we have, in fact,
9 modestly restored our workforce to where we believe it needs
10 to be in order to support our programs going forward. That
11 is under threat today because of the budget picture.

12 So here we are today talking about what we have done to
13 improve and the criticality of the acquisition workforce.
14 Today that exact acquisition workforce is under the gun in
15 this budget environment and threatens to go back to where it
16 was pre WSARA. So that is a concern for us. You have
17 provided incredible support in this regard in the past, and
18 we look forward to that continued support.

19 Ms. Shyu: So I absolutely concur with my colleagues,
20 protecting the acquisition workforce, because I see a
21 bimodal distribution in our workforce. We are going to have
22 a lot of senior folks that are going to be retiring in the
23 next 5 years, and then we will get into even deeper trouble
24 because we do not have a skilled workforce. And right now
25 there is significant pressure in reducing the civilian

1 workforce because the force structure is coming down. So I
2 have a significant concern on that side.

3 The other piece is I will say WSARA provided the sound
4 system engineering. What we do need to understand is what
5 happens is the interpretation of the law from this side of
6 the Hill to the other side of the Hill -- what happens? We
7 reinterpret the meaning of the language and it becomes much
8 more onerous. So if there is anything that you guys take
9 away, allow us to do tailoring to expedite, to enable our
10 agility.

11 Thank you.

12 Senator Ayotte: Thank you.

13 Well, thank you all. I appreciate everything are
14 doing, and we look forward to working with you. And thanks
15 for your important focus on this issue. Thank you.

16 [Whereupon, at 4:12 p.m., the hearing was adjourned.]

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