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FEDERAL ACQUISITIONS AND CONTRACTING

Systemic Challenges Need Attention

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Accountability ★ Integrity ★ Reliability

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Systemic Challenges Need Attention

Why GAO Did This Study

In fiscal year 2006, the federal government spent over $400 billion for a wide variety of goods and services, with the Department of Defense (DOD) being the largest purchaser. Given the large and growing structural deficit, the government must get the best return it can on its investment in goods and services.

For decades, GAO has reported on a number of systemic challenges in agencies' acquisition of goods and services. These challenges are so significant and wide-ranging that GAO has designated four areas of contract management across the government to be high-risk.

This testimony highlights four key acquisition challenges agencies face: (1) separating wants from needs, (2) establishing and supporting realistic program requirements, (3) using contractors in appropriate circumstances and contracts as a management tool, and (4) creating a capable workforce and holding it accountable.

What GAO Recommends

While GAO is making no new recommendations in this testimony, GAO has made numerous recommendations through the years to improve government acquisitions, many of which have not been implemented. Where agencies have responded to our recommendations, we have seen some improvements in their acquisition management.

www.gao.gov/cgi-bin/getrpt?GAO-07-1098T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact John Hutton at (202) 512-4841 or huttonj@gao.gov.

What GAO Found

Given the current fiscal environment, agencies must separate wants from needs to ensure that programs provide the best return on investments. Our work has shown that some agencies budget and allocate resources incrementally, largely based on historical precedents, rather than conducting bottom-up reviews and allocating resources based on agencywide goals. We have also seen examples of agencies using fragmented decision-making processes for acquisition investments. Agency spending actions that would not otherwise be taken based on an objective value and risk assessment and considering available resources, work against good strategic planning. Such spending can circumvent careful planning and divert resources from more critical needs, and can serve to exacerbate our serious long-range fiscal imbalance.

Agencies also need to translate their true needs into executable programs by setting realistic and stable requirements, acquiring requisite knowledge as acquisitions proceed through development, and funding programs adequately. However, agencies too often promise capabilities they cannot deliver and proceed to development without adequate knowledge. As a result, programs take significantly longer, cost more than planned, and deliver fewer quantities and different capabilities than promised. Even if more funding were provided, it would not be a solution because wants will always exceed the funding available.
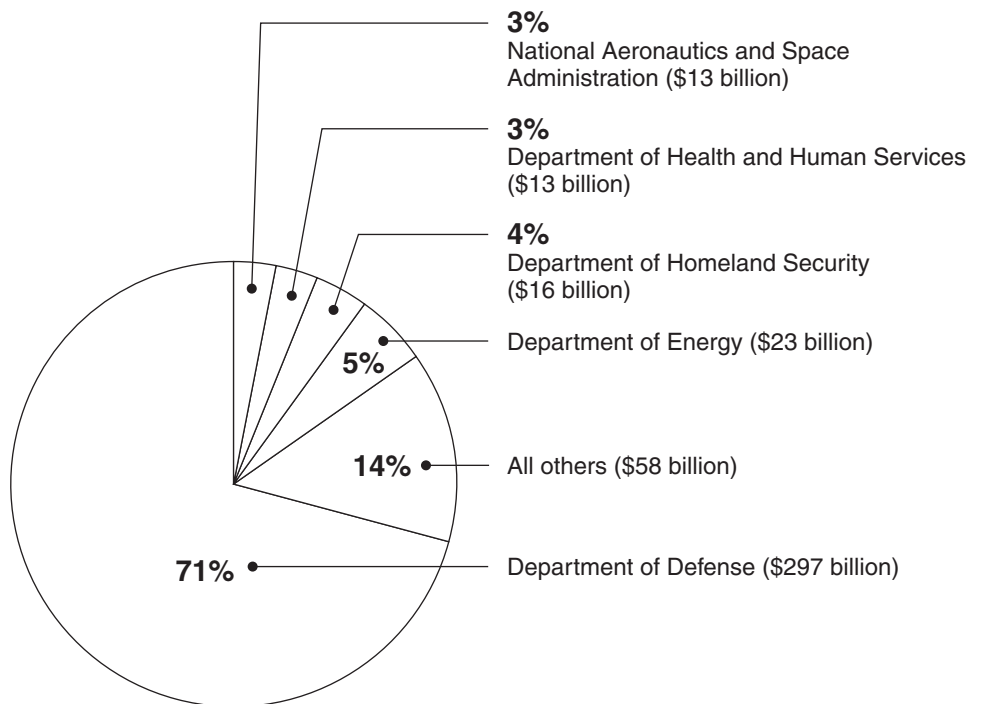
No less important is the need to examine the appropriate circumstances for using contractors and address contract management challenges. Agencies continue to experience poor acquisition outcomes in buying goods and services in part because of challenges in setting contract requirements, using the appropriate contract with the right incentives, and ensuring sufficient oversight. Exacerbating these challenges is the evolving and enlarging role of contractors in performing functions previously carried out by government personnel. Further, while contract management challenges can jeopardize successful acquisition outcomes in normal times, they also take on heightened importance and significantly increased risks in the context of contingency operations such as Afghanistan, Iraq, or Hurricane Katrina.

Finally, it is imperative that the federal government develop an accountable and capable workforce, because the workforce is ultimately responsible for strategic planning and management of individual programs and contracts. Yet much of the acquisition workforce's workload and complexity of responsibilities have been increasing without adequate attention to the workforce's size, skills and knowledge, and succession planning. Sustained high-level leadership is needed to set the right tone at the top in order to address acquisition challenges and ultimately, prevent fraud, waste, and abuse.

Mr. Chairman and Members of the Committee:

Thank you for inviting me here today to discuss systemic challenges facing the federal government in its acquisition of goods and services. The U.S. federal government is the single largest buyer in the world, obligating over $400 billion in fiscal year 2006 for a wide variety of goods and services, including complex projects that often involve unproven technologies. While acquisitions are made throughout government, the majority of them are concentrated in a few agencies, particularly the Department of Defense (DOD)—as shown in figure 1.

Figure 1: Fiscal Year 2006 Federal Government Acquisitions Obligations

3%
National Aeronautics and Space Administration ($13 billion)

3%
Department of Health and Human Services ($13 billion)

4%
Department of Homeland Security ($16 billion)

Department of Energy ($23 billion)

5%

14%   All others ($58 billion)

71%   Department of Defense ($297 billion)

Total: $419 billion

Source: GAO analysis of data from the Federal Procurement Data System.

Note: Due to rounding, dollar values do not add up to the specified total value.

Recently, I have been quite vocal about the large and growing long-range structural deficits the federal government faces. These are driven primarily by known demographic trends and rising health care costs. These structural deficits will mean escalating and ultimately unsustainable federal deficits and debt levels. Given this fiscal reality, it is imperative

that the federal government gets the best return it can on its investment in goods and services; the American people have the right to expect no less. Table 1 shows the size of the federal government's total fiscal exposure, how it has grown since the end of fiscal year 2000, and the burden it would place on the American people.

Table 1: Understanding the Size of Major Reported Fiscal Exposures

	2000	2006	Percentage increase
Major fiscal exposures	$20.4 trillion	$50.5 trillion	147%
Total household net worth	$42.0 trillion	$53.3 trillion	27%
Ratio of fiscal exposures to net worth	49 percent	95 percent	94%
Burden			
Per person	$70,000	$170,000	132%
Per full-time worker	$165,000	$400,000	143%
Per household	$190,000	$440,000	134%
Income			
Median household income	$41,990	$46,326	10%
Disposable personal income per capita	$25,127	$31,519	25%
Ratio of household burden to median income	4.5	9.5	112%

Sources: GAO analysis of data from the Department of the Treasury, Federal Reserve Board, U.S. Census Bureau, and Bureau of Economic Analysis.

Note: Percentage increases reflect actual data and may differ from calculation of rounded numbers presented in table.

However, our work extending back decades has demonstrated that agencies face a number of systemic challenges in their acquisition of goods and services. In examining our defense work, I have observed 15 systemic acquisition challenges facing DOD—which I have included in appendix I. GAO's work examining acquisitions in other federal agencies indicates that they often face similar challenges. For example, not only have we identified contract management as a high-risk area for DOD, but also for the Department of Energy (DOE) and the National Aeronautics and Space Administration (NASA). Further, interagency contracting—a process in which one agency uses another agency's contracts or contracting services to acquire goods or services—was designated a high-risk area as well.

In my testimony today, I will highlight these acquisition challenges categorized in four key areas:

- separating wants from needs,
- establishing and supporting realistic program requirements,
- using contractors in appropriate circumstances and contracts as a management tool, and
- creating a capable workforce and holding it accountable.

Separating wants from needs in an affordable and sustainable fashion will be critical to improving management within the current fiscal environment. No less important is the need for clearly defining program requirements and sticking with them while also using the appropriate contract type with sufficient oversight. Contract management challenges can jeopardize successful acquisition outcomes in normal times, but also take on heightened importance and significantly increase risks in the context of contingency operations such as Iraq, Afghanistan, or Hurricane Katrina. A significant part of this challenge relates to the evolving and enlarging role of contractors in acquisitions, particularly through the use of service contracts—which accounted for nearly 60 percent of fiscal year 2006 government acquisition obligations. This raises the question of what work should be performed by contractors versus government personnel. This is a major issue that is of growing concern and is in need of serious attention by both the executive branch and Congress. In addition, an accountable and capable workforce underlies the federal government's ability to strategically plan and effectively manage individual programs and contracts as the workforce includes the people needed to carry out these functions, as well as the higher-level accountability needed to address recurring and systemic problems. Tackling each of these systemic challenges requires a fundamental and comprehensive re-examination of the federal government's overall approach to contracting: what we buy, who we buy from, and how we buy it. We also need to target waste in government spending. Government waste is growing and far exceeds the cost of fraud and abuse. Several of my colleagues in the accountability community and I have developed a definition of waste, which is contained in appendix II.

My comments today are based on our wide-ranging work examining federal acquisition efforts, often going back decades. We list relevant GAO reports at the end of this statement. We conducted our work in accordance with generally accepted government auditing standards.

Separating Wants from Needs

Given the current fiscal environment, agencies need to learn to separate wants from needs to ensure that programs and investments provide the best return within fiscal constraints. My first four observations on systemic acquisition challenges relate to this need. They are that:

- Agency budgets may not be fully linked to strategic goals and may not adequately consider likely agencywide resource limitations.
- Agencies too often pursue their individual needs rather than collective needs.
- Individual program and funding decisions may undercut sound policies.
- Congressional direction sometimes requires agencies to buy items and provide services that have not been planned for and may not be needed.

Our work has shown that agencies sometimes budget and allocate resources incrementally, largely based on historical precedents, rather than conduct bottom-up reviews and allocate resources based on the broader goals and objectives of agency strategic plans. For example, in March we reported that DOD does not allocate resources on a strategic basis and that it could improve its acquisition outcomes by adopting an integrated portfolio management approach for allocating weapon system investments. We found that military service allocations as a percentage of the department's overall investment budget have remained essentially the same for the last 25 years, despite the dramatic changes that have occurred in the strategic environment and warfighting needs during that time. Similarly, in July 2005 we reported that the Environmental Protection Agency budgeted and allocated resources incrementally, largely based on historical precedents, and that its process did not reflect a bottom-up review of the nature or distribution of its current workload— either based on specific environmental laws or the broader goals and objectives in the agency's strategic plan.

Similarly, in our Information Technology Investment Management Model (ITIM)[1] we point out that information technology (IT) portfolio selection criteria support an agency's mission, organizational strategies, and business priorities and provide a link to the organization's strategic plans and budget processes. However, in 2004 we reported that a

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[1]The ITIM framework is a maturity model composed of five progressive stages of maturity that an agency can achieve in its IT investment management capabilities. The framework can be used both to assess the maturity of an agency's investment management processes and as a tool for organizational improvement.

governmentwide survey of investment management processes found that only 6 of 26 agencies had fully implemented portfolio selection criteria—16 had partially implemented them and 4 had not implemented them at all. This remains an issue. For example, we reported just this year that the Department of Homeland Security (DHS) is missing key elements of effective investment management, such as procedures for implementing project-specific investment management policies, as well as policies and procedures for portfolio-based investment management. Further, it has yet to fully implement either project- or portfolio-level investment control practices. We noted that all told, this means DHS lacks the complete institutional capability needed to ensure that it is investing in IT projects that best support its strategic mission needs. In contrast, successful commercial companies use portfolio management to adjust their resource allocations across business areas based on changes in the marketplace and the competitive environment. The government's failure to successfully implement such an approach significantly risks wasting investments on wants versus true needs in a time when resources are limited.

We have also seen examples of agencies having fragmented decision-making processes for acquisition investments, failing to consider agencywide needs and resource limitations. Successful commercial companies make investment decisions that benefit the organization as a whole within resource constraints. However, DOD continues to allow individual organizational units to assess needs under separate processes, failing to implement a departmental approach to investment decision-making. Consequently, DOD has less assurance that its investment decisions address the right mix of warfighting needs and it starts more programs than current and likely future resources can support. Operationally, there can be real consequences in agencies' pursuit of individual over collective interests. For example, in December 2005 we reported that on the basis of its experience with unmanned aircraft systems (UAS) in Persian Gulf Operations, U.S. Central Command believed that communications interoperability and payload commonality problems occurred because the military services' UAS development programs had been service-specific and insufficiently attentive to joint needs.

Some agencies have successfully considered wider needs. For example, in March 2005 we reported that DHS had opened communication among its acquisition organizations through its strategic sourcing and small business programs. With strategic sourcing, DHS's organizations quickly collaborated to leverage spending for various goods and services—such as office supplies, boats, energy, and weapons—without losing focus on small businesses, thus leveraging its buying power and increasing savings.

Individual program and funding decisions may also undercut sound policies. We have noted that at some agencies, individual program units may make investments in capabilities that can undercut agencywide goals. This can occur when a disconnect exists between requirements and resources and can lead to unnecessary duplication of effort and costs. For example, we reported in 2006 that NASA's Deep Space Network and Ground Network programs made investment decisions that were leading to the development of separate array technologies to support overlapping requirements for the same lunar missions.

Additionally, while congressional spending directions to agencies sometimes facilitate accomplishment of agency goals, at other times they may require agencies to buy items and provide services for which they had not planned and which may not be needed. Agency spending actions which otherwise would not be taken based on an objective value and risk assessment with consideration of available resources work against good strategic planning. Such spending can circumvent careful planning and divert resources from more critical needs. This can also serve to exacerbate our serious long-range fiscal imbalance.

Establishing and Supporting Realistic Program Requirements

After differentiating their unlimited wants from their true needs, agencies need to translate their needs into appropriate, executable programs. They need to set and communicate realistic system requirements and better maintain stability in those requirements. They also need to ensure that programs proceed through the acquisition process based on having requisite knowledge and that programs are funded adequately. However, too often we see failure in one or more of these key dimensions. Specifically, I have observed that:

- Agencies too often overpromise and underdeliver in the acquisition of major systems.
- Programs too often experience requirements instability that causes delays and cost growth in fielding capabilities.
- Programs too often proceed through the development and demonstration of systems without having achieved needed knowledge.
- Agencies sometimes budget for less than is needed and put Congress in a position of having to decide whether to provide additional funding.

Agencies too often overpromise and underdeliver in the acquisition of major systems as a consequence of programs competing with each other for funding in a fiscally constrained environment. In examining defense programs, we have reported that competition for funding had incentivized

programs to produce optimistic cost and schedule estimates, overpromise on capability, suppress bad news, and forsake the opportunity to identify better alternatives. In addition, because DOD starts more weapons programs than it can afford, it invariably finds itself in the position of having to shift funds to sustain programs—often to the point of undermining well-performing programs to pay for poorly performing ones. I believe that even if more funding were provided, it would not be a solution because wants will usually exceed the funding available. Rather, we have to live within our means, which requires us to make difficult choices between wants and needs.

Once programs are under way, they often experience requirements instability during major systems development, thereby lengthening the duration of the program. As a result, the problem the program was seeking to address changes or the user and acquisition communities may simply change their minds about a program. The resulting program instability can cause cost escalation, schedule delays, and fewer end items, and can make it harder for the government to hold contractors accountable. For example, in 2005 the Department of Justice inspector general found that the Federal Bureau of Investigation's Trilogy project experienced significant cost increases and schedule delays due to various factors including evolving design requirements.

Acquisition programs that involve development and demonstration often face another challenge—developing the requisite knowledge indicated by best practices before proceeding through key knowledge points in the system acquisition process. In examining DOD's operations, we have assessed weapon acquisitions as a high-risk area since 1990. Although U.S. weapon systems are the best in the world, the programs to acquire them often take significantly longer and cost significantly more than promised and often deliver smaller quantities and different capabilities than planned. In fact, it is not unusual for estimates of time and money to be off by 20 to 50 percent. It does not, however, have to be so. Our best practices work has shown that it is possible to get better outcomes if decisions are based on high levels of knowledge.

Similarly, we have reported that other agencies do not ensure that major acquisition programs have adequate knowledge before proceeding with development. For example, the National Polar-orbiting Operational Environmental Satellite System (NPOESS) project—a tri-agency (National Oceanic and Atmospheric Administration, DOD, and NASA) effort—proceeded into development before the design was proven and before the technologies had properly matured, knowledge that is needed based on

our best practices work. In 2004 we reported that the contractor for the project was not meeting expected cost and schedule targets on the new baseline because of technical issues in the development of key sensors. Again, in November 2005, we reported that NPOESS continued to experience problems in the development of a key sensor, resulting in schedule delays and anticipated cost increases. Also, earlier this year we found that DOE lacks a systematic process for ensuring that critical technologies have been adequately demonstrated to work as intended before committing to major construction projects to help maintain the nuclear weapons stockpile, conduct research and development, and process nuclear waste for disposal. In another example, we reported in March 2005 that DHS has adopted a number of acquisition best practices in establishing an investment review process. However, we also noted that this process did not include two critical management reviews that would help ensure that (1) resources match customer needs prior to beginning a major acquisition and (2) program designs perform as expected before moving to production.

Our work has also shown that it is not uncommon to find an acquisition program underfunded. In our review of defense programs, we often see cases where the cost of a system in development grows and where, as a result, the return on the defense dollar is reduced. While such cost growth may be accommodated within an agency's budget through reductions in the number of units to be acquired or by cutting other programs, it may also put Congress in a position of having to decide to provide additional funding if it finds accepting fewer units undesirable. As a consequence, other needed programs may not be fully funded or overall government spending may be increased, thereby adding to the federal deficit.

Using Contractors in Appropriate Circumstances and Contracts as a Management Tool

The next set of systemic acquisition challenges relate to those faced at the contract management level. First and foremost, I believe that we must engage in a fundamental re-examination of when and under what circumstances we should use contractors versus civil servants or military personnel. This is a major and growing concern that needs immediate attention. Once the decision to contract has been made, we have observed challenges in setting contract requirements, using the appropriate contract with the right incentives given the circumstances, and ensuring proper oversight of these arrangements—especially considering the evolving and enlarging role of contractors in federal acquisitions. The failure to adequately address these challenges explains, in part, why agencies continue to experience poor acquisition outcomes in buying major systems, goods, and services. My observations are that:

- Contracts, especially service contracts, often do not have definitive or realistic requirements at the outset to control costs and facilitate accountability.
- Contracts typically do not accurately reflect the complexity of projects, or appropriately allocate risk between the contractor and the taxpayer.
- Incentive and award fees are often paid based on contractor attitudes and efforts versus positive results.

Contracts, especially service contracts, often don't have definitive requirements at the outset which are needed to control and facilitate accountability. For example, in January we reported that many reconstruction projects in Iraq have fallen short, in part because DOD had not clearly defined its needs before it entered into contract arrangements. The absence of well-defined requirements and clearly understood objectives complicated efforts to hold DOD and contractors accountable for poor acquisition outcomes in Iraq reconstruction.

Given the range of federal projects and circumstances, agencies' contracting approaches vary widely, and with them, the level of risk. We have found that agencies may not always use the most appropriate contracting approach for the circumstance or effectively oversee their use.

For example:

- *Time-and-materials contracts.* Time-and-materials contracts—agreements where contractors are paid based on the number of labor hours and materials—pose such risk to the government that federal regulations require contracting officers to make a determination and findings in writing that no other contract type is suitable before using such an arrangement. In a recent review of DOD's use of such contracts, we found that DOD contracting and program officials frequently did not justify why time-and-materials contracts were the only contract type suitable for the procurement. Further, with a few exceptions, we found that little effort had been made to convert follow-on work to a less risky contract type when historical pricing data existed, despite guidance to do so. We also found that oversight of time-and-materials contracts was lacking as contracting officers generally relied on contractor-provided monthly status reports to conduct oversight.

- *Interagency contracting.* We added management of interagency contracting—the use of one agency's contract by another agency or the provision of contracting assistance and support by another agency—to our high-risk list in 2005. Interagency contracts can leverage the

government's buying power and provide a simplified and expedited method of procurement. However, the rapid growth in use of such contracts, combined with the limited expertise of some agencies in their use and recent problems related to their management, causes some concern. For example, in July 2005, we reported that the use of franchise funds—government-run, fee-for-service organizations providing a portfolio of services, including contracting services—at the Departments of the Interior and the Treasury have not always resulted in fair and reasonable prices for the government. We have also found that agencies often do not have visibility into and effective oversight of their interagency contracts. Last year, for instance, we reported that while DHS spending through interagency contracting totaled billions of dollars annually, and increased by 73 percent in the past year, the department did not systematically monitor its use of these contracts to ensure desired outcomes.

- *Undefinitized contract actions.* DOD's use of undefinitized contract actions can also carry risk to the government and potentially waste taxpayer dollars. These agreements allow contractors to begin work before reaching final agreement on contract terms and are sometimes used by agencies to rapidly fill urgent needs. In June 2007, we reported that DOD did not meet the definitization time frame requirement of 180 days after award on 60 percent of the 77 undefinitized contract actions we reviewed. In June 2004, we found that during Iraqi reconstruction efforts, when requirements were not clear, DOD often entered into contract arrangements that introduced risks. We reported that DOD authorized contractors to begin work before key terms and conditions, such as the projected costs of the work to be performed, were fully defined. In September 2006, we reported that, under this approach, DOD contracting officials were less likely to remove costs questioned by the Defense Contract Audit Agency auditors if the contractor had incurred these costs before reaching agreement on the work's scope and price. In one case, the Defense Contract Audit Agency questioned $84 million in an audit of a task order for an oil mission. In that case, the contractor did not submit a proposal until a year after the work was authorized, and DOD and the contractor did not negotiate the final terms of the contract until more than a year after the contractor had completed the work. As a result, the DOD contracting officer paid the contractor for all questioned costs but reduced the base used to calculate contractor profit by $45 million. As a result, the contractor was paid about $3 million less in fees.

- *Lead systems integrators.* The use of lead systems integrators—prime contractors with increased responsibilities, such as collaborating with

the government on system specifications—puts the government at additional risk because it complicates the relationship between the contractor and the government. We have found that agencies may use a lead systems integrator when they believe they do not have the capacity to manage a program, which is a risk in and of itself. This arrangement creates an inherent risk, as the contractor is given more discretion to make certain program decisions. Along with this greater discretion comes the need for more government oversight and an even greater need to develop well-defined outcomes at the outset. For example, since the program's inception, we have raised concerns about the Coast Guard's acquisition approach for its Deepwater program— including oversight of its lead systems integrator. For instance, we observed that the Coast Guard had not held its lead systems integrator accountable for taking steps to achieve competition among the suppliers of Deepwater assets. In June of this year, we reported that the Coast Guard has recently taken steps to hold the lead systems integrator accountable for problems that have arisen with the design and construction of certain Deepwater assets that will affect the lead systems integrator's roles and responsibilities in executing the program moving forward. On the other hand, a close partner-like relationship such as the one the Army has with its Future Combat Systems integrator can also pose risks. Specifically, the government can become increasingly invested in the results of shared decisions and runs the risk of being less able to provide oversight compared with an arms-length relationship.

A lack of oversight contributes to the risks of these contracting approaches and can contribute to poor outcomes for critical government projects. Compounding this risk is the growing reliance on contractors to perform functions previously carried out by government personnel. Emergency situations can further exacerbate this risk, providing additional oversight challenges. For example, although U.S. military forces in Iraq have used contractors to a far greater extent than in prior operations, DOD lacks sufficient numbers of contractor oversight personnel at deployed locations to oversee them. Similarly, in work examining contracts undertaken in support of response and recovery efforts for Hurricanes Katrina and Rita, we found that while monitoring was occurring on the contracts we reviewed, the number of monitoring staff available was not always sufficient or effectively deployed to provide oversight.

Contractors have an important role to play in the discharge of the government's responsibilities, and in some cases the use of contractors can result in improved economy, efficiency, and effectiveness. At the same

time, there may be occasions when contractors are used to provide certain services because the government lacks another viable and timely option, or due to the preferences of some government officials. In such cases, the government may actually be paying more and incurring higher risk than if such services were provided by federal employees. In this environment of increased reliance on contractors, sound planning and contract execution are critical for success. We have previously identified the need to examine the appropriate role for contractors to be among the challenges in meeting the nation's defense and other needs in the 21st century.

The proper role of contractors in providing services to the government is currently the topic of some debate. In general, I believe there is a need to focus greater attention on what type of functions and activities should be contracted out and which ones should not, to review and reconsider the current independence and conflict-of-interest rules relating to contractors, and to identify the factors that prompt the government to use contractors in circumstances where the proper choice might be the use of civil servants or military personnel. Possible factors could include inadequate force structure, outdated or inadequate hiring policies, classification and compensation approaches, and inadequate numbers of full-time equivalent slots.

We also have found that agencies sometimes pay contractors incentive and award fees—financial bonuses or profit intended to motivate excellent contractor performance—without a clear link to desired program outcomes. We have reported that DOD, DOE, and NASA have not fared well at using award and incentive-fee contracts to improve cost control behavior and performance. For example, in 2005, we reported that DOD paid award and incentive fees even when programs failed. About half of the 27 incentive fee contracts that we reviewed failed or were projected to fail to meet a key measure of program success, which was to complete the acquisition at or below the target price. In March 2005, we reviewed 33 DOE contracts using a performance incentive. Of those 33, we found that DOE had awarded 15 such contracts without an associate cost incentive or constraint, as required by regulations. Thus, the contractor could receive full fees by meeting all schedule baselines while substantially overrunning costs. Earlier this year, we reported that NASA paid significant amounts of available fee on all of the 10 contracts we reviewed, including those end item contracts that did not deliver a capability within initial cost, schedule, and performance parameters. In one case, NASA paid the contractor 97 percent of the available award fee despite a delay in the completion of the contract by over 2 years and an increase in the cost of the contract of more than 50 percent. However,

when properly tied to program outcomes, incentive and award fees may have their desired effect. Last year, we reported that DOE's use of an incentive fee contributed to the early completion of the cleanup of a former nuclear weapons production facility.

Creating a Capable Workforce and Holding It Accountable

The last set of challenges I will discuss relate to having a capable acquisition workforce and holding it accountable. These challenges underlie the federal government's ability to strategically plan and effectively manage individual programs and contracts as they involve the people needed to carry out these functions. My observations are that:

- The government faces serious acquisition workforce challenges (e.g., size, skills and knowledge, and succession planning).
- Key program staff rotate too frequently, thus promoting myopia and reducing accountability (i.e., tours based on time versus key milestones). Additionally, the revolving door between industry and agencies presents potential conflicts of interest.
- Inadequate oversight has resulted in little or no accountability for recurring and systemic problems.
- Lack of high-level attention reduces the chances of success in the acquisition, contracting, and other key business areas.

The acquisition workforce's workload and complexity of responsibilities have been increasing without adequate agency attention to the workforce's size, skills and knowledge, and succession planning. This situation is made all the more challenging by the increasing use of contractors to support program operations because of the additional oversight needed.

Though many agencies lack good data on their workforces, it is clear that the size of the workforce has declined, while the size of government expenditures for goods and services has risen significantly. These trends represent a major challenge to the current workforce—dealing with a significantly increased workload.

At the same time that the federal acquisition workforce has decreased in numbers and the size of its investments in goods and services has increased significantly, the nature of the role of the acquisition workforce has been changing and, as a result, so have the skills and knowledge needed in that workforce to manage more complex contracting approaches. One way agencies have dealt with this situation is to rely more heavily on contractor support. For example, DOD is relying on contractors in new ways to manage and deliver weapon systems. On the

basis of our work looking at various major weapon systems, we have observed that DOD has given contractors increased program management responsibilities to develop requirements, design products, and select major system and subsystem contractors. In part, this increased reliance has occurred because DOD is experiencing a critical shortage of certain acquisition professionals with technical skills related to systems engineering, program management, and cost estimation. Without adequate oversight by and training of federal employees overseeing contracting activities, reliance on contractors to perform functions that once would have been performed by members of the federal workforce carries risk. As I noted earlier, the use of lead system integrators is being undertaken by agencies when they believe they lack the expertise needed to manage complex acquisitions.

Our concern over the skills and knowledge of the workforce extends beyond DOD. At times skills may be in short supply in both government and the private sector. For example, in December 2006 we reported that employees with certain information technology skills are in short supply in both the federal and private sectors—particularly in enterprise architecture, project management, and information security.

Demographic changes promise to further exacerbate agencies' acquisition workforce problems. In 2006, Office of Personnel Management reported that approximately 60 percent of the government's 1.6 million white collar employees and 90 percent of about 6,000 federal executives will be eligible for retirement over the next 10 years. The situation facing DOD exemplifies this problem as more than half of DOD's workforce will be eligible for early or regular retirement in the next 5 years. In fact, Navy officials recently told us that they are already seeing a "hemorrhaging" of senior contracting officers as large numbers have started to retire. Agencies facing workforce challenges have used strategic human capital planning to develop long-term strategies for acquiring, developing, motivating, and retaining staff to achieve programmatic goals. Additionally, agencies should engage in broad, integrated succession planning and management efforts that focus on strengthening their current and future organizational capacity to obtain or develop the knowledge, skill, and abilities they need to meet their missions. Without proper strategic human capital planning, the government will not be a good position to adjust to this challenge.

We also have concerns that acquisition employees rotate too frequently—both between programs and between government and industry. In a recent assessment of selected DOD weapon systems, we found that many of the

programs had multiple program managers within the same development phase, reducing accountability for poor program outcomes. We also reported that the Coast Guard experienced high turnover of key Deepwater program staff, resulting in the loss of knowledge on the teams responsible for managing the program and overseeing the system integrator. Also, the revolving door between industry and government may present potential conflicts of interest. Federal ethics rules and standards have been put in place to help safeguard the integrity of the procurement process by mitigating the risk that employees will use their positions to influence the outcomes of contract awards for future gain and that companies will exploit this possibility. We currently have reviews under way examining issues relating to the revolving door between federal employment and contractors working for the government including DOD actions to assess contractor hiring controls to address revolving door issues.

Our work at DOD and other agencies has shown that there have been persistent acquisition problems, particularly for complex developmental systems, but also for the increasingly complex contracting arrangements being used by the government to purchase goods and services. For example, we reported on DOE's weaknesses in managing its acquisitions and found that DOE is only meeting its cost and schedule goals for its ongoing construction projects about one-third of the time. We also found that DOE's National Nuclear Security Administration has not developed a project management policy, implemented a plan for improving its project management practices, or fully shared project management lessons learned among its sites. Similarly, we also have reported on weaknesses in the Federal Aviation Administration's (FAA) management of its acquisition process as the primary causes of its cost, schedule, and performance problems in developing systems for air traffic control. Because of these weaknesses, we continue to designate FAA's modernization program as a high-risk area.

A key part of addressing challenges to the acquisition workforce is having mechanisms to hold the workforce accountable and ensure sufficient high-level attention to systemic acquisition problems. We have noted the importance of sustained leadership to ensure accountability for results and addressing key deficiencies when faced with complex and long-term challenges. In July 2006, we reported that DOD continues to face vulnerabilities in contracting fraud, waste, and abuse, in part because it lacks sustained senior leadership in providing direction and vision, as well as in maintaining the culture of the organization. By not setting the right tone at the top, DOD allows a certain level of vulnerability into the

acquisition process and problems to persist. Holding the workforce accountable has certain prerequisites. For example, we have reported that senior leaders have to provide program managers an executable business case, empower them, support them, and align managers' tenures with delivery dates.

We also have identified the need for similar high-level management attention at other agencies. For example, we have raised concerns in the past that DHS's Chief Procurement Officer (CPO) did not have clear enforcement authority to ensure that acquisition initiatives are carried out. DHS recently stated that the Under Secretary for Management has authority as the Chief Acquisition Officer to monitor acquisition performance, establish clear lines of authority for making acquisition decisions, and manage the direction of acquisition policy for the department, and that those authorities also devolve to the CPO. A formal designation of a Chief Acquisition Officer and corresponding modifications to existing management directives should help address our earlier concerns. Similarly, after creating a Chief Operating Officer to head its air traffic modernization program, FAA was able to adopt more leading practices of private sector businesses to address cost, schedule, and performance shortfalls that have plagued air traffic control acquisitions. Also, our work looking at leading company practices used to acquire services found that companies elevated their procurement organizations from mission support to a more strategically important business unit that exercises more control over the acquisition of services.

Further, on the basis of on our defense work, we have noted that an essential ingredient for better ensuring that overall DOD business transformation is implemented and sustained is to create a full-time and separate Chief Management Officer (CMO) position to address key business transformation challenges and stewardship responsibilities. Such a position could institutionalize accountability for DOD's efforts to improve its business operations, including prioritizing investments across the department.

Conclusions

In closing, I would like to reemphasize why it is imperative that we correct these systemic governmentwide acquisition challenges. The U.S. government's current financial condition and long-term fiscal outlook require it to seek the best return it can on its investment in goods and services and make some difficult, but necessary, strategic choices between unlimited wants and real, affordable, and sustainable needs. The federal government needs to engage in a fundamental and comprehensive re-

examination of the federal government's overall approach to contracting. This includes when and on what basis the government should contract. In the day-to-day management and oversight of major projects and purchases of goods and services, agencies will need to be realistic in their requirements and technologies before they invest significant funds in programs and strike a better balance among expediency, best value, and oversight when entering into contracts for goods and services. Agencies must also assess the skills, knowledge, and appropriate size of their acquisition workforce, and must also have key leadership positions to set the right tone at the top and have high-level accountability to fix recurring acquisition issues. We should have zero tolerance for waste and mismanagement in times of surplus or deficit, but it will never be zero. Much, however, can and should be done to minimize it.

We have made numerous specific recommendations to DOD and other agencies on how to address these systemic acquisition challenges, many of which have not been implemented. Where agencies are responding to our recommendations, we are seeing some improvements in their acquisition management. I appreciate this committee's attention to this important and timely issue and look forward to working with you to see that agencies continue to take actions to address these challenges.

Mr. Chairman and members of the committee, this concludes my testimony. I would be happy to answer any questions you might have.

Contact and Staff Acknowledgments

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Appendix I: Systemic Acquisition Challenges at the Department of Defense

1. Service budgets are allocated largely according to top line historical percentages rather than Defense-wide strategic assessments and current and likely resource limitations.

2. Capabilities and requirements are based primarily on individual service wants versus collective Defense needs (i.e., based on current and expected future threats) that are both affordable and sustainable over time.

3. Defense consistently overpromises and underdelivers in connection with major weapons, information, and other systems (i.e., capabilities, costs, quantities, and schedule).

4. Defense often employs a "plug and pray approach" when costs escalate (i.e., divide total funding dollars by cost per copy, plug in the number that can be purchased, then pray that Congress will provide more funding to buy more quantities).

5. Congress sometimes forces the department to buy items (e.g., weapon systems) and provide services (e.g., additional health care for non-active beneficiaries, such as active duty members' dependents and military retirees and their dependents) that the department does not want and we cannot afford.

6. DOD tries to develop high-risk technologies after programs start instead of setting up funding, organizations, and processes to conduct high-risk technology development activities in low-cost environments, (i.e., technology development is not separated from product development). Program decisions to move into design and production are made without adequate standards or knowledge.

7. Program requirements are often set at unrealistic levels, then changed frequently as recognition sets in that they cannot be achieved. As a result, too much time passes, threats may change, or members of the user and acquisition communities may simply change their mind. The resulting program instability causes cost escalation, schedule delays, smaller quantities and reduced contractor accountability.

8. Contracts, especially service contracts, often do not have definitive or realistic requirements at the outset in order to control costs and facilitate accountability.

9. Contracts typically do not accurately reflect the complexity of projects or appropriately allocate risk between the contractors and the taxpayers (e.g., cost plus, cancellation charges).

10. Key program staff rotate too frequently, thus promoting myopia and reducing accountability (i.e., tours based on time versus key milestones). Additionally, the revolving door between industry and the department presents potential conflicts of interest.

11. The acquisition workforce faces serious challenges (e.g., size, skills, knowledge, and succession planning).

12. Incentive and award fees are often paid based on contractor attitudes and efforts versus positive results (i.e., cost, quality, and schedule).

13. Inadequate oversight is being conducted by both the department and Congress, which results in little to no accountability for recurring and systemic problems.

14. Some individual program and funding decisions made within the department and by Congress serve to undercut sound policies.

15. Lack of a professional, term-based Chief Management Officer at the department serves to slow progress on defense transformation and reduce the chance of success in the acquisitions/contracting and other key business areas.

Appendix II: Definition of Waste

Several of my colleagues in the accountability community and I have developed a definition of waste. As we see it, waste involves the taxpayers in the aggregate not receiving reasonable value for money in connection with any government-funded activities due to an inappropriate act or omission by players with control over or access to government resources (e.g., executive, judicial or legislative branch employees; contractors; grantees; or other recipients). Importantly, waste involves a transgression that is less than fraud and abuse. Further, most waste does not involve a violation of law, but rather relates primarily to mismanagement, inappropriate actions, or inadequate oversight. Illustrative examples of waste could include the following:

- unreasonable, unrealistic, inadequate, or frequently changing requirements;
- proceeding with development or production of systems without achieving an adequate maturity of related technologies in situations where there is no compelling national security interest to do so;
- the failure to use competitive bidding in appropriate circumstances;
- an over-reliance on cost-plus contracting arrangements where reasonable alternatives are available;
- the payment of incentive and award fees in circumstances where the contractor's performance, in terms of costs, schedule, and quality outcomes, does not justify such fees;
- the failure to engage in selected pre-contracting activities for contingent events; and
- congressional directions (e.g., earmarks) and agency spending actions where the action would not otherwise be taken based on an objective value and risk assessment and considering available resources.

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