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DEFENSE ACQUISITIONS

Business Case and Arrangements Key for Future Combat System's Success

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Highlights

Highlights of GAO-06-478T, testimony before the Subcommittee on Airland, Committee on Armed Services, U.S. Senate

Why GAO Did This Study

The Future Combat System (FCS) is a networked family of weapons and other systems in the forefront of efforts by the Army to become a lighter, more agile, and more capable combat force. When considering complementary programs, projected investment costs for FCS are estimated to be on the order of $200 billion.

FCS's cost is of concern given that developing and producing new weapon systems is among the largest investments the government makes, and FCS adds significantly to that total. Over the last five years, the Department of Defense (DOD) doubled its planned investments in such systems from $700 billion in 2001 to $1.4 trillion in 2006. At the same time, research and development costs on new weapons continue to grow on the order of 30 to 40 percent.

FCS will be competing for significant funds at a time when Federal fiscal imbalances are exerting great pressures on discretionary spending. In the absence of more money being available, FCS and other programs must be executable within projected resources.

Today, I would like to discuss (1) the business case needed for FCS to be successful and (2) related business arrangements that support that case.

www.gao.gov/cgi-bin/getrpt?GAO-06-478T.

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

What GAO Found

There are a number of compelling aspects of the FCS program, and it is hard to argue with the program's goals. However, the elements of a sound business case for such an acquisition program—firm requirements, mature technologies, a knowledge-based acquisition strategy, a realistic cost estimate and sufficient funding—are not yet present. FCS began product development prematurely in 2003. Since then, the Army has made several changes to improve its approach for acquiring FCS. Yet, today, the program remains a long way from having the level of knowledge it should have had before starting product development. FCS has all the markers for risks that would be difficult to accept for any single system, much less a complex, multi-system effort. These challenges are even more daunting in the case of FCS not only because there are so many of them but because FCS represents a new concept of operations that is predicated on technological breakthroughs. Thus, technical problems, which accompany immaturity, not only pose traditional risks to cost, schedule, and performance; they pose risks to the new fighting concepts envisioned by the Army.

Many decisions can be anticipated that will involve trade-offs the Government will make in the program. Facts of life, like technologies not working out, reductions in available funds, and changes in performance parameters, must be anticipated. It is important, therefore, that the business arrangements for carrying out the FCS program—primarily in the nature of the development contract and in the lead system integrator (LSI) approach—preserve the government's ability to adjust course as dictated by these facts of life. At this point, the $8 billion to be spent on the program through fiscal year 2006 is a small portion of the $200 billion total. DOD needs to guard against letting the buildup in investment limit its decision making flexibility as essential knowledge regarding FCS becomes available. As the details of the Army's new FCS contract are worked out and its relationship with the LSI evolves, it will be important to ensure that the basis for making additional funding commitments is transparent. Accordingly, markers for gauging knowledge must be clear, incentives must be aligned with demonstrating such knowledge, and provisions must be made for the Army to change course if the program progresses differently than planned.