

STATEMENT OF
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(RESEARCH, DEVELOPMENT AND ACQUISITION)

BEFORE THE
SUBCOMMITTEE ON READINESS AND MANAGEMENT SUPPORT
OF THE
SENATE ARMED SERVICES COMMITTEE

ON
ACQUISITION REFORM INITIATIVES
IN THE DEPARTMENT OF THE NAVY

MARCH 17, 1999

Mr. Chairman, distinguished members of the Subcommittee, thank you for this opportunity to appear before you to discuss the Department of the Navy's efforts and results regarding acquisition reform.

Your Navy and Marine Corps Team is one of the most visible aspects of United States diplomacy around the world. Similarly, it is among the first to be called upon to resolve international crises and implement national policy. Just three months ago, it achieved profound success during Operation DESERT FOX, where the USS ENTERPRISE launched more than half of all aircraft sorties and Naval ships and submarines launched over three quarters of all cruise missiles expended during that conflict. This Navy and Marine Corps Team is often the first one called because it is unfettered by international agreements for the use of foreign territory. The Navy and Marine Corps Team's autonomy and self-sufficiency ensure it will freely sail where this country's leaders send it.

After the buildup of the 1980s, at the end of the Cold War, we—the Department of Defense—curtailed modernizing in order to fund near term readiness as the DoD force structure was downsized. Sacrificing long-term readiness to meet our immediate requirements, our procurement accounts plummeted by about 70%. We have only recently begun recovery. The Department of the Navy has, therefore, been challenged to sufficiently equip our Sailors and Marines to be both agile enough to address the myriad of mission demands and flexible enough to conquer those lurking challenges of the unforeseeable future. With this challenge before us, there is a need for responsiveness and affordability of our acquisition process. We are focusing our efforts on reforming business practices, reducing the cost of doing business across the board and thereby freeing up funds to provide more resources to the warfighters. In this era of limited resources, we seek to obtain the greatest yield from each unit of the Department's input—whether that input is in man-hours, dollars or Government furnished equipment.

Acquisition reform continues to provide our acquisition workforce with the necessary tools to maximize the return on our invested effort. Our responsibilities to our warfighters demand no less, since our acquisition process plays such a crucial role in equipping them for our nation's defense. It is imperative that we continue our commitment to the Revolution in Military Affairs and the Revolution in Business Affairs. We seek to improve our acquisition processes and to make our acquisition workforce responsive in every way to meet this commitment. We work to accomplish our tasks better, cheaper and faster – and in ways that better integrate with our commercial industry partners. Furthermore, we are striving to institutionalize those new business processes we find successful and evolve our acquisition process by translating these successes into common practice.

Acquisition Reform

Total Ownership Cost Reduction

One of the Department's most significant reform initiatives is Total Ownership Cost (TOC) reduction. As budgets and available resources continue to decline, it is apparent the reductions in weapon system Total Ownership Cost represent a means of generating needed resources for critical Navy modernization and recapitalization. Cost of ownership must be considered an independent variable throughout the acquisition process. Our activity is on two fronts: models and databases, and cost reduction strategies. The Department of the Navy's cost collection databases are being reengineered to provide total cost information while activity-based costing methods are being explored as a means of managing cost. Most recently, we have required every acquisition program to prepare TOC baselines and TOC reduction plans. In the next several months, each program will identify their plans and relevant metrics. The Department of the Navy is committed to supporting the maximum possible up-front investment to implement TOC reduction initiatives.

Section 816 of the FY99 Defense Authorization Act offers another method for reducing TOC. This law requires that the Department of Defense identify ten pilot programs on Program Manager responsibility for product support. The Program Managers of these pilot programs have the responsibility for ensuring that the product support functions are properly carried out over the program life cycle. We have proposed ten Department of the Navy pilot programs for this effort. We expect that, in the near future, these programs will pilot a range of initiatives that, once vetted, will provide effective, deployable strategies for broader application across the Department.

Multiyear procurement represents another proven TOC reduction methodology that makes the most of available financial resources. We are seeking to expand its application. Multiyear contracts remove the uncertainty associated with the normal year to year budgetary process, as well as saving substantial procurement dollars. This savings, which has already been accounted for in the Future Years Defense Program, results largely from the contractors' ability to commit to bulk buys with their suppliers. This method of procurement allows for capital investment, taking advantages of economies of scale and more efficient planning. Additionally, it stabilizes the production process for all elements of the manufacturing base.

In addition to the multiyear programs in place for the ARLEIGH BURKE Class destroyer, CH-60, Javelin, E-2C, AV-8B, and Medium Tactical Vehicle Replacement, our FY 2000 budget request proposes a new multiyear program for the F/A-18E/F. The anticipated \$706 million savings for the F/A-18E/F, combined with the savings from these current multiyear contracts, will enhance our efforts over the Future Years Defense Plan by almost two billion dollars, thus making these scarce fiscal resources available for important modernization programs.

The Navy is shifting more design responsibilities to the shipbuilder and relying more on commercial tools such as computer aided designs. A very visible example of how these innovative ideas are working together to lower costs to the Navy is the VIRGINIA (SSN 774) Class submarine. The Design/Build program has resulted in a stable design at the start of lead ship construction and will avoid costly design changes during construction. This program includes the disciplined application of commercial specifications and components where appropriate, reduced specifications, and reduced construction drawings. It continues to examine innovative ways to reduce acquisition and life cycle costs.

By using advanced technologies for the CVNX program, we expect substantial savings via this initiative to reduce TOC. For example, from the new generation aircraft carriers we anticipate a 20 to 36 percent reduction in TOC by the time CVNX 2 is delivered, including a 30 to 40 percent reduction in manpower (that's between a thousand and fourteen hundred billets) required to operate the ship at sea. This will take place through an evolutionary approach with technology insertion—from integrated combat suites to a new nuclear propulsion and electrical distribution system, and from an electromagnetic aircraft launch system to a redesigned hull and completely redesigned interior arrangement.

The Marine Corps' Assault Amphibious Vehicle (Reliability, Availability, Maintainability/Rebuild to Standard) Team implemented a number of innovative acquisition approaches to centralize management of an upgrade program. By applying commercially proven best practices such as earned value management and ISO 9002 at Marine Corps Logistics Bases and long term contracting for the AAV, the Marine Corps has obtained increased quality, efficiency, responsiveness and timeliness of the acquisition process and reduced total ownership cost by over \$550 million.

Total Ownership Cost reduction will continue to be a primary focus of every Navy and Marine Corps acquisition program. We view it as one of the logical mechanisms for freeing up funds which can then be used to for arming our warfighters.

Cycle Time Reduction

Also critical to the warfighter is our ability to get new technology to him or her faster. We are using several innovative approaches to streamline the procurement process, getting technology out to the field quicker and more efficiently.

Integrated Product and Process Development, or IPPD, evolved from concurrent engineering. It is a management process that integrates all activities from product concept through production/field support by using multifunctional teams to simultaneously optimize the product and its manufacturing and sustainment processes to meet cost, performance and schedule objectives. This process allows us to investigate both the design and build processes concurrently, thereby reducing costly and time-consuming

errors and rework. Its application is a major initiative to address the Department's desire to reduce cycle time in its acquisition programs.

Not too long ago, the Navy designed our combatant and auxiliary vessels and then contracted for production of that design. The Navy design, while providing a superior warfighting platform, did not take into account production processes. We now look to industry to team with combat system integrators to provide producible designs that will meet our requirements, provide the latest technology, and reduce cycle time as well as TOC. Two examples of this focus are the LPD 17 and DD 21 programs.

LPD 17 is a superb example of applied acquisition reform. It is, in fact, the first surface ship program to adopt the acquisition reform ideals. The LPD 17 program was initiated under the traditional rules of shipbuilding design and development, with the Navy performing both the preliminary and contract design. When the acquisition community's focus shifted emphasis to total life cycle cost reduction, the Navy elected to align the program to more forcefully embrace the ideals of acquisition reform. The LPD17 program is now operating in an Integrated Product and Process Development environment and has co-located with the contractor in New Orleans, LA.

The Navy's DD 21 program has not only showcased a new way of doing business for our surface ship acquisition community, but it has also put several key ideas for reforming acquisition to work in a "real world" laboratory. Significant DD 21 program reform initiatives have included an acquisition approach that leverages industry competition and innovation. By requiring competition in the initial concept phase of the program between teams of shipbuilders and system integrators, we are assured that we receive the best weapon system at the lowest future production and support costs. Allowing the teams to enjoy maximum design flexibility has allowed us to mitigate risks and future costs while optimizing systems' capabilities. Finally, requiring competition on the winning design between the two remaining shipyards will provide us with assured competitive production procurements.

The Acquisition Center of Excellence (ACE) continues its progress toward becoming the spearhead for improvements to acquisition management in the future. The ACE was the site for the Department's first-ever acquisition wargame focused on 21st Century aircraft carrier acquisition strategies. Other business process evaluations have been hosted at the ACE, including a program objectives budgeting process and one focusing on cost as an independent variable while developing weapon systems requirements. The Department of the Navy is committed to developing the fundamental infrastructure technologies that enable large distributed work teams to operate in synthetic environments to produce higher quality systems at reduced cost over shorter periods of time. Simulation Based Acquisition – the integration of simulation tools and technology across acquisition functions and program phases – is envisioned to be a key to revolutionizing the design and procurement of major systems, thereby providing substantial reductions in total life cycle cost and acquisition cycle time. This is our

Department's vision for the ACE – to serve as a test bed and development site for the Department's Simulation Based Acquisition efforts.

Process and Education

As a result of Defense Reform Initiative directives, we have been and will continue to evaluate our entire acquisition process to determine which functions are commercial in nature (i.e., not inherently governmental) and can therefore be subject to public competition. We are convinced that competitive sourcing is the key to getting more for less. The Navy's goal is to competitively source 77,816 full time employees through FY 2001, resulting in a savings of over \$5 billion by FY 2005.

Last summer, the V-22 Osprey program, the Marine Corps highest priority aviation program, awarded a highly innovative, commercial, fixed-price contract for commercial procurement and commercial logistic support of the Allison AE-1107C engine. The contract provides two base and five option years of contractor logistics support for the V-22 engine through Allison Engine Company's revolutionary "Power by the Hour" (PBTH) program. The majority of customer support beyond the flight line will be provided by Allison's comprehensive PBTH program, including configuration management, engine certification, training, spare parts inventory control, parts replenishment at the organizational maintenance level, plus complete maintenance and supply support beyond the organizational level. Simply stated, PBTH equates to a complete intermediate and depot-level maintenance and supply support package, in addition to many other features. The cost avoidance from this commercial support approach is estimated to be approximately \$533 million and is directly related to the anticipated improved engine reliability, similar to the improvements presently experienced on commercial engine variants. The PBTH program, with its fixed cost per engine hour, provides the contractor with a financial incentive to further improve reliability and, thus, the Department's cost avoidance could increase. This V-22 success story is the result of a comprehensive government-industry team effort that began in 1996 and culminated in the 1998 contract award. This approach may well prove a watershed event in future logistics support program planning.

In other acquisition initiatives, the Navy and Marine Corps Team has made great strides to change our business practices. The Military Sealift Command Privatization Initiatives Team demonstrated the effectiveness of relying on the commercial tug industry to support the Fleets for harbor craft services, in lieu of Navy owned and operated harbor craft. This was accomplished through the innovative use of performance specifications, commercial procurement practices, and communication with the harbor craft industry to ensure our solicitations and contracts did not impose unnecessary or restrictive administrative burdens. The estimated savings over the five-year life of contract for services at Pearl Harbor, Guam and Norfolk is \$35.5 million. At the same time, we free Navy billets and replace older Navy tugs with modern, commercial vessels. These newer vessels have greater power, fire-fighting capability, maneuverability, and faster response

time. They also comply with the strict environmental requirements of some states for vessel-escort requirements.

We are also continuing to create tools and providing the educational opportunities for our people, which are key to facilitating successful reform of the acquisition system. Joining our CD-ROM training products on Integrated Product and Process Development, Integrated Program Teams and Request for Proposal Streamlining, this year we plan to issue a training tool for services contracting. We expect this to be a useful forerunner to the anticipated change in emphasis from managing supplies to managing suppliers. The Department of the Navy is also rigorously pursuing paperless acquisition. Implementation of an automated Standard Procurement System, now underway, is the first step.

Our 1998 acquisition reform standdown was a particular success, as we empowered our acquisition workforce to develop their own agendas for the week of acquisition reform focus. As we have done in prior years, we surveyed the workforce with a series of questions and the results are encouraging. When asked whether the acquisition process has been improved, there was a 6.17% improvement in the mean answer over the mean in 1997 and an 11.76% improvement over the mean answer given in 1996. The message is clear, the cultural change we have worked so hard to achieve is well underway. But we must continue to work on a viable implementation plans to reform every aspect of our business processes.

Procurement Reform

In the area of procurement, the Navy-Marine Corps team is consolidating the gains that have resulted from legislative and regulatory changes, and extending those gains through the use of modern information technology. Some of the significant tools at our disposal include the Government Commercial Purchase Card and a number of electronic commerce initiatives that are focused on the goal of achieving a paper-free contracting process in the year 2000.

The Purchase Card has been a major factor in changing the way the Navy-Marine Corps team purchases goods and services. In FY 1995, the Department of the Navy executed approximately 2,000,000 procurement transactions using traditional contract methods such as small purchase orders and other contractual agreements. In FY 1998, the number of these kinds of transactions had shrunk to approximately 500,000. This dramatic difference resulted from widespread use of the Purchase Card. Today, over 90 percent of our transactions valued at \$2,500 or less are performed by end-users with a Purchase Card as opposed to procurement personnel using traditional methods. The Purchase Card has empowered the end-user and streamlined the process of purchasing goods and services. We are further extending the power of the card by moving the entire Purchase Card purchasing process—from requisition through payment—to a totally electronic process. This will position us to transform the card into an electronic commerce tool for the 21st century.

Under the leadership of the Deputy Secretary of Defense, the Navy is also aggressively moving to modernize and streamline the rest of its contract placement, administration and payment process by moving it to a paperless environment. We are pursuing twelve initiatives on a Department of the Navy-wide basis to achieve this goal. When we are successful, we will have linked the procurement process from end-to-end, from the time a need is identified until the goods are received and the vendor is paid.

As an example of one of these initiatives, the Naval Supply Systems Command's Navy Electronic Commerce Online Program Team started with the simple vision of open electronic commerce using the Internet and Electronic Data Interchange. Through an innovative partnership with industry, this creative team has provided a low-cost, easily accessible Internet-based mechanism that provides electronic access to Navy procurement documents to the entire vendor community at no cost. This access is particularly valuable to small and disadvantaged businesses and National Industries for the Blind/National Industries for the Severely Handicapped vendors. All Department of the Navy competitive procurement opportunities will be available electronically, and accessible through this single entry point on the Internet.

Our Navy and Marine Corps Team, supported by our Acquisition Reform Office, is implementing acquisition reform. The Department of the Navy has embraced the use of teams and integrated product and process development. It is focusing on total ownership cost, emphasizing cycle time reduction and designing platform systems using open system architectures to allow for follow-on technology insertion. The Navy and Marine Corps Team continues to build partnering relationships with our industry counterparts to develop, acquire and support technologically superior and affordable systems. We are committed to meeting the challenges of an affordable Navy and Marine Corps for the future.

The Acquisition Workforce

During the past year, the Department downsized its acquisition workforce, including support personnel, by approximately 7,288 people to its current size of 127,041 as measured by DoD Instruction 5000.58 (all personnel in Major Acquisition Organizations). Since 1989, this workforce has been reduced by close to 50 percent. We must carefully assess further personnel reductions to ensure that our organization structures remain both efficient and effective. The Department's acquisition workforce is stretched, and rapidly reducing this community on top of the large cuts already made would impact readiness and significantly impede our weapons modernization and acquisition reform efforts.

Of approximately 27,000 acquisition professionals with mandatory training and education requirements identified under the Defense Acquisition Workforce Improvement Act, over 10,000 completed mandatory training during the past year and more than 2,800 attended college courses using centrally managed funds specifically earmarked for the acquisition community. As a result, the majority of our acquisition workforce meets or

exceeds the education and training certification requirements of their positions. We also continue work to strengthen the Department's Centralized Acquisition Intern Program to ensure that well-qualified professionals are ready to fill upper-level acquisition positions as senior managers and executives retire and otherwise leave employment.

SUMMARY

Mr. Chairman, the Navy and Marine Corps Team is working hard to make this cultural change in acquisition a reality for the Department of the Navy. We have many lessons to learn from the private sector and valuable insights to gain from the practices of modern, world-class companies. We strive to institutionalize new procurement mechanisms that we find successful along with these lessons and insights, making continuous improvements throughout the procurement process. As one of the world's largest buyers we seek to procure better performance at greater savings. We communicate fully and openly with Congress, industry, our warfighters, and our acquisition professionals, to do everything it takes to make sure our Sailors and Marines are provided with the safest, most dependable, and highest performance equipment available. We appreciate the support provided by Congress and look forward to working together with this Committee toward a secure future for our nation.