

COMMITTEE: House Armed Services Committee

SUBJECT: Military Acquisition Process

DATE: Wednesday, 2 November 2005

MEMBERS: [See List](#)

WITNESSES:

Kenneth Krieg, Undersecretary, Acquisition, Technology and Logistics, Defense Department

Claude Bolton Jr., Assistant Secretary, Acquisition, Logistics and Technology United States Army

John J. Young Jr., Assistant Secretary, Acquisition Management, United States Navy
Lieutenant General Donald Hoffman, Military Deputy, Office of the Assistant Secretary of Acquisition United States Air Force

HUNTER:

The committee will come to order.

And I want to apologize to our witnesses because we've got literally dozens of appointments and other activities occurring right now on Capitol Hill, and we've got members, Democrats and Republicans, literally all over the place.

But hopefully we'll get a few more as we go along, and this is the nature of the beast. We do as much as we can in the time that we've got allotted.

Today, the committee meets to discuss Department of Defense acquisition reform. Our witnesses are the Honorable Kenneth J. Krieg, undersecretary of defense for acquisition, technology and logistics. Thank you for being with us today.

The Honorable Claude M. Bolton, Jr., assistant secretary of the Army for acquisition, logistics and technology. Secretary Bolton, thank you.

The Honorable John Young, Jr., assistant secretary of the Navy, research, development and acquisition, and has been before this committee many times. And good to see you again, Mr. Secretary.

And Lieutenant General Donald J. Hoffman, United States Air Force, military deputy, Office of the Assistant Secretary of the Air Force for Acquisition. General, thank you for your attendance.

We're holding this hearing because many of us in Congress are concerned -- and I think many folks on the other side of the river also are concerned -- that the current acquisition system isn't up to the job of supporting our national security.

The capabilities and costs of our individual platforms are rising so quickly that we will not be able to afford enough of them to fulfill all of our requirements.

The symptoms of the problem are readily apparent. Today, programs experience out-of-control cost growth and are frequently re-baselined, which is how DOD describes the process of moving the cost and schedule goalposts when it becomes painfully obvious that a program can't meet them.

The requirements are constantly changing as the Department revises what it wants a specific platform to do. DOD's internal regulations and so-called best practices are frequently ignored, and we have begun to see acquisition officials use undefinitized contracts to commit billions of taxpayer dollars to what we consider to be poorly defined programs.

Inevitably, these practices result in DOD packing more capability into fewer platforms. Our force structure shrinks as a result, and we make greater demands on the people and platforms that remain.

If we carry that process out to its logical extreme, sometime in the future the Air Force will have one wing, the Navy will have one carrier battle group, and the Army will have one division.

And, incidentally, I remember one leader in industry who joked at one point about 15 years ago that at some point it was going to be a decision as to who built the ship in a given year and who built the given plane, and we all laughed.

And as we see those costs go up exponentially and we see the numbers of platforms reduced, we hearken back to that gentleman's, at that time, humorous observation -- and it becomes less humorous.

But it's clear that we're going to have the most capable units the world has ever seen, but there will not be enough of them to defend our national security interests around the globe.

And the simple truth is we can no longer afford to equip our military this way. Acquisition reform is a rock that each administration, and almost every Congress, breaks its pick against every few years.

Sometimes those reform efforts improve things; sometimes they set us back. The challenge before us now is to introduce the discipline and timely decision-making that will help control costs without adding the extra layers of bureaucracy that inevitably increase costs.

That's no small challenge, but it's critical for the future security of the country.

We have addressed short-term problems since September 11th, 2001, with a series of ad hoc, stop-gap measures. They're working, but they will not be adequate for the long term.

It's time to change the system rather than patch it up.

The witnesses before us today are not to blame for the failures of a system that was developed for a peacetime military over the last 25 years. They will probably be the first to tell you that the Department of Defense is not satisfied with the situation either.

In part, that is why they are here this morning. They will discuss how the quadrennial defense review and the Defense Acquisition Performance Assessment might help us improve our acquisition practices.

We will also discuss some of the measures that this committee proposed in the fiscal year 2006 defense authorization bill -- and those included some cost caps, what I consider to be the early warning recertification requirements when you start to go over 15 percent above baseline and the secretary has to recertify that the program is worth it, and other provisions that are aimed at reforming this current problem.

So, gentlemen, I hope you took a look at the committee's work here and are prepared to comment on it.

So thanks for being with us today. This is a place where we discuss real challenges to our country. This is one of them.

And before we get into the testimony, let me recognize my great friend from Missouri, my partner on this committee, the gentleman from Missouri, Mr. Skelton, for any remarks he'd like to make.

SKELTON:

Mr. Chairman, thank you very much, and I thank you for calling this hearing. I think it's of the utmost importance that we discuss acquisition challenges today.

Now my remarks, Mr. Chairman, will be short, they'll be blunt -- because that's what our problems in acquisition require.

Today's acquisition system is not giving us the results we need. Our existing weapons systems are aging. We're seeing incredible growth in the cost of buying new weapons. As a result, we buy less, and what we have keeps getting older.

In the past four years, the cost of the top five acquisition programs grew 46 percent. The budget for procurement grew hardly at all.

We, Mr. Chairman, have a serious problem. First and foremost, we have a requirements problem. In our effort to transform the military, we focus too much on the latest and greatest gadgets and not enough on better using our people.

By pushing the edge on technology in system after system and making plans to procure only a handful of them, we exploded acquisition costs through the roof.

We have systems so complex now that can't be explained even to experienced members of Congress. Even after its numerous briefings in the Army's future combat system, I don't think any of us up here on the top row of this committee would be willing to be tested on it.

Secondly, we have a people problem. The government simply has to adopt a better plan for bringing in and retaining bright people to manage its acquisition.

Our witnesses today are some of the top people in government, but they need fully trained professionals working for them in every level of the system. We need to make sure that the acquisition workforce has the skills that the government needs.

Third, we need to fix the process. The committee has included several provisions in our bill, H.R. 1815, to ensure that the acquisition process works correctly. We should not try to invent on a schedule. We must maintain discipline in the system of cost.

Re-baselining a program should be a last resort and a painful one, not a painless get-out-of-jail-free card for failed programs.

Mr. Chairman, I want to bring to the attention of Secretary Krieg a specific procurement problem that has been in the newspapers recently.

The Knight Ridder chain of newspapers, which includes the Kansas City Star from Kansas City, Missouri, recently did an investigation of the Prime Vendor Program. They found that the Department of Defense is paying \$20 for 85-cent ice cube trays and overpaying for other systems in ways that remind me of the \$600 hammers of the 1980s.

Mr. Secretary, I ask that you look into this. We should always remember that while we focus on a lot of weapon systems, most of what the Department spends its money buying is far more mundane. These purchases are often where the most waste occurs.

I look forward to hearing from the witnesses on their ideas for fixing the acquisition system. Thank you.

ABERCROMBIE:
Mr. Chairman?

HUNTER:

The gentleman is recognized.

ABERCROMBIE:

Thank you.

Mr. Chairman, I realize that the nature of the hearing, its process is such that we can't all have opening statements, but I would like your permission at this juncture, Mr. Chairman, because I may have to leave, ask your permission to be able to submit a statement with regard to the capital budgeting provision in our authorization bill to be submitted to the secretary and the other witnesses today along with a series of questions on capital budgeting in case I don't get an opportunity to articulate that before the end of the hearing.

HUNTER:

Without objection, we'll put that in the record, and we'll get a response on it.

ABERCROMBIE:

If the undersecretary would kindly note that that's coming on capital budgeting, as some of the other witnesses at the table will recognize this is not a new subject from this member.

Thank you, Mr. Chairman.

HUNTER:

OK. Certainly.

Thank you, and I thank the ranking member for his statement.

And, Secretary Krieg, the floor is yours, sir.

KRIEG:

Chairman Hunter, Congressman Skelton and members of the committee. Thank you for the opportunity to join you today with my colleagues at the table to discuss the challenges we have as a nation in obtaining acquisition excellence.

My personal primary focus in acquisition, technology and logistics is on the customer - that is, the war-fighter both of today and of tomorrow. These customers expect or at least should expect from our acquisition community to deliver the capabilities they need to defend America and its interests when and where they need them.

Therefore we, as an acquisition community, must provide timely information and analysis to the secretary in his efforts to balance among resources, requirements and our technical capabilities.

We also have a responsibility to the American taxpayer to wisely invest and manage their hard-earned tax dollars to provide a strong national defense. And, to ensure that the American people stay informed, we must make sure that Congress is well-informed and well understands our efforts in all we do.

To best support the interests of all our stakeholders, I believe we must first define performance -- what is success -- and then make decisions using facts.

Secondly, align authority with responsibility and assign accountability for success. Third, strike a balance among the costs and the risks of our various choices. And, fourth, build business processes that have as a goal both agile performance and strong oversight.

Those are challenging polls as we do our work.

To accomplish all of this, we need to build the capacity of our workforce, and it is something that I am very concerned about. We must develop them professionally and, most importantly, we must track the next generation of talent to these endeavors.

While performing all of our duties within this framework, we must exercise discipline in our processes and oversight so that we can do our best to avoid major surprises.

Above all, we must demand the highest integrity that is due the public interests we serve -- and work in an atmosphere of transparency.

As we incorporate these basic principles into our daily routine, we're mindful of how fast business in the Department of Defense and business in general is changing.

As the department moves forward to this new future, we are evolving a set of business practices to reflect the changing times. For the first time, business practices are part of the quadrennial defense review. And I along with Duncan McNabb, former J-4, are co-chairing that effort.

In the quadrennial defense review, we are applying three overarching principles to our business practices.

First, we must be responsive to stakeholders: customers, decision-makers and taxpayers. Second, we must empower accountability. And, third, we must work smarter, not necessarily just harder.

This is a framework on which I am developing my plans and objectives for acquisitions, technology and logistics.

Specifically, in the area of acquisition, my staff and I are implementing a comprehensive effort to build a plan to improve the way that the department does its business.

In addition -- as you noted, Mr. Chairman -- we'll have the benefit of several outside looks at our world, and we look forward to those and look forward to the dialogue that ensues.

We are looking at all aspects of acquisition, including human capital planning, training, ethics and technology. We're looking at all forms of acquisition, including services contracting, interagency contracting, industrial policy as well as business transformation.

My statement includes far more details of our direction and plan. So I won't take up any more valuable time with oral remarks, except to note, Congressman Skelton, that I had a conversation last week with Admiral Keith Lippert, Director of the Defense Logistics Agency.

The day that report showed up, Admiral Lippert is gathering data. As you know, sorting through all the data is important to driving understanding. We are doing that now, and we'll be glad to share those with you as we bring them forward.

I look forward to working with this committee and working together to transform the way the Department of Defense carries out its acquisitions.

We can and we must create an acquisition system that delivers the right kinds of results in the right time frame to our war-fighters in the field while remaining accountable to America and her citizens.

Thank you again for taking this time to work on this important issue, and thank you for inviting us here today.

HUNTER:

Thank you, Secretary Krieg.

Secretary Bolton?

BOLTON:

Good afternoon, Chairman Hunter, Congressman Skelton, and distinguished members of the Committee on Armed Services, for this opportunity to discuss the Army's ongoing acquisition reform initiatives.

We are most grateful for your wisdom, your advice and your steadfast support, and I respectfully request that my written statement be made a part of the record for today's hearing.

HUNTER:

Without objection, actually all written statements will be taken into the record, and you're free, Mr. Secretary, to just summarize if you want to.

BOLTON:

All right, sir. Thank you very much.

As you know, the United States Army, with the nearly 300,000 soldiers in 120 countries, is meeting the demands of the global war on terrorism, fulfilling other worldwide commitments and transforming to meet the challenges of an uncertain future.

It is our job to ensure that our men and women in uniform have what they need to fulfill their mission today as well as tomorrow.

Mr. Chairman, we are not only transforming the Army, we are transforming the business practices to get products to the soldier faster, make good products even better through technology insertion and minimize lifecycle costs.

We're implementing evolutionary acquisition and spiral development and lifecycle management and a rapid acquisition all in the form of the rapid equipping force, the rapid building initiative, the Stryker, future combat system or FCS, and the Army's lifecycle management commands.

With the FCS, we're redefining the term "integration" as it applies to weapon systems development. The FCS program has totally integrated not only the technologies and the platforms, but also the management approach.

From day one, all Army stakeholders have been on board from the requirements and resourcing communities to the scientists and engineers as well as the acquisition tests, logistics communities at all levels of the Army and Department of Defense -- working closely with the industry partners.

The result of this comprehensive one-team effort is a successful on-time program that will provide our war-fighters with unprecedented capabilities.

Now, the FCS program is also next an example of a successful synergism of all stakeholders in supporting a process that I've termed "Big A" and "Little A."

For far too long, I believe we have concentrated on the Little A, the acquisition process, which involves contracting, program management, developmental test and evaluation, production, initial fielding.

While, all these activities in Little A are necessary and extremely important, they are but a subset of the Big A process, which involves requirements, capabilities, resourcing, operational test and evaluation, sustainment modification, security assistance, and ultimately, de-mil.

All of these drive cost, schedule, performance and, ultimately, soldier wait time.

In the Army, we have begun in earnest to address the Big A through our four lifecycle management commands at Huntsville, Alabama; Warren, Michigan; Fort Monmouth, New Jersey, and Rock Island, Illinois. This lifecycle management concept is designed to provide an integrated holistic approach to product development and system support, and we're seeing some pretty good results to date.

In another area of responsibility, the Army is the executive agent for the Department of Defense reconstruction mission in Iraq. Here, too, we are seeing great progress. To date, we have completed 1,909 projects, including schools, hospitals, power plants, water and treatment sewage plants and other critically needed infrastructure programs for the people of Iraq.

Nearly one half of all the construction projects have been contracted directly to Iraqi firms, while over 47,000 Iraqi people are working with us on these projects.

In regard to our work, Mr. Chairman, I believe it's important to review the oversight rules, regulations, procedures that were developed during the Cold War. And I believe the oversight needs to be updated to allow more flexibility for our contracting professionals to meet the demands that they currently face in the current environment -- and particularly in Iraq.

Mr. Chairman, another area and a matter of great concern to me, highlighted by Congressman Skelton, is that the acquisition workforce continues to decline while the workload continues to increase.

At the end of the Cold War, the United States Army had approximately 140,000 of these workers. Today, the Army Acquisition Corps is 47,500 civilians, 1,800 military. Within the next three years, half of that group is eligible to retire.

I'm very concerned if not alarmed at the knowledge that I will see walk out the door. Without a well-trained, well-educated and experienced workforce, all of the things we do to support the soldier today will not happen, in my humble opinion.

Lastly, I'd like to commend this nation's industrial base for its tremendous response to the needs of our soldiers. We, in the Army, have opened a dialogue with industry leaders

to try to make sure that they maintain, if not improve, the ability to surge to meet our critical needs of the future.

Mr. Chairman, that concludes my opening comments, and again, I want to thank you and the other distinguished members of this committee for your guidance, your wisdom, and of course, your support, and I look forward to your questions.

HUNTER:

Thank you, Mr. Secretary.

Secretary Young?

YOUNG:

Mr. Chairman, Congressman Skelton, distinguished members of the committee, it's a privilege to appear before you today to discuss defense acquisition.

I've been fortunate to lead the Navy and Marine Corps acquisition team for over four years, and we've been able to do a number of positive things largely through the strong support and leadership of this committee. I'd like to offer my personal thanks to you.

I want to ensure you that the Naval Acquisition Team is daily working to improve our acquisition process. However, it should be remembered the acquisition team does not control all the processes that lead to a new weapons system. The acquisition team is in a constant battle with multiple forces that impede our ability to lower costs and accelerate product delivery.

The requirements and budget processes are two of these battlegrounds that need attention and reform. The very insightful framers of Goldwater-Nichols empowered the service acquisition executives and the acquisition team to engage in discussions on options and methods for meeting and acquiring two requirements.

I do not believe these authorities have been fully exercised. For the sake of the taxpayer, there needs to be a constant debate at all working levels within the acquisition team led by a political appointee and the requirements community led by the service chiefs and the joint staff debating requirements, available technology, costs, delivered capability, joint options and alternate solutions.

I'm aware of several examples where the acquisition team has worked with the service chiefs and the operational community to dial back requirements and save billions of dollars: LHAR, DD(X), Joint Strike Fighter and the Multi-Mission Maritime Aircraft are good examples.

On the budget side of this equation, there's entirely too much change and churn which consumes the program manager's time and limits his or her ability to manage their program.

Further, program managers are sometimes handed budgets that do not match contracts and force renegotiation or re-baselining. The budget is over-programmed at the expense of efficiently and affordably executing high priority programs with firm requirements.

The T-45 program provides a good example. Recently, I had to sign a full source approval for six aircraft at about \$31 million each, following a prior year where we bought 12 aircraft for about \$24 million each.

The department is spending \$4.34 billion to buy 223 T-45 aircraft. We could have saved \$632 million, about 15 percent, by buying at more efficient rates.

When all items are bought at low to minimum rates and constantly stretched, programs will consume more tax dollars than necessary.

We need to make a commitment to fully fund and efficiently execute programs that meet firm requirements. Further, we must budget realistically for programs. I give great credit to Secretary Aldridge for setting a policy that DOD will budget to independent cost estimates. DD(X) may prove to be a useful example.

I looked back at my 2001 files before this hearing, and the Navy was at that time budgeted to buy three DD-21s per year at a cost of \$1.2 billion per ship. These were wrong estimates, and converting ridiculous budget estimates to realistic cost estimates is not cost growth chargeable to the acquisition team or industry.

Realistically estimating costs earlier is a major improvement but it will create some sticker shock. This is better known earlier rather than later.

There's also a great deal to be done on the acquisition side. We must use incentives and better contract structures to improve performance.

We must understand the risk and maturity of technologies as we enter a program. We must eliminate some of the paperwork and excessive process that takes time and money. We are applying best industry practices enrolling Lean Six Sigma throughout the Navy and Marine Corps.

We must be joint and leverage past investments. We have made steps here and we can do more with your help.

I will stop, leaving much more to say. One bottom line is that our requirements and budget processes are driving substantial costs in the programs, and these are first order.

Many of you have great experience with these issues. I am really grateful for your willingness to evaluate the details of these matters. Your help will be necessary as we work to make further changes to lower costs and speed delivery.

And I look forward to your questions.

HUNTER:

Thank you, Mr. Secretary.

HUNTER:

General Hoffman?

HOFFMAN:

Mr. Chairman, Congressman Skelton, and distinguished members of this committee, I am pleased to represent the United States Air Force at today's hearing as the military deputy for the assistant secretary of the Air Force for acquisition.

As this position is currently vacant, our service acquisition executives for nonspace programs is the acting secretary of the Air Force.

I have been in my present position for two months, and I've learned only enough to know that no single individual will ever fully comprehend the complexities of this very challenging process known as defense acquisition.

Success at the program level can be measured against cost schedule and performance criteria, but success at the macro level can only be measured by answering the question: Have we given our deployed forces the equipment necessary to execute the missions that this nation expects of them?

The Air Force has over 27,000 professionals who live and breathe to support the war-fighter. Every day, they ask themselves the question: Are my actions helping our national defense in our deployed forces?

While we have an ongoing war on terrorism that drives our near-term focus, we must not lose sight of the long-term threats that may emerge. An agile, rapid acquisition process may be best suited for short-term needs, but may not provide the enduring capability that addresses future needs.

We have implemented reform activities in the defense acquisition process, and we are now in another cycle of reform, as personal or systemic failures beg the question of whether we have the proper processes and oversight in place.

This week, we expect Mr. Wynne to take the oath as the secretary of the Air Force. He will be the sixth secretary or acting secretary of the Air Force in less than one year. We have a vacancy in assistant secretary of the Air Force for acquisition that has lasted over 10 months.

These gaps in senior leadership create challenges for the Air Force, and we are pleased to get Mr. Wynne in place.

I look forward to your questions and comments. Thank you.

HUNTER:

Thank you, General, and thank you, gentlemen, for your statement.

And let me kick this off with just a couple observations. First, Secretary Bolton, you told me you've got a declining workforce in numbers, but you're expanding responsibilities.

I think just the opposite. We did an analysis a couple of years ago. We got the total number of what I called "shoppers" as opposed to metal benders in DOD -- that is, people who do acquisition; basically do the paperwork for acquisition for our major systems.

The number that we derived -- and we never had a contradiction on this from the Pentagon -- was 300,000 professional shoppers in the Department of Defense. That's two United States Marine Corps almost.

Now, when we broke it down by service, and we had a hearing on this, in which we broke it down by service as to how many acquisition personnel we had in each service for what they were purchasing, those were the days when our total procurement budget was something like \$50 billion a year, a little under \$50 billion.

We figured out that for the Army, when you bought a helicopter for say \$15 million, you paid in wages to your personnel who did the paperwork for buying the helicopter almost \$5 million, almost 30 percent of the total acquisition cost of the system.

You were paying it out in wages for your shoppers, for your acquisition personnel, as I recall, and we'll get the precise numbers from the hearing, as supplied by the Army, roughly one third of the acquisition dollars going not to build things, not to produce things, not to R&D things, but for payroll for the bureaucracy that was doing the acquisition.

So we compared that to private industry, which pays a very small fraction of their total acquisition dollars for their acquisition bureaucracy.

Now, understanding that we have oversight responsibilities and we have acquisition laws that require a denser bureaucracy than the private sector -- nonetheless, I thought that the ratio was way out of whack.

Now, today, that force of two United States Marine Corps of acquisition personnel is down, I believe, to about 180,000 people -- roughly one United States Marine Corps. But I don't agree with you that it needs to get bigger so that we can be more efficient.

Now, let me get right to the heart of the matter. The heart of the matter here, gentlemen, is what we get for what we give.

Now, we look at our major weapons systems. We see the DD(X) breaking through the \$3 billion barrier, Mr. Secretary, and a number of other systems that seem to be extraordinarily expensive.

When I looked at the new carrier, it's what, \$14 billion, and it's not going to fly any more F-18s off the deck; and then the Kennedy, which we bought for what, a \$1.5 billion or \$2 billion.

So, in terms of explosives on target, it seems that we are paying more and more for the platforms that ultimately deliver the manifestation of American force to the targeted areas.

Now, let me just offer something. My sense is, and I think the sense of most members on the committee is, that we don't have an effective mechanism for reining in costs when we put together the requirements.

I think the sense is that if I have a particular component that I want on a major platform, if you'll vote for my component, I'll vote for yours and maybe we'll both vote for the general's if we're going to get his support, and we end up, rather than having a requirements council which constrains requirements, we end up having a requirements council which rolls logs; that is, adds on.

And we end up with the producers being given platforms with a large menu -- in fact, it's not a menu because there's no choice about it, but with a large list of component systems that are extremely expensive.

Now, if you analogize this to building houses, if you build production housing in this country today -- I'm talking about houses you build in big numbers with set designs -- they meet all the codes in terms of insulation and structural integrity and you can build houses in this country in a lot of places. Hard cost: \$80 a foot.

If you build custom houses with lots of nice add-ons -- most of them cosmetic; some of them slightly increasing livability but most of them fairly cosmetic -- you get up upwards of \$300 a square foot in construction costs. Three, four times as much.

The reason that production housing is much cheaper even though it's good-quality housing is because in that requirements council, when you're making a decision as to what a platform is going to look like and what it's going to do, you have a production engineer so that when the guy who is going to sell those houses says, you know, this house is going to look really good if you put this elevated vaulted ceiling in the front room, the production engineer says, "You know something, I'm going to build these houses for you, Mr. Vice President in charge of design, and that's going to increase your cost by \$8 a square foot" -- and you have to make a decision as to whether or not it's worth it.

My sense is that the production engineers in the development and design of our major platforms do not have a dominant position where they can tell you, you may in return for this 2 percent increase in capability that General Smith wants to add to this platform or Admiral Jones, you're going to take on a 10 percent increase in cost.

And, if you let me have a hand in designing this as a production engineer, and I'm speaking for what I think a good production engineer would tell you, I can tell you how we at the shipyard can make this thing a lot less expensively than we can.

Now, our problem is a big problem, because if you look at other countries in the world which are potential adversaries -- look at China, for example, which isn't an adversary but could be at some point. China has a very efficient commercial shipbuilding industrial base.

If they turn that shipbuilding industrial base with the efficiencies that they've achieved toward warship building, they could beat us by turning out ships at 30 cents on the dollar compared to American production costs. That would be devastating for the balance of naval power.

And, if you look at the industrial base with respect to high performance aircraft, space platforms and other systems, you can see perhaps not as an extreme comparison, but nonetheless, one that doesn't fall in America's favor.

So I think the first question that I would ask all of you is when you are designing systems: Does the production engineer have a dominant seat at the table, and are your requirements councils at this point truly ones that measure very carefully capability versus cost or have they turned into systems in which log-rolling is the order of the day?

And, Secretary Krieg, what do you think?

KRIEG:

I remember back to one of my first jobs in Washington as a junior staffer on the Packard Commission -- you'll all remember that event -- and listening to David Packard and others talk about the importance of maintaining cost schedule and performance in balance over the lifetime of a weapons system, that the choices that one makes between

what one wants to do, what one has the technical capacity to do, and what one has the money to do are an important thing to keep in balance.

One of the recommendations, and I don't actually recommend this specific element necessarily, but one of the recommendations was to create an undersecretary for acquisition, create a vice chairman of Joint Chiefs of Staff, and to give them joint responsibility, in a joint requirements management board, for thinking through that trade space.

I would argue we created the under, we created the vice, but we never made the two of them come together in balance to think about trade space together.

Don't recommend necessarily the institution of that vehicle, but to your point, the notion that the communities, and I think both John and Claude know that keeping cost schedule and performance together are absolutely critical because it's that trade space that allows one to say, "If I could have it in 30 percent of the time at 60 percent of the cost, would you accept 80 percent of the capability?"

We don't have a good broad-scale mechanism for that. Now, in crisis, we started to work that, and I would say it's very effective when you put the communities together to discuss it.

BOLTON:

Mr. Chairman, if I could add...

HUNTER:

Secretary Bolton?

BOLTON:

In order to control costs, and I think you said this correctly, and your analogy I think is spot-on, you do have to get all the communities together -- whoever is going to come up with the requirements, whoever has to actually do the work, the folks who are going to fund it -- and they have to be empowered to make the trades, and once the senior leadership has agreed to whatever this thing or group of things are going to be.

Successful programs do that. You know, if you look at any successful program, you will find that the program manager, the requirement setters, the folks doing resources have set early on in the program, make the trades and it's a successful program.

And, oh, by the way, industry was involved because sooner or later, they've got build this thing.

In my opening remarks and certainly in my written remarks, I allude to something we call the "Big A, Little A," and we are seriously looking at the Big A. That's what we're talking about here -- everybody.

You know, whether you're writing requirements or doing the funding or doing the acquisition or doing the testing or doing the fielding or sustaining it for the rest of the life, you have got to get together early on and figure out what's the art of the possible here and keep it affordable.

In the last two days, we've had a quarterly meeting on the future combat system, and sitting around the table with the entire community -- they've been there from day one -- making the tough choices on well, what can we do that's timely, what can we do that's affordable and that's off the table now, whatever that requirement is.

The other thing I would say, and we've done it in the Army, is that every once in a while, you know what, you don't get it right, and you've got to stop.

We don't have a very good mechanism within the departments and certainly not in the Army for stopping stuff once it gets started, and so we have, over the last three years since I've been there, put something that we call a termination set of criteria for big programs.

If you trip that, you come in to me, and you tell me why I shouldn't stop it. We also have a one-page template for each of my program executive officers. It's a termination template, three simple columns, few words, large font.

In the last three and a half years, we have terminated over 70 programs that we said, no, we can't do this anymore. When I first got there, I went to our requirements community council and I said, "I will challenge your requirements" -- not because I write requirements but because I've got to understand them and you've got to know and the person with the purse strings has got to know how much it's going to cost.

Last point: In this entire group of folks -- the requirements community, resourcing, acquisition Small A, your test community, your fielding community -- we have, Mr. Chairman, I think you all will agree, some of the best people in the world working this. We have the best military in the world because of what they've done.

What we're talking about is how to make it better, and particularly when we see constrained futures coming our way.

What we have not done to this team is provide them the training. We've been training the Small A for 15 years. The (inaudible) requires that -- certifications, education, experience before you can actually step into those positions.

But if I look at my requirements community, my resourcing community, my fielding community, little or no training.

What we're dealing with today, the complexities of just the business and the technology, requires everyone to be trained. And that's my push. It's been the push in the Army and that's what we're trying to do.

Last, last point: I agree with you on the shoppers. I have never, never asked for more people. In the years that I've been in this position and the 25 years prior, every office I've ever been in has gotten smaller. I like it that way. I think it's more efficient.

What I am saying is that if we don't provide the right tools, experience and processes for the folks who we'll have left, we're not going to be able to do the job. But I never asked for more folks.

HUNTER:

Thank you, Mr. Secretary.

Secretary Young?

YOUNG:

Mr. Chairman, with your indulgence, I'd like to take a couple of minutes to elaborate on your comments, which I agree very much with.

On the production-engineer side, I tried to be that production engineer in the room or empower my team to do it, and when we've done that, it's worked I believe the way you're talking about. There was a Saturday session with Admiral Clark to define littoral combat ship -- what could be on the ship, what couldn't and what it would cost. And that helped very well define that ship in an affordable box.

We did a similar thing with the Multi-Mission Maritime Aircraft. We've done the same thing in a room with the (inaudible) on LHAR, which led to the decision to expand the aviation hangar and close the well deck, and the same thing was done on the MPF-Future. After two years of churning on the requirement side, we all sat down together and made an affordable risk constrained decision.

I believe that's got to be done, and that's what the Goldwater- Nichols Act empowers the acquisition executive to do.

On the other hand, the war-fighter comes to the table with knowledge of the likely battlefield and what their requirements can be, and when those come to the table, you have to discuss the cost, but at some point, that is a dominant feature if they have confidence in that battlefield. And I think DD(X) provides a discussion to talk about in that regard.

DDGs today, as you know, are about a \$1.2 billion, built three a year at two different yards, and it allows the three ships to carry the overhead of the yards as well as the infrastructure of the radar and combat system provider, the whole package. The hull itself is about \$580 million.

If I take that rate to one a year and absorb all that overhead on one hull, it's going to be about \$1.6 billion to \$1.8 billion for that single DDG.

Now, if I had 5,000 tons, two large-caliber guns, stealthy antennas to protect the signature which takes that to \$289 million of antennas instead of \$50 million on a DDG, an ex-ban radar, the stealthy larger hull and the peripheral launch system, that ship is not going to cost \$1.6 billion.

We've estimated it to be \$2.7 billion, and as you rightly said with the design costs for the lead ship loaded onto it, which is the current procurement rules, it's \$3.3 billion.

But if that's the requirement, we have to understand that it wasn't realistic to believe it would cost the same as a DDG to get signature, 5,000 more tons of hull and antenna.

We have to at some point recognize what we're going to ask the sailors and Marines to fight with in the 2030 time frame if we face that peer threat you talk about.

So we can push on cost in some places; in other places, if the requirement is there, we're going to have to try to buy to it and do so affordably.

HUNTER:

Thank you, Mr. Secretary.

General?

HOFFMAN:

Mr. Chairman, my previous capacity was the director of requirements for Air Combat Command, and it was my experience that we were constantly making trades between cost and performance and schedule.

I can think of many examples there where our senior leadership wanted something, we had to advise them that we couldn't get there, and they backed off. Sometimes, they didn't back off, and we found ourselves with some programs like Global Hawk that had too many rocks in its wagon, and you couldn't pull the wagon.

We've had to restructure some of those programs there to make it more executable.

Sometimes, when we're pushing technology on advanced programs, we don't truly know the cost or the magnitude of the challenge. And one way we mitigate that is to write our requirements with threshold and objective requirements.

Objective is what we'd like to have; threshold is a more realistic subset of that, or we break it down into digestible parts and call them spirals or increments to give the war-fighters something up front and then try to spiral our way to the more complex solution later on as technology and resources allow.

HUNTER:

OK. General, thank you. Thank you for your answers.

General, one point I would just want to rejoiner with respect to the Air Force. Many years ago, when Dr. Johnny Foster was head of DDR&E for the U.S. government, he told the Air Force when costs started to go off the page that they had to build a tactical fighter aircraft for \$5 million.

The story goes, the Air Force told him that was absolutely impossible, and his answer was, "Then you're not going to have an aircraft."

They did build one for \$5 million. It's called the F-16.

And the difficulties that you've talked about and that other members of the panel have talked about can, I think, be overcome with leadership early in the process and with that production engineer, the guy that's got to build the system, sitting firmly in a control seat, understanding the requirements that are coming in from the battlefield.

You can handle requirements, you can handle all of the requirements in production housing at \$80 a square foot. If you want to pay \$300 a square foot, you can do that, but you don't generally acquire anything more in terms of capability.

I think that that is comparable to what we are doing today in our weapons systems, including our aerial platforms.

Gentleman from Missouri?

SKELTON:

Mr. Chairman, thank you very much.

Secretary Krieg, in your opinion, where is the breakdown when a program experiences 100 percent cost growth? Bottom line, is this not basically at least in large part a management problem?

KRIEG:

That it got to 100 percent before you identified it would be clearly a management problem. Where would the breakdown come -- it would depend on the program. Did you overreach in terms of technology? Did you underreach in terms of the funding you gave to it, remembering that time is, in fact, money? We let the schedule slip over time, it costs us more.

So I would say that there are many problems that you could potentially allow or that could build to 100 percent, but if one allows it to get to 100 percent before one does something about it, that's clearly a management problem.

SKELTON:

Or even 50 percent.

KRIEG:

Obviously, I mean, those are clearly management problems. There are components of it that are technical problems, that are budgeting problems, et cetera, et cetera, but that you allow it to grow that much is obviously a management problem.

SKELTON:

I take it you've run into this along the way?

KRIEG:

We have some that we're working with.

SKELTON:

Have you tried to fix it?

KRIEG:

Well, an unnamed example of a program we're working with now, and this is to the point of my answer to the chairman, we had one program that began with one set of requirements, and over time, became another -- time had changed. Someone decided they want to do something else and really, set a whole new set of requirements on top of the program that really morphed dramatically what the program was.

But yet no one sat back and said, "What are the implications for funding? What are the implications for technical management? What are the acquisition management approaches one should take?"

And so what we've done in that case is, sitting with Admiral Giambastiani, the new vice chairman sitting with the SAEs, we've begun to tear apart the requirements, the desires versus the capability given a certain amount of money available and begun to restructure the program over time on a more realistic framework. And what it takes is bringing that community together and making trades, making choices.

SKELTON:

An unpleasant subject, Mr. Secretary: The Defense Science Board determined that a large reason why Darlene Druyun was able to exercise so much control over Air Force programs was because the jobs above her were unfilled.

Are we in danger of repeating that history?

KRIEG:

Actually, the Defense Science Board had a number of recommendations, that being one of them. We're in the process of working through many of those recommendations. I take that as one of the things I'm supposed to do on behalf of the secretary and the deputy.

Clearly, you note a number of senior executives and the challenge in giving senior executives to join the enterprise, get through the confirmation process and get in place. It is a long time frame process.

As the general noted, we did get Secretary Wynne confirmed late last week. He will join Undersecretary Sega, who joined a couple of months ago. We're in the process of trying to get an assistant secretary to the process.

But the challenge of recruiting a senior executive from the outside to the department, of getting him through the process of all the forms and all the processes one has to go through to get qualified and then go through the confirmation process is a long, tedious and difficult process.

SKELTON:

You know, I'm reminded of yesteryear growing up as a boy listening to the radio within government. People would volunteer -- executive types would volunteer -- to work for the government for a dollar a year.

What's happened to that sense of duty, Mr. Secretary?

KRIEG:

I think the sense of duty is there. I mean, let's take my example. I was already here. I had already divulged myself of any financial issues. I had already been approved, not confirmed, not gone all the way through the Senate confirmation process.

The secretary asked me on January 11th, I was confirmed on June 4th.

SKELTON:

Thank you, Mr. Chairman.

HUNTER:

I thank the gentleman.

The gentleman from Colorado, Mr. Hefley?

HEFLEY:

Thank you, Mr. Chairman.

Mr. Chairman, I don't think we should leave this hearing today without a better answer to Mr. Skelton's initial question about the ice trays.

You know, this is a hearing on acquisition, and I know we're talking dollars there, but the impression that is given to the American public if we're talking a few dollars on ice trays as opposed to a few cents that you could buy them off the shelf somewhere, that what are we doing in terms of waste when we're talking major systems on an airplane or major systems?

I was at a meeting just a few minutes ago where someone used this example and said the Pentagon is obviously out of control. So it's not enough to say, "Well, we're looking at that." I want to know how this could possibly happen, and the old answer was that it could possibly happen because of mil specs, that we have to spec everything that goes into it rather than buy it off the shelf.

But I thought we got away from that, Mr. Chairman. I thought we moved as much as we could away from that and started buying things off the shelf.

So I'd like for some of you, before we leave here today, to address this problem. How in the world could something like that happen? And if it's happening here, is it happening on bigger things?

HUNTER:

Fair question. Why don't we get an answer to that, Mr. Hefley, while we're on it?

Gentlemen? You up to speed on this, Mr. Secretary?

KRIEG:

I'm up to speed as to the fact of the report. I'm not up to speed -- we're actually pulling through the data. I don't want to comment on the data until I actually have the facts. One of the things I don't like to do is make a statement until I have facts.

So I have asked Keith Lippert. They're mainly consumable items, I think, in the report. I've asked Admiral Lippert to get us the facts so that we can actually see what it did cost.

Admiral Lippert's first report from the field, which is one never operates on necessarily the first report from the field, is that the math that he sees is not the math that was reported in the article, but I'd like to get all the facts and be able to come back to you with facts as opposed to opinions.

So I am very concerned about the report that was in the newspaper. I'd like to get the facts to understand exactly what happened, and then be able to come back to you with the facts so that we can see in black and white what the numbers were.

HEFLEY:

Well, that's fine, and I understand that, but it's embarrassing to the Pentagon, it's embarrassing to us. We have to go out and explain it out there -- we being people who ordinarily are very defensive of what you all are doing over there. We feel like we're on the same team, but we've got to go explain things like this, and we don't have an explanation for it. So we do need those facts.

Secondly...

HUNTER:

And, Mr. Hefley, when do you -- let's ask Secretary Krieg -- when do you think you'll have an answer on this particular thing?

KRIEG:

I would assume that -- when I saw Admiral Lippert on Monday, he said he was acquiring them. He would be ready to get back to me, he thought, by the end of the week. I would be glad to send a letter up to you first of next week.

HUNTER:

Why don't we engage on this thing and, say, try to have some kind of answer on Thursday before we leave? I think we may be leaving Thursday night, maybe Friday afternoon, but if we could have a response on this...

KRIEG:

I'll get you what I have by then so that you...

HUNTER:

We need to get it...

KRIEG:

OK.

HUNTER:

Go ahead, Mr. Hefley. Thank you.

HEFLEY:

There are five phases in the lifecycle of a military platform, and the last phase is also, I think, the most expensive of the five phases, and that is the operations and support phase.

I'd like to know at what point in the acquisition process do each of you incorporate the operation and support costs into the calculation whether or not to move forward with that acquisition?

BOLTON:

I know in the Army, and this is really DOD policy, that lifecycle cost is considered from day one. So, when I approach Milestone A, particularly with stuff at Ken's level, I will have an estimate of that. Certainly, Milestone B has to go into the systems development and demonstration phase. We have to have a lifecycle cost on that.

I will tell you, again, the example on the future combat system yesterday. That's exactly what we're talking about -- you know, what is the lifecycle cost to do these types of things.

Within my office, you know, my office initials are A, L and T, acquisition, logistics and technology. I have an integrated logistics support person who came from the G-4 staff. In the staff, his sole purpose is to make sure that upfront, early on, we've got those considerations in there.

When I talk about the lifecycle management commands, the folks who are running those are living at those logistics center. They are also doing the acquisition up front, and we do that through the entire lifecycle -- and not only the sustainment part, but also demil which typically no one thinks about.

Well, I'm doing that right now. So we, as a matter of policy, are doing that.

Has it been done forever? No, sir. This is relatively new for me within the last -- well, certainly, all the time that I've been here.

HEFLEY:

Well, of course, and that's the way it ought to be approached. It raises questions, I think, when you have a system like the Comanche, which we spent all those millions upon millions upon of dollars on and then all of a sudden decide, "Whoops, thing is pretty big and heavy. And how do we get it to the battlefield?"

And we didn't decide that until way down the line there. And you wonder why that wasn't one of the things when we were looking at capability and lifecycle costs and so forth at the front end.

Mr. Chairman, I see the red light. So I thank you very much.

Thank you very much.

HUNTER:

Well, let's see if we -- any particular response on...

BOLTON:

On the Comanche, the Comanche itself, an aircraft that, when we looked at it over a year ago, no longer fit. Given what the type of environment that we're fighting in today that we see in the future, that aircraft, that capability, those technologies did not fit.

And we had to take that money and revamp all of Army aviation so we would fit today and tomorrow.

Crusader is another good example. And you're right, we did not consider some of those LCC, lifecycle cost considerations, into that. And you know, it's easy for me to say because, you know, that's before my watch. But I need to put stuff in place that will be there long after I'm gone so that we can address all these lifecycle cost considerations up front.

And, by the way, it's not just saying that. You have to have the tools, you've got to have the right metrics to measure all this and the right people who know how to put it into a design before you get too far down the road.

And one last comment. It's not new to me because I've been doing this for well over 30 years. When I was in the Air Force, a fighter that they're about ready to ILC in the first contract, I put four simple sentences in that drove all the (inaudible) in that aircraft, and that was in 1982.

So, if you do it right, you can reduce things in the out years.

HUNTER:

Thank the gentleman.

The gentleman from Washington, Mr. Larsen?

LARSEN:

Thank you, Mr. Chairman.

Secretary Young, you mentioned earlier in your testimony with regards to I think the DD(X) and DDG, you were discussing cost comparisons, and I think the example you used is that if you have ridiculous cost estimates at the front, you have to change those and start from realistic estimates.

Did I get that right, in general, that's what you said? I just want to reiterate that to everybody because that's an excuse you can use once, and you know, your dog can only eat your homework once.

So, in other words, I guess what I'm hearing you saying is the lesson has been learned about ridiculous cost estimates versus realistic cost estimates. Is that what you concluded?

YOUNG:

Congressman, I think I'd make a different point along with my statement, and that is the department, in my view, has as precious opportunity to build a five-year budget.

We don't do as well as we should in those out years, and there is a desire to overprogram that budget and be optimistic about costs in the out years. And then we all get there and think it's cost growth when, in reality, it was never a realistically priced and programmed estimate.

And my acquisition team on a daily basis faces a desire to price the future costs lower than we might think it will be so that we can close out that budget year.

So I can't tell you that. I think that lesson has been learned to a very high degree with the department's discipline led by Secretary Krieg now that we will have independent cost estimates, and we'll agree, before we go through milestones, what the cost will be and what will be budgeted for a program. But it takes continual vigilance on that.

LARSEN:

Then what did you do differently with MMA? You mentioned MMA as something that maybe you've done a little bit differently.

YOUNG:

Had an independent, nonadvocate review, had an independent cost estimate and insisted before I would approve the program contract to be signed that that program be fully funded in the budget so I don't have to bring the problem to OSD.

I mean, we have the power within the Navy and Army and Air Force to insist that our programs be funded to our independent cost estimates before we agree to sign the contracts, and that's how it ought to be exercised regularly.

LARSEN:

Secretary Krieg, is this cost estimation problem in your estimation, is it defense-wide or are you finding that it's particular types of programs?

KRIEG:

Well, the independent cost estimate statute -- and I'll lose track -- in my last job as director of program analysis and valuation, I had the cost analysis improvement group or CAIG as a part of support -- and get the acronym with the title -- have the CAIG as one of the tools as director of program analysis valuations. We spent a lot of time on independent costing.

The independent costing of the cost analysis improvement group is really focused mainly on the major defense acquisition programs. Those tools and the degree to which those capabilities flow down to the services so that they have the capacity to do independent costing on their programs in their domain -- I would say, over time, that atrophied. In this administration, we've been trying to rebuild it.

It takes time to do that, and an independent coster goes and looks at schedule and the capabilities of a program and determines, based upon tools they use, what they think the cost and schedule risks are, and then they value those risks.

And so the debate that ensues is between independent evaluation of risk and the program management's view of its risk.

I actually view the tool as a good management tool to get the management team talking about where risk exists in the program and what are you going to do to manage the risk.

You can choose to do less, thereby lowering the risk. You can choose to take more time, thereby giving you time to catch up to it. Or you can choose to take risks, at which point we get into the positions that John talks about.

LARSEN:

How do you incorporate, then, one of the other issues with regards to the problems that we face in acquisition -- that is, technologies aren't mature enough? How do you measure that in the maturity or immaturity of technology before you move forward with a program in acquisition?

KRIEG:

We've said that by Milestone B, the decision to go into system development, that you would have relatively mature technologies. So we go in and evaluate what the core technologies are and then look at their relative stage -- their technology-readiness level, their relative stage of our understanding of the technology relative to what you want to do.

We had that debate. That's actually a very large portion of the Defense Acquisition Board debate at Milestone B.

Obviously, by the time you go to production, you want to have wrung all that technology risk out. And so one of the things we do is talk about whether a system has too much technology risk to enter the next phase.

What independent costers do is charge you for that risk.

LARSEN:

Thank you. Just quickly, I'll just end and say as you might guess, on the (inaudible) subcommittee, we've been having this discussion with regards to some of the space programs and probably will continue to have that discussion as well.

Thank you, Mr. Chairman.

HUNTER:

Thank the gentleman.

The gentleman from Alabama, Mr. Everett?

EVERETT:

Thank you, Mr. Chairman. Let me continue this discussion on the problems that we're having with our space programs. We've had a number of meetings concerning the acquisition process that in many ways we perceive as being broken.

I think that space is a pretty good place to start there. We've looked at it a lot, and in my estimation, the current state of defense acquisitions that we can point out to four different things here, and these four things are causing the Congress to increasingly lose confidence in the ability to acquire these programs.

For instance, estimating and budgeting, lack of systems engineering to expertise, and acquisitions of professional -- let me tie those three together and I have a fourth point here that I want to talk about also.

We start off with estimating and budgeting. Unfortunately, I think that we're in a system that when somebody sees a new toy out there that they want, that oftentimes the estimating and budgeting is actually done at a cost that they know that program cannot be brought in at.

Now, that brings in our acquisition professionals who should have an idea that perhaps the technology and those programs are not mature and cannot mature to the point that it can meet the budget requirements.

And it also brings in our system engineers who ought to have a say in this -- as well as the production engineer.

And, when you put those three together, it's almost inconceivable to me that you can start with a program like SBIRS-High and estimate it at \$4 billion and we're currently at \$10 billion and it isn't working yet. And SBIRS-High, by the way, is not the only program that we're talking about.

Unfortunately, I've got a sack full of them in my subcommittee, and it's a great concern to me because I know that not only are these things important to the war-fighters, I think it's vastly underestimated by the members of Congress as well as in particular the general public what these assets that we have in space and that we can put in space mean to our economy.

Currently, we probably -- and I think this is actually a low figure -- I think we're probably doing about \$95 billion a year in the economy, and I think that that's probably going to continue to grow at a 25 percent or better rate.

I think the day will come when basically just about everything we would do will depend on the assets that we have in space. But we've got to get them in space -- and particularly the ones for the war- fighter.

And, as I said, it's just inconceivable that we could have the budgeting and estimating of the budget, the acquisition process, the qualified -- and I'm using the word "qualified" here -- system engineering that we need, and we could say SBIRS-High was going to come in for \$4 billion, and currently, we're at \$10 billion.

The same with airborne lasers. We still have the same problems there. I don't remember the figures offhand, but it seems to me that we were going to get six aircraft in the neighborhood of \$5 billion or \$6 billion, and we don't have one aircraft and we're at \$5 or \$6 billion.

We do have first flight, we have first flight, but we're still far behind.

So I think that we have a problem with the lack of system engineering. So I think there's a huge problem in the fact that we have a lot of people going through these different checkpoints -- of military folks going through these different places -- and they have to move on to check the list so that they'll be eligible for promotion.

I certainly appreciate General Lloyd's work on doing something about Space Cadre and making sure that we can train and keep professional people in these different places so that at some point in time we can get in control of this runaway cost.

Now, lastly, let me also point out this. The light by the Department of Defense is different -- Air Force and Army and Navy -- making sure that the prime contractor looks over the subcontractor and what's doing.

We have been making ball bearings in this country for God knows how long and putting them in gyros. And all of a sudden, in the last two years, we've gotten to the point where we couldn't make a ball bearing to go into a gyro.

How in the world did that happen? There are situations where we actually have had a vendor allow a subcontractor to fail on the same part four times, and nothing happened.

And so there's obviously two people to blame here. Number one, the military for not making sure that that prime contractor does not do what he should be doing on the subcontractor.

Now, unfortunately, this question has run five minutes, and Mr. Chairman, I apologize for that, but I send out this warning.

I'm afraid there's going to be less money for R&D in the future years. And the programs that survive -- and as I said earlier, while these programs cost an awful lot of money, I believe they're critical enough only to the war-fighter who comes first in my mind, but also to the expanding economy and the use that we have in space for -- I mean, you get to use cell phones, ATF, communications, finance, farming even is used in space.

So somehow or the other I would ask the Air Force and Department of Defense if the chairman would give me just -- and the members would tolerate just a brief response from them -- to tell me what we're trying to do about this.

And I won't even get into, Secretary Bolton, the problems that I see that we're having with the cell phone networks that can sabotage some of our high-tech stuff.

So let me go to the Air Force and, General, let me put you on the hot seat and just give a brief answer on this, if we can -- if Air Force understands what's happening and the fact that we're in danger of losing some of these vital intel programs that we need.

HOFFMAN:

Mr. Congressman, I appreciate that question.

Unfortunately, space is outside of my portfolio, but I do know this, that they're making changes to address that. In the past, they would accept the start of development...

EVERETT:

But, General, excuse me just one moment...

HOFFMAN:

You want me to take...

(CROSSTALK)

BOLTON:

I am now the milestone decision authority for space so I'll be...

EVERETT:

And, by the way, Mr. Secretary, one of the things that really -- I think General (inaudible) has got it right when he did away with the idea of milestones, you know, because you set those milestones out there, and you don't reach them.

Why don't we just do it on knowledge points -- you know, when we actually know the technology is mature to a point that we can actually use it?

Excuse me. Go ahead.

BOLTON:

Let me handle the question on space. I am equally concerned about the generation of systems that we're now dealing with that I think were conceived of in the mid to late '90s.

Many of them didn't have the early systems engineering. They didn't have the discipline to approach up front. They were very long- reach technology ideas. And we are now living -- and with many of the parts not being tested until they were assembled as a whole.

We are now living with the fruits of some of those decisions in hopes, I think, in part maybe because the belief that the commercial market would allow for much of that to evolve.

It didn't. The commercial market did not evolve, and we're now living with those decisions. One of the programs recently has been significantly restructured. We announced Nunn-McCurdy violation on the space-based infrared system SBIRS-High.

I won't go into the details of that since I am the Nunn-McCurdy manager for that. But, obviously, that program is challenged.

I think you have to go back to some of the things you hit. We have to build that workforce to deal with these complicated issues.

You have to have the requirements not be such a technological leap that they're unachievable. You have to do good systems engineering to make sure that, as you go through it, you are understanding and reducing the risk before you assemble it all in final.

And, lastly, we have to manage that intersection between what we can do and what we'd like to do. They're not always the same, and so we have to understand that trade space.

So this next generation, we're hoping we build differently than the generation we're now trying to deploy and employ, but we are living with those decisions, and those are that whole class: FIA, SBIRS-High are challenging systems to bring through to the end.

EVERETT:

We've done away with FIA.

BOLTON:

That was the restructuring I talked about.

EVERETT:

Oh, thank you.

Mr. Chairman, thank you very much. I apologize to the members and to you for going so long on this. Our members know that I'm a strict enforcer of the five-minute rule, but I had an awful lot I wanted to get in.

Thank you.

HUNTER:

Thank the gentleman.

The gentleman from Hawaii, Mr. Abercrombie?

ABERCROMBIE:

Thank you very much, Mr. Chairman.

Mr. Chairman, I mentioned at the beginning of the hearing and requested your permission to send to the undersecretary and the other gentlemen at the table questions on capital budgeting provisions.

The time, Secretary Krieg, is too short to go into a lot of answers on this, but what I would like to do is indicate that we're having some difficulty for the record, I'm indicating, with getting a defense authorization bill through right now -- I'm sure the chairman understands that only too well -- because of difficulties with the other body, legislatively speaking.

But the issue, the issue of capital budgeting and acquisition really can't wait for this. And in my judgment -- and I think in the chairman's judgment -- it's not necessary for us to have legislation here. We're trying to highlight it. We're trying to do due diligence here and congressional oversight.

Essentially, I'm going to be referring to what, Mr. Undersecretary, is Section 1004 of our bill, "Reports on Feasibility and Desirability of Capital Budgeting for Major Defense Acquisition Programs."

The reason that the chairman and I and others on a bipartisan basis on this committee have put this forward is because we feel that for acquisition decision-making, one area that could be focused on is the repeated tendency of the military services to push high technology programs forward into development before basic technology behind them is mature.

This requires the programs to invent on a schedule. We've mentioned already today, you know, joint strike fighter -- future combat system is one of the things referred to in Secretary Bolton's memo to us here today. JTRS Radio, et cetera.

We feel, or at least I feel in particular, that if we had capital budgeting in place, it would be of assistance to you in trying to come to grips with this requirements question, where you wouldn't be driven quite so much by that.

I've highlighted this legislative approach because I'm hoping you'll take a serious look, when you're doing required reports at alternative methods of budgeting and financing weapons programs for the Navy, for example. You can focus on shipbuilding for the Air Force. The problem is buying airplanes. For the Army, you've already cited -- one of the principle difficulties is buying helicopters.

In each case, I believe a capital budgeting system takes operations and capital acquisitions out of direct competition in these areas and assists in acquisition technology decision-making.

So I'm going to submit a series of questions to you on this, and the reason for this -- and I know there's been a lot of difficulties, and perhaps you could answer something today on that -- even members of Congress are worried, will we lose our oversight.

Well, heck, the chairman has already made pretty clear our oversight doesn't seem to be doing a whole hell lot of good in terms of getting a handle on all of this. And I'm not putting forward capital budgeting as any kind of magic bullet, but every other governmental entity in this democratic republic of ours utilizes this.

I'm thoroughly familiar with it as a member of the State House of Representatives, the State Senate, city council, whether we're buying fire engines -- a little village somewhere out in the middle of the country, when they're buying a fire engine, goes through a capital budgeting process. They separate their operational funding from their capital acquisitions budget.

We don't do it. We cash-finance the Department of Defense. And if my colleagues will just forgive me for a minute, we know this, you know this, but I guarantee you -- because I've done this all over the country -- the average American taxpayer does not have a clue that we're cash-financing defense.

And I maintain that the simple proposition -- I'm not saying this is a simple issue to answer or resolve -- but the simple proposition that you should separate your operational costs from your capital costs is one that is timely for the Department of Defense right now.

The deployment costs alone associate -- separating entirely our argument about Iraq or Afghanistan or Kosovo or humanitarian efforts that come into play, Katrina, tsunamis the world over -- that the Department of Defense is expected to act on routinely cannibalizes your budgeting processes -- routinely cannibalizes it.

Every secretary, all you gentlemen here, routinely have to deal with the question: Are we eating into our operational budget? Is it eating into what we can apply with respect to a rational capital acquisition program? Almost every day this comes up.

Virtually all of the answers that you've given here today or observations that you've made today depend on a stable system that you can count on week after week. And yet every single one of you, I dare say, has been confronted almost on a weekly or on a monthly basis with, "Uh-oh, there's a tsunami"; "Uh-oh, we've got to go rob" -- or I put the word "cannibalize" -- our budget three, six, nine months down the road.

Here's my point. A commonly cited concern of multiyear capital budgeting system, both from the Congress and from the Pentagon, has been that somehow it won't allow the Congress or the Pentagon to oversee what's going on within the DOD budget or that it handicaps particularly the Congress or people in the DOD, policymakers and the DOD, and that somehow on a year-by-year basis we'll interfere with it.

I'm maintaining the opposite. I'm saying because operational budgeting is routinely now a devastating rational planning on the capital acquisition side, that a capital budget separated -- that's all I'm trying to drive at here.

Do you think or would you be willing to consider, and perhaps you can make a brief observation today, that a capital budget system and an operating budget system would at least give you some kind of stable foundation upon which to make some of the decisions -- particularly where requirements are concerned -- that you've raised here today?

KRIEG:

Having lived my other half of my life when not in Washington in a low-margin high-capital-intensive industry, let me tell you that the decisions on capital there are not taken lightly and one makes those after dedicated study and commitment and then one stays very committed to performing against -- in the capital approach.

But I would also note -- so, in general, I am very open to this discussion because I've seen rigor and discipline that that applies if one makes a capital investment that one has to stick to it.

But let me also then say, this will not be easy to do because in the private sector, there is a common metric that I can apply across businesses, whether it's return on investment or return on net capital or return on capital assets -- when you have ways of judging unlikes.

And you have a way of trading between capital investment and earnings and depreciation as a way of giving the managers a balanced set of things they're managed against.

That being said, I think that what you've laid out is an interesting challenge, one I'd be more than happy to engage the debate in, because I think the discipline that one goes through when one has to make a long-term commitment to capital which has a very clear expectation of return associated with the capital and for which one doesn't get more money or less money just because the operating environment changes or your capital performance changes...

ABERCROMBIE:

Well, in this context, Mr. Undersecretary, I agree. In this context, we're speaking here of the public sector, routinely done in governments all along and there's no social utility.

If you have a city bus and you decide to go to an alternative form of energy to move that bus along so you acquire a new bus that isn't gasoline powered, for example, there is social utility to that. There's environmental consequences, et cetera.

In the Department of Defense, we have a different way of defining social utility, but it's still the same thing. If we have the tank or the Crusader -- Secretary Bolton made a decision about the Crusader, about the Comanche helicopter.

The social utility, i.e., the military utility of that, is the same kind of proposition. The difference here that I'm trying to cite to you is that you -- and whether it's in the private sector or the public sector -- if you're buying the city bus, it's a separate question from how much you're going to pay the drivers.

You don't go in and say, "Well, we're going to go into the capital budget side of buying the bus, but no, we're not going to do that. What we're going to do is the contract negotiators with the bus drivers can take into account whether or not we're going to buy half a bus."

No, no, no. You separate that. Whatever revenue you have to get for your operating side, that's up to the legislators and the executive to come through with that side of it.

You rigorously separate by law the capital acquisition costs including paying interest on any bonds or however you finance it, right? That becomes part of your operating budget, yes -- the interest being paid? Of course it does, because you're going to use that bus over a period of years.

Now, the bus driver gets paid week-by-week or month-by-month or year-by-year, but you're going to use that bus for 10 years or 15 years or 20 years or, in the case of someone in the Air Force here, we may be using these planes for 50 years or the ships for 30 years or 50 years.

So it is reasonable -- and the taxpayers understand -- you lay off your acquisition costs over a 30-year period. In other words, if we acquire a carrier now or an airplane now,

taxpayers understand that taxpayers 15 or 20 years from now should help pay for that because they're still getting the utility out of that.

That's what I'm driving at. We have to find a way to separate our capital acquisition costs and processes from the operating costs. And failure to do that, I maintain, is going to put you up here answering questions to the chairman or any other member here forever and, meanwhile, the costs are going to go out of sight.

So I'm going to submit those questions to you, and I'd appreciate the answers, not necessarily by next Monday with what you already are required of by the chairman, but I can assure you that both he and I and other members here on a strictly bipartisan basis want to come to a conclusion on this.

And we hope that we don't have to do it by way of legislation, per se, but do it on the basis of legislation that you might recommend to us as to how to put a rational acquisition system together separating operational costs from capital acquisitions.

Thank you, Mr. Chairman.

HUNTER:

Thank the gentleman.

The gentlelady from Virginia, Ms. Davis?

J. DAVIS: Thank you, Mr. Chairman.

Secretary Young, I want to talk to you a little bit about the DD(X). You know, the chairman said at the beginning that back in 2000, 2001, we were looking at buying DD-21s. And when I first was elected in 2000, all I heard was how important the technology from the DD-21 was for the next generation aircraft carrier.

Then I fought the fight, and we went from a DD-21 to a DD(X). And now it's a consistent fight to keep the DD(X) out there and keep it funded, and you know, it's getting more expensive and more expensive and more expensive. Yet we've put of all our eggs into one basket for the technology from the DD(X) for other systems.

And, if we continue to slip it out, are we going to have that technology for the CVN-21 when we build the next carrier or have we put all of our eggs in that basket, and now the eggs are all broken?

I mean, I get very frustrated when it comes to the acquisition reform and the skyrocketing costs, and if you've been to Northrop Grumman, you will see that -- down in Newport News -- that they are going the extra miles, buying new technology to replace a

lot of people with one person to keep their costs down; but then they tell me that the problem is that the requirements continue to change.

And I, quite frankly, don't know who to believe about what, and I am very concerned that we are not being very smart in the way we acquire these technologies. And I guess my question is: To what extent does the technology requirement drive the acquisition requirement? And can you give me an answer on my frustration?

YOUNG:

One, I would tell you since we've defined DD(X) and sought to manage the program, I can't agree that the costs have just continued to skyrocket.

It was always going to be relative to \$1 billion to DDG today, it was going to be about a \$2 billion destroyer. As I said, it's 5,000 tons heavier, it has two large-caliber guns that are a couple hundred million dollars -- \$286 million for the guns; I put \$20 million worth of guns on the DDG. It has \$289 million of antennas that control its signature; I put \$50 million of antennas on a DDG. The radar with the dual SNX band is \$323 million; DDG radar is \$192 million.

And I could keep going.

We have priced the ship properly. It is a technology carrier for the enterprise. The open architecture combat system that will be on DD(X) is already being leveraged. Pieces have been pulled out of it to put on LCS.

It will be the core of CVN-21, and that's why you hear both from a requirements point of view because there is a belief the threat, with evolved and advanced antiship missiles and other capabilities, will require us to have a destroyer of that capability.

And then there is a need to open our architecture and provide combat systems where the hardware and the software are separated and we use commercial processing, and we can upgrade the software and upgrade the hardware separately as opposed to the 14 NEGIS baselines we have today that are very complicated and very costly to maintain and upgrade.

So it's a carrier for technology that will go into the carrier, per se. It meets requirements have been defined and analyzed in pretty good detail by the Navy.

J. DAVIS: But what happens when we don't fund it because we hear it's too expensive so we slip it out, and then we're building these other systems and don't have the technology there?

YOUNG:

Well...

J. DAVIS: How do we fix that? What do we do?

YOUNG:

I think we'll all recover. We'll come back and we'll bring you a higher bill for the carrier to develop the combat system to go in the carrier.

You know, there is no other two ways about it. Somewhere, if you want to have that combat system and that capability set that's been defined, and I would -- another important point. We sought to control changes like in current generation shipbuilding, I've issued instructions at the behest of the Secretary England that you can only change things that relate to safety.

I do not believe we have excessive creep in our requirements and technologies. And I think, to one of the other questions earlier, when we find we're up against budget limits on things like Virginia, we go in and seek to take things out of the program because that's a very hard process and a difficult process, but I want to assure you, we hear the message from you all. There's this much money; try to deliver the product for that amount of money.

J. DAVIS: And I'm not frustrated with you, but did I just hear you say you would come back to us with a higher cost for the carrier?

YOUNG:

There's no question if DD(X) were to die, the carrier is dependent on some of the DD(X) technologies. I believe if the strategy is still there, the radar from DD(X) is to go into that carrier.

J. DAVIS: Exactly.

YOUNG:

So, if I were to kill DD(X), I cannot deliver the carrier with the combat system and the radars under the current budget. It's just not physically possible.

J. DAVIS: So the message is we have to fund DD(X) in order to keep the cost of the carrier down to bring what we need for our war- fighters.

YOUNG:

I think the message is the Navy has tried to bring you an integrated program and not develop a radar for the carrier, a radar for DD(X), a radar for LCS. We're trying hard to leverage it.

One of the carriers for the leverage is DD(X).

J. DAVIS: Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

HUNTER:

I thank the gentlelady.

The gentleman from Arkansas, Dr. Snyder?

SNYDER:

Thank you, Mr. Chairman. Thank you for holding this hearing.

I'm sorry I had to leave for a while. The commandant had the Marine Corps birthday party for the House members. Although I have to say I got over there and it was a very moving ceremony with our nation being at war and there was some wounded Marines there. But I saw the big cake and I asked myself: How much did it cost? You know, this is what this kind of hearing does for you, you know.

I understand, Secretary Krieg, while I was over at the Cannon Building, that you all had some robust discussions about the Prime Vendor Program. I understand you're going to get back to us. There's two aspects of that that I hope you'll address whenever you do get back to it, and I hope it's timely.

The fact that you cannot answer today -- even though it's been I assume a week or two or three since folks originally called someone from the Pentagon, reporters, and put you on notice there was a story coming out -- tells me that you don't have any kind of ongoing monitoring system for whether that program does or does not save money.

I also hope you will -- well, you can get back to us on this. I mean, yes.

KRIEG:

Well, can I answer...

SNYDER:

Well, let me finish. I have limited time.

The other thing is, it concerns me when I read reports where CEOs and so on don't want to be quoted or identified, because you would think that -- I think you want to create a system where people will step forward and say, "I have an idea for how you can save some money for taxpayers." And so I hope that would get addressed also.

But the other comment I want to make is, in your opening statement, I really like what you had to say about the sciences, and I think that we do have a real challenge.

I heard from somebody back home over the weekend that the Summer Science Discovery Program -- it's a relatively minor program, like a \$75,000 a year program to encourage kids age six to twelve to get interested -- minority kids -- to get interested in the sciences.

But I think you'll go on to talk about we may lose our technological edge if we don't address those issues.

So I really appreciate you mentioning that.

A specific question on another topic I wanted to ask about: As we look at this acquisition stuff, the chairman brought up the issue of shoppers which has come up in the past. In your statement, I think it's on page 9, you talk about a numbers gap, and I assume by that -- "We're developing strategies to address the depth experience as well as the numbers gap resulting from the high increase."

Now your specific testimony is that you do not have adequate numbers of people. Is that correct? Would you amplify on that for me, please?

KRIEG:

I think looking at a number alone is not the right way to think about it.

What I'm most concerned about is if I look at the nation's age distribution of, in particular, civil service workers over time, that age distribution is skewed farther to the right than I'd like to see. I'm concerned about attracting the next generation to this business, this endeavor, and developing their skills.

To have the kind of complex, well-capable employees to do the kind of work we ask them to do, you just don't go hire them off the street and put them into a job. You've got to train them and build them over time.

SNYDER:

No, I understand that...

KRIEG:

But my concern on numbers is more a demographic concern than an absolute number concern.

SNYDER:

All right. Well, because point two you made, you said, "Second, the average age of the workforce is 46.7 years." And then your third point was the numbers gap. I thought those were two different points. One, we have a problem with demographics, numbered point two. Point three, we do not have adequate numbers.

I thought that was a separate point from -- am I misreading your statement?

KRIEG:

I won't get in an argument about whether 140 or 180 or 160 is the right number. I mean, I will tell you I don't have that refined personal sense of understanding of what the exact right number is.

I'm concerned if we continue to draw down, and in particular, as Secretary Bolton noted, it's a skills mix, it's a quality of numbers not just a total number that I'm concerned about.

And I think I will be more confident in telling you an exact number -- well, a round number -- as we work through this: What is the challenge we're putting on our workforce over time?

SNYDER:

All right. I didn't ask you for a specific number. I was just trying to get you to amplify -- I interpret numbers gap to mean you're telling...

KRIEG:

I believe...

SNYDER:

... testimony that you don't have adequate numbers...

KRIEG:

I believe we've likely drawn it out as far as we need to for now. that I'm worried about the overall skills mix, which is a gap. And that I'm worried about the average age distribution and demographic gap over time.

SNYDER:

I got you.

General Hoffman, I'd like you to comment specifically on -- by the way I admire what you all do. I think it's very, very complex. I think it's absolutely crucial what we do. I hope you all understand everything you wrote because I suspect most of us don't, but when you start dealing with the general statements about what you do.

But I wanted to ask you about two specific programs, the C-130J model program and the C-130 aviation modernization program. Both of those programs have had problems in terms of funding and cost. Senator McCain dealt a lot with the J model. The aviation modernization program seems to have been slowed down and costs are increasing.

Would you discuss both those programs from the perspective of what lessons have we learned from those programs and where do we see them going?

HOFFMAN:

First of all, the C-130J program was acquired under a commercial contract, and this was one example with the encouragement of Congress and everyone who thought acquisition reform meant buying more commercial products, and we were actually directed to maximize commercial purchases when able.

That enthusiasm, I think, may have gone too far, and we applied that enthusiasm to any product that even smacked of being commercial or potentially in the future might be sold in a commercial market.

The C-130J has no commercial market out there. We are the market.

And so the expectation never materialized. We are now walking that back into a normal Part 15 procurement, and we should have that converted in the next two weeks. We should have that conversion back.

The assumption in the commerciality of a product is that the commercial market out there sets a fair price, and we do not need to then burden the vendor with providing us all the data and how his cost and pricing is appropriate; that the commercial market sets a fair price.

So, in this case, if we're the only buyer -- we the Defense Department -- we don't have that assurance. So it's more appropriate for us to go back to Part 15, which then has to go to that cost information.

So that's the C-130J story -- where we are right now.

On the C-130 AMP, if you look at the various C-130s that are out there from E models to flavors of H models spanning decades of production, if you go into that cockpit, it's a steam-driven cockpit.

Single-point communication inputs into that cockpit from the outside world getting more costly to sustain, and so the decision was to modernize the C-130 fleet with an avionics modernization plan, C-130 AMP.

And that was going to take all the cockpits to kind of a standard configuration and update it into a glass cockpit, modern world, with better networking and better use of interfaces with the outside world for interoperability.

As we started opening up these airplanes, we found that not only were the models different but, almost to a tail number, these aircraft are different because they've had so many modifications over the years -- boxes put here, bolted there, wire bundle moved here -- that the magnitude and difficulty of that challenge was way beyond what we anticipated when we first started that.

So that's why there has been cost growth in that C-130 AMP program.

SNYDER:

Thank you, Mr. Chairman.

HUNTER:

I thank the gentleman.

And the gentleman from North Carolina, Mr. Hayes, will be next, and the gentleman will take the chair here.

HAYES:

Thank you, Mr. Chairman.

Gentlemen, everyday you all feed, clothe, equip and do a great job of making sure our men and women in uniform have what they need and we appreciate that.

This committee on a bipartisan basis works very hard at every opportunity to provide the goods and services that our men and women in uniform need and we're very, very proud of that.

Having said that, last year, we had an extremely unfortunate circumstance where an armed forces member left the service and went to work for a defense contractor -- putting in serious question some acquisition processes.

That's a bad deal any way you slice it.

You would have thought, with all of the outcry -- justifiably -- that came from that, that that would have stopped. But last week, we find again in SOCOM that somebody -- and

maybe others in the purchasing business -- were receiving rewards from potential contractors for using their products.

There's no worse insult in my opinion to the men and women in uniform than finding that we have people in the acquisition process who would do that. And I would hope and trust that you all, using this example in SOCOM -- and somebody has already turned state's evidence, if my understanding of the facts is correct -- use this again as an example to let people know that it is unacceptable on any level.

Question probably for General Hoffman and maybe Secretary Bolton: As a part of that process, and we don't know if it was touched or not, there was an effort to buy an aircraft, specialized modified aircraft for SOCOM, and some American-made products were available, and they were presented.

But find out through all this process that a foreign-made product, which is totally different, was purchased at an extremely high price -- which speaks to the issue Mr. Skelton and others have raised about toilet seats and ice trays and things like that.

I would appreciate it -- if you can comment on it now, I would appreciate your comments but also, for the record, we'd like for you to look into this and let's look further at what happened here and how we prevented and if this had been preventable from the start.

Would you like to comment, either -- ABSOC is operating the product, and SOCOM is Army, so however you want to split it.

BOLTON:

Well, first off, SOCOM is really not Army. SOCOM has its own acquisition executive, has its own acquisition processes, work under a different title. And so, although I know the folks there and I've read the stories, it's not part of my responsibilities.

However, let me tell you what we have done in the Army to address those types of things. We for a long time, long before any scandals that you alluded to earlier, or the ones with SOCOM, I do not allow folks to have that type of responsibility, that amount of authority in one spot.

So for source selection authorities, I don't do it in my office. No one around me does that. That's done out in the field. And that way we can monitor it. That way I can be the last check and balance before it goes to the secretary.

And then, from time-to-time, we go out and audit that.

We also encourage -- not encourage, we force, we mandate -- that our folks receive ethics training at least twice a year. There's an overall Army ethics course for all

personnel, military and civilians, and then there's one specifically for the acquisition workforce.

Having said that, you may recall that we've been through this before. Back in the '80s, we had Paisley (ph) and Cohen (ph), we've had others. We try very, very hard. But, unfortunately, human nature is still there. There are, from time-to-time, folks who want to take advantage of the system.

I would tell you, within the first two weeks that I had this position back in 2002, I was already relieving a person overseas and then putting that person on trial, and he's now breaking rocks somewhere in California.

We take this very, very seriously for the reasons that you pointed out. We have a heck of a lot of folks who work day in and day out trying to provide the very best to our soldiers, to our sailors, airmen, Marine Corps.

And it's a slap in their face. They're not on the front pages -- all the good work that they're doing. And when that goes up, I can tell you it ripples through the entire force.

So we take it very, very seriously.

HAYES:

Good point. That's why I made my first comment. Don't need ethics training for that. If you do it, you're toast.

General...

HOFFMAN:

I agree with Secretary Bolton. SOCOM is outside the Air Force orbit as well, but we have our own Darlene Druyun experience there, and we have changed many of the same things that he talked about there in source selection, putting rigor in that process and dividing up some of the responsibilities of the source selection process so that no one single individual can steer or (inaudible) a conclusion that might not be the appropriate conclusion because of their own personal interest.

HAYES:

I appreciate that, and this is not an indictment of SOCOM process. I think it's good that they have the flexibility and the speed with which to buy the things that they need, but I would like you to look into it because of the Berry Amendment and the Buy American and ethical rules and everything else seem to have been broken here.

Mr. Spratt, I apologize for going red so long.

The gentleman from South Carolina?

SPRATT:

Thank you very much and, gentlemen, thank you for your testimony.

1969, 36 years ago, I came on active duty in the Army and went to work for the Assistant Secretary of Defense, Tom Crolum (ph). We spent the next two years of my service working on the contractual and financial problems with Lockheed Aircraft Corporation -- the C-5, the Cheyenne helicopter, you name it.

And that don't make me an expert by any means, but it does give me an inside observation on the problems. And every time we have one of these hearings, I'm struck -- and I'm sure that you all are, working with the problems -- at how we always discuss the same problems; and, while changes are made, and certainly the acronyms change, they tend to be recurring problems.

One of the things that one of you noted or several of you noted in your testimony is that you, the acquisition management team, need to be engaged earlier in the process in a significant way -- concept definition, requirement generation, whatever the stage may be early in the process -- so then you can dampen the euphoria, add a sober assessment to what the technology really is, remind everybody of what's truly needed, not what would be nice to have and keep this process of over-generating requirements are in tow from the very outset before they get so far down the road that it's hard to pull them back in.

My question to you is: Do you have the institutional capacity, the stature, the institutions like the DSARC or the DAB, and do you have enough stature with the E-ring to assert yourself and to cull out excessive ideas and excessive requirements and keep a program from the start within reasonable bounds?

KRIEG:

My sense is we have the authority. A program can't go to the next milestone without our approval. Whether we assert that authority and bring people in to work the problem to make the trades is the challenge that we all as management have.

I believe working for the secretary and the deputy that they're clearly seized, and in particularly, the deputy having lived both as the secretary of Navy and now as the deputy secretary, believe that this notion of trade space early on in a program is something that's important to bring these communities together.

Further, I believe that if you were to bring the vice chairman up here, Admiral Giambastiani, and ask him, he would have that same view.

I think it's now incumbent upon us as management to take the kinds of steps necessary to make those decisions collectively and together, because it does bring many streams together.

But I believe that that is something that you will see us doing in the days, weeks and months ahead.

SPRATT:

We've got some expensive systems coming down the pipe -- the new generation carrier, for example. I understand it's estimated to cost \$13 billion.

Are you asserting concerns there? Are you trying to rein in programs like that and bring them back within reasonable bounds? I mean, can you give me some examples of where you're right now being assertive and making a difference?

KRIEG:

Well, I'll give you three that I'm working on at the moment. SBIRS-High, going through a Nunn-McCurdy. We're looking at that program from top to bottom. Secondly, the joint tactical radio system -- great ideas, challenge and execution. We are going through that program top to bottom.

Separate a set, I now have two programs that have come -- one this week that came before me, one next week that's a Milestone B, a decision to go into the system development and demonstration phase.

They're not yet adequately funded for the requirements and the schedule that we've put in front of them. I've refused to agree to let them pass through Milestone B until I see the funding in the program and in the budget.

So the answer is yes, we are doing it. We are doing it in specific cases, and I believe we will begin to generalize that capability as we get the requirements community engaged and as we get the resource community engaged.

YOUNG:

Maybe I could add, I could cite several examples from LHAR and MPF-Future where it was worked with me personally with the commandant and CNO to set the requirements far after the first passes that that had those ships very expensive, and we all agreed couldn't be done.

And, going forward on things like DD(X) where the acquisition team said we can do 10 rounds a minute much more affordably than 12 rounds a minute and we think you ought to change the requirement -- and that was agreed to.

So, across the board, we're undertaking those steps exactly as you said -- and pushing. I think we have the authority. I need the support of the acquisition executive. I need the support of the secretary of the Navy, in my case, to fully exercise what is structurally there in place for me to do my job.

SPRATT:

One of you mentioned that there tends to be a recurrence of requirements creep as you go from milestone to milestone, but the distance from one milestone to another milestone can sometimes be lengthy and time-consuming.

And you know and I know that the contractors are only too happy to cold play the system and the users are always looking for ways to enhance the capability or utility of a system. And so there's a bias in the system that feeds the requirements generation.

Is there an umpire somewhere in this process to oversee, say, unadjudicated change orders and other things that are indicative of a requirements creep or cost inflation?

BOLTON:

Well, I think so from the Army's point of view. The things that you just talked about happened, and the real question is: How do you go about controlling that?

The way we've looked at is to put those communities together -- the requirements community, resourcing, acquisition. If you go down to Fort Monroe, you'll find a center commanded by a three-star called "The Future Center," and in there, you'll find what I call TRADOCians, but the requirement setters, as well as my acquisition folks.

In terms of a process, programs have to come through me. And we've modified our process. I tell each one, particularly in the major programs, that aside from the requirements that you have there, you also need to set up trip wires, these termination criteria that you and the contractor and the requirements community and everybody else clearly understand.

Keep it simple, two or three of those, but if you trip that, you come to me and you're coming to show cause why I shouldn't just terminate this program.

And we have a process -- it's our review for acquisition programs -- and part of it now includes show cause. We hadn't had that before.

SPRATT:

Show cause?

BOLTON:

Show cause meaning why shouldn't I just terminate this program, if I find a way to fix and restructure (inaudible). And each one of my program executive officers has a one-page piece of paper -- very clear, very few words, large font -- on my criteria that I will evaluate them in terms of terminating programs.

SPRATT:

Let me ask you this. Your management is only as good as the information you receive, and one of the challenges for years has been accurate, perceptive, far-seeing management information. Now I can tell you the system that we've got that we get from you is a selected acquisition report system is a lousy system.

It was developed in the office I worked in. So, when I came back here in 1983, one of the things I did when I got on the committee was I asked to see the SAR. And what I recognized immediately was that it hadn't changed, and it hadn't evolved. And I learned in time that it hadn't evolved because it wasn't used. It wasn't used because it wasn't useful.

And I have a suspicion that even though you're bound to have a better system than we've got over here for your own use, it still is way short of what you need, sitting in the E-ring of the Pentagon, to really understand what's going on with these different systems scattered all over the country.

BOLTON:

Well, I'll give you my personal view on the SAR because I've been at this for almost 30 years, and I always challenge, why am I doing this, who is going to read this over on the Hill because you're the ultimate customer. And it's become its own cottage industry over the past few decades.

On the S.S. program -- I come over here on a quarterly basis and I provide the staffers and members who want to see it the SAR for sure, but also the earned value. This is what I use to manage a program. This is what the program manager uses on a daily basis. This is what I score the contractor on. This is how I paid the contractor -- and it's down to the fourth level of the subcontractor.

I mean, that's how you manage the programs, and so we (inaudible) that so we're not going to bore you with a lot of details so you can clearly understand what's going on in the program and get some idea of what's going to happen in the future, like six months, 12 months, 18 months from now.

I agree, I would offer that. We ought to sit down and figure out how better to get you information on truly the help of a program.

SPRATT:

Let me suggest one idea, and that is, for every system there should be its own cost variance, technical variance and schedule variance. But there are enough unique features in every major system that you need to look at the technologies where you're pushing the envelope and have some special criteria that you follow continually on those.

And there probably ought to be some stuff coming off the shop floor like excess material handling costs. That's a telltale indication.

HAYES:

Would the gentleman yield? We have a little color blind trouble today. We're running short on time.

SPRATT:

Oh, OK. OK.

HAYES:

Can you finish up?

SPRATT:

I'll meet with you some other time. And that is you've got to reconstitute your acquisition workforce in the near future because of the aging of the workforce and everything else.

Think about having a special charter for every system where you could have civil servants, military people and also temporary-type -- not temporary, people who come and work for two or three years.

I think there's a lot of talent out there that could be mined for people who don't want to do a career in the civil service, but nevertheless have a great deal to offer.

Thanks for the opportunity, and thank you for testifying.

HAYES:

You're welcome. Red means to stop.

Secretary Young, before I yield the gavel back to the chairman, if you and Secretary Krieg, at your earliest convenience, if you haven't already had the conversation, talk about Major Patricio in the acquisition by the Marine Corps of the camouflage uniforms which went outside of DLA after much negotiations. That was a very positive story.

And having said that, Admiral Lippert has been very helpful working with some surge issues lately, and we appreciate the cooperation.

And I'd like to yield to the gentleman from New Jersey, Mr. Saxton, for any questions he might have.

SAXTON:

Thank you. I don't know if this is a question. I think it's more of an observation.

First of all, I apologize for not being here throughout this hearing, but there are too many mandatory things going on in the Hill today.

My observation is this: Several Fridays ago, I got a call from one of my friends at SOCOM who indicated that there had been a problem with some individuals who were taking part in the acquisition process, and of course, that subject bubbled to the surface again late last week.

And so I guess my observation is this: It is all of our responsibility to make sure that things are going right at SOCOM. And we want to be part of that as a committee.

It is also our responsibility, it seems to me, if there are to be changes to be made, to make them in a slow and deliberate way, recognizing the uniqueness of the SOCOM acquisition process and why it's the way it is.

The chairman and Mr. Hayes and I are extremely concerned about this from two points of view, and we're writing a letter to the I.G. to express these thoughts as well. And one is that if there's a problem, we want to straighten it out, but that recommendations shouldn't be Draconian in nature because of the necessity of carrying on with the acquisition process essentially as it is within SOCOM.

And so to the extent that you're players in those decisions, we would like to just state that we want to be part of the process as well, and we want to ensure that the folks that need the flexibility to buy off the shelf, et cetera, to meet the needs of any given situation -- that those processes are maintained.

And I don't know whether you want to respond to that. If you'd like to, that's fine. Anyway.

BOLTON:

As I mentioned earlier, obviously, SOCOM is not part of my portfolio. It's outside of us, but I do personally know my counterpart there, and we'll certainly take your comments and those of this committee back to him.

HUNTER:

Thank the gentleman for yielding, and I want to thank Mr. Hayes for handling the gavel here the last couple of minutes.

HUNTER:

You know, one thing that occurred to me when we were in Fallujah last summer and the Marines were getting hammered and taking a lot of killed-in-action and WIAs, a lot of wounded-in-action, we in Fallujah asked General Mattis, head of the 1st Marine Division, what he needed, and he said he needed ACOGS, these high-quality rifle scopes that would make the Marine riflemen on the ground more effective.

And, when we came back, I called General Brown, because we looked all over, we couldn't find any of these rifle scopes. He had I think 300 of them on the shelf, and within a couple of days -- in fact, within hours -- he had shipped 100 of them over to his comrade-in-arms in Fallujah. And those Marines were outfitted with them, and they got back into the fight much more effectively.

That impressed me. It impressed me that you had a service that moved equipment to a sister service that was in combat in contact taking casualties and needed equipment.

So I want to lend my support to Mr. Saxton's statement that we've had, in the Special Operations Command, a capability of getting equipment early and when you need it in a timely way, because we had missions that couldn't wait for long procurement cycles.

So let's not break that in addressing any issues that you've got with SOCOM.

Thank the gentleman.

And the gentlelady from Guam, Ms. Bordallo.

BORDALLO:

Thank you very much, Mr. Chairman.

General Hoffman, I think this question might be for you.

Congress has passed legislation over the past few years to expedite the procurement process, especially as it pertains to equipment that we need to get to the Department of Defense and to our fighting men and women.

I have one example, and it has to do with Guam. I represent the territory of Guam.

Right now, in Guam, the Air Force is testing a small unmanned aerial vehicle. It's called the Weather Scout. It was developed by an Australian company, and I have been

fighting for three years to get just \$1.5 million required to run this UAV through the cumbersome testing required by the Department of Defense before it even considers buying it off the shelf.

Well, this year, I was unable to procure the final \$500,000 needed to complete the testing.

Now, consideration for acquisition of the Weather Scout may be pushed back at least another year -- although, during my last trip to Guam, the Weather Scout was unveiled at Anderson Air Force Base.

The Weather Scout UAV can fly into the heart of a hurricane and send real-time data back to weather forecasters. It can fly for 30 hours on just two gallons of fuel. In testing off the Atlantic, it became the first UAV to fly into a hurricane, and the data it collected during Hurricane Ophelia thrilled the Air Force, NOAA and NASA, weather forecasters.

A single unit of this UAV costs less than \$50,000, weighs about 30 pounds, believe it or not. The Air Force can put this technology to use today, and it could have been used to better forecast and prepare for the two devastating hurricanes that hit the Gulf Coast just a few months ago.

It can be used to better prepare U.S. forces in the Pacific that constantly deal with major typhoons. We have, I would say, approximately two to five super-typhoons every three to five years.

The lack of commitment to off-the-shelf technology and the cumbersome process of getting it into the system is clearly on display when you look at the Weather Scout UAV.

Can you tell me what you are doing to better take advantage of off-the-shelf technology? It would be very, very useful to the Department of Defense -- this particular Weather Scout -- for getting aircraft off base and ships out to sea to avoid the rough weather, not to mention systems to the civilian community.

So can you give me an update on what's happening here?

HOFFMAN:

Ma'am, I'm unfamiliar with that particular program. I think I saw one news article that talked about that, but I'm not familiar as a program.

In a broader sense, when we talk about off-the-shelf, we are not adverse to using off-the-shelf solutions. Quite often, though, we have a tendency to push solutions to problems that have not been defined -- or at least the requirement to solve the problem has not been defined.

So, usually, where it gets hung up is in that the answer is, "We don't have a requirement for that so please stop bothering us" is the kind of the response you often get with an off-the-shelf solution, because requirement has not been defined.

But I will research this and I will get back to you if I could answer that one for the record.

BORDALLO:

Thank you. Thank you very much, General.

Thank you, Mr. Chairman.

HUNTER:

The gentleman from Connecticut, Mr. Simmons?

SIMMONS:

Thank you, Mr. Chairman, and I thank our witnesses for their testimony here today.

A quick question to Secretary Krieg: According to Defense News, the CH-53X has been postponed a month so that you can, quote, "take a look at a few more things," unquote.

Do you want to share with us what those things might be?

KRIEG:

No, I'd rather not.

(LAUGHTER)

SIMMONS:

I figured as much. So we can do that perhaps off-line. Thank you very much.

Second, from your testimony, "We must develop a policy that allows even greater agility so we can acquire, mature, transition and field advanced technology in ever shorter cycle times."

And, Secretary Young, "Real change in our ability to develop and acquire major systems in accordance with the reasonable plan performance schedules," et cetera, et cetera, et cetera.

I agree with all of this, obviously, and just so we don't focus on the bad news, I think that the design, development and deployment of the Virginia-class submarine is a classic case of where we did a very good job.

It's my understanding that the first hours were applied in 1998, the first Virginia-class was put out on sea trials in 2004, and the president of Electric Boat says it was basically five years from computer-assisted design to the water -- which is amazing.

And, as far as I know, the performance of that submarine has been extraordinary. And I think it's an amazing technological feat.

That's why I'm concerned -- and I know, Secretary Young, we've had this discussion before -- I'm concerned about ASDS. Authorized originally in 1994 with a three-year deployment cycle -- two facilities, six advanced SEAL delivery systems -- and where are we today? Well, you know, the first boat is still encountering problems.

It doesn't meet the acoustical requirements, which means it places the boat and the mother ship at risk should it be used in a real deployment. There's concern about whether we can shock test it, and I would recommend Dock Shock if you're concerned about that. It's a new system that can be used to test it.

But the delays over the years are truly extraordinary.

The original zinc battery was inadequate. So we've had to develop a lithium-ion battery which apparently is performing well at this point. The shock testing has not taken place. The problems with the propeller and the shaft, the motor has been taken apart, and something that again was supposed to have been delivered in three years is still not there, nine years later.

Secretary Bolton mentioned that he has a system for determining when is enough enough. When have we put enough money into a bad program that we have to stop and look? When do we stop throwing good money after bad?

You know that I represent Electric Boat. You know that I believe that we have the best submarine designers in the world. Clearly, the Virginia-class example is a success.

Why is it that Electric Boat is confronted with laying off designers next year and laying off skilled workers because there's not enough work, and yet the ASDS continues to churn along as a money pit and, some would suggest, a death trap for our SEALs -- because it simply is not meeting its performance standards. When is enough enough?

YOUNG:

The recent issue you've highlighted -- because the vehicle has successfully completed missions, and the SEALs are actually very happy with the vehicle. The motor shaft had a

tolerance issue. It allowed the shaft to move a small amount at higher RPMs, if you will. There was impingement on the outer housing, if you will, of the propeller.

So we fixed it. Bought a new motor, had the same issue, we had to go in and change the tolerances -- and some of these engineered systems you miss and you learn as you go.

Hopefully, all the lessons are out of ASDS. I think you've raised a fair question. It certainly has taken a long time and caused a lot of cost to get here.

But we're going to put the new properly spec'ed motor in the system and put it back in test, expect to have it in the water in December. And, from there, it will be a discussion along the lines of the hearing today.

I've always wondered if the cost benefit of ASDS is there. But I will tell you that SOCOM is adamant about that vehicle and the capability and they're prepared to pay for it.

The Electric Boat proposal is to start again and design a new one. And so I think, in any of these discussions about where those thresholds are to stop, you have to look at how much money has the government put in -- and those are very hard decisions, whether to get across the finish line and whether a few dollars gets you across the finish line or whether you're going to keep having problems.

We have another system that we're going to terminate because we keep having problems, and a few more dollars may not get us across the finish line.

That's not clear right now on ASDS. But when you start again, you've got to come back to this committee and the Congress and ask for more money to start again from a fresh design and tell the operator they won't have a product until the future.

So these are hard decisions, but I can't tell you ASDS is at that point yet.

SIMMONS:

I simply point out for the record that in the 2003 GAO study of the program, on page 14, it said, "A lack of contractor experience in submarine design and construction contributed to the problems."

Now that was two years ago. "A lack of contractor experience in submarine design and construction," and it just doesn't make sense to me that when we have the premiere submarine design and developing company in the world confronted with lack of contracts and laying people off, and the contractor working on this ASDS apparently, according to the GAO, lacks experience in submarine design and construction, I don't understand why we continue along this path.

But I thank you for your response.

HUNTER:

I thank the gentleman.

The gentleman from Rhode Island, Mr. Langevin?

LANGEVIN:

Thank you, Mr. Chairman.

Gentlemen, thank you for your testimony and your patience here today.

I have a couple of questions, first starting with the acquisition process. One concern about the acquisition process we've heard from DOD is that congressional cuts in the annual authorization and appropriations process can ultimately make a project much more expensive in the long run because of the loss of efficiencies and missed deadlines.

However, it would be difficult for Congress to consider taking large systems off budget because of the uncertainty and general inaccuracy of cost estimates provided by DOD for such programs. And, obviously, this creates a vicious cycle in which no one knows what the true costs of the program are until GAO or another entity does a review after the fact.

In addition to the DOD's efforts to ensure great transparency and accuracy in the cost estimation process, DOD considered being more forthcoming about the impact of possible cuts on the long-term cost of major systems.

In particular I know, Mr. Young, in response to a question from Congresswoman Jo Ann Davis, you said that, for example, killing the DD(X) would increase costs for the new carrier development because the DD(X) is the platform for new technology.

And so, you know, these are messages I think that DOD certainly needs to convey so that policymakers know about unintended consequences. And so how quickly can DOD quantify situations like that to inform Congress throughout the process?

YOUNG:

I think we understand the integration of the program and at least the program managers have tried to communicate very clearly on CVN-21 that they are dependent on several specific products out of DD(X).

And where I have those couplings, we're trying to point those out to people because, actually, we think those are positive things for the taxpayers so the taxpayer doesn't have to pay twice to do those things.

If we're not, you know, we'll go back and redouble our efforts.

LANGEVIN:

Anyone else care to comment?

KRIEG:

I think in general we see cuts on specific systems in various bills. We try to be responsive to what we think the implications of those cuts are in terms of schedule costs and the like.

If we're not getting that message across, we'll be glad to expand our efforts on that.

LANGEVIN:

I think that's an important message for the Congress to hear, about what those long-term costs are going to be if we're not properly funding the contracts and we're altering them midway through.

One other thing I want to touch on, too, is the issue of multiyear contracting. We found that with the Virginia-class submarine and other systems that multiyear procurement can contribute to greater stability and reduced costs because those contractors are able to make longer-term contracts.

So Congressman Simmons and I made it a priority, in fact, to get multiyear contracting for Virginia-class. We were successful in doing that with the help of this committee and the appropriators.

Let me ask: Are there certain circumstances under which multiyear procurement are particularly well-suited, and can it be applied to systems that don't currently use it?

KRIEG:

I mean, in general, I think there are two or three key standards that have to be in place. One, you have to be in a mature design and a mature stage of performance so that you can say what it truly is.

Secondly, you have to have a sense that you have true long-term commitment or at least for the term of the multiyear commitment among the executive branch and legislative branch because the challenge of maintaining a program that doesn't have that in a multiyear procurement is obviously a challenge.

And, third, I think it has to be the kind of program that regardless of the changes that -- within reason -- regardless of the changes that take place in the atmosphere around us, we'd want that program, because what you have to do is be committed to what it is, have

it be stable and performing, and have it be a core element in order to make that kind of longer-range commitment to the program.

YOUNG:

I would add that I agree with all those factors. I think there are opportunities, given your focus and my focus on tax dollars, to use those factors and be more aggressive in this area.

I'll throw you one example. Lightweight 155 Howitzers. We bought multiyear (inaudible). We bought a two-year low-rate procurement, which is really unprecedented, but it insulated us from currency fluctuations. It took a system that there was adamant need on the part of the Army and Marine Corps and a willingness to budget for those funds, and we bought that system. We saved significant dollars by doing that.

Virginia was probably on the very edges of people's maturity. And I said in the beginning, I say again, I thank this committee for some of the things you've let us do, because I believe one of the key highlights of my tenure is putting those Virginias on multiyear.

It is going to save the government money. It is going to avoid any more prior-year completions -- Virginia has almost killed me on prior-year completion costs. That program has grown in cost, too.

But with the multiyear, we can work with industry to keep it stable, stop any more cost growth and deliver that program. And we'll do that as early as anybody I think in the building or the Congress was comfortable, but I think it will pay dividends for us.

LANGEVIN:

Is that something you're actively doing is looking for those...

YOUNG:

Yes, sir.

LANGEVIN:

... your contracting opportunities especially where it's not being done right now?

YOUNG:

I like to do it every place I can where again it meets some of the criteria that I think Secretary Krieg rightly pointed out.

You've got to know you're going to buy that system. You cannot walk away from a multiyear contract. You've got to budget for it, you've got to want it, operators have got to want it, and you've got to feel comfortable that the technology is ready to go into that.

I mean, before we went into the multiyear for Tomahawk, I had an independent team assess that factory's readiness to produce the new tactical Tomahawk in multiyear at rate.

So you need to do a little extra homework, but you ought to move to multiyear if you can.

LANGEVIN:

Very good. Well, I see my time has expired, but I want to thank you for your answers and your testimony here today.

Thank you, Mr. Chairman.

HUNTER:

I thank the gentleman, and did the gentleman from Missouri have any additional questions?

The gentleman from New Jersey, Mr. Saxton, any additional questions?

Thank you so much, gentlemen, for being with us for this important discussion.

Let me just offer a couple of things. One thing is, I don't know if you remember it, but we passed a provision several years ago into law that related to the Challenge Program. And the Challenge Program was designed to allow a competitor, in any given system, to come to DOD and say, "I can make that hubcap for the F-22 cheaper and better than the incumbent."

And the DOD had, if it was a wild proposal and one that was obviously without merit, they could easily jettison it. There was no requirement that you had to entertain everything that came to you.

But if it looked like something that might be delivering more substantial military capability or a substantially lower cost or a combination of those two factors, you could use a blue ribbon panel to evaluate it.

And if, in fact, the company or person or entity with a better piece of military equipment could make the case, you could do a number of things. You had a kind of menu you could select from.

One was you could give them the contract. You could terminate the incumbent, just like you terminate an incumbent congressman and put a challenger in his place. Or you

could wait until the procurement cycle expired, and you could come in with a new piece of equipment at a later time.

Whatever worked well, you could do. But I think that ought to be a tool as you see costs grow in these particular systems.

Generally speaking, the guys that have a lot of expertise as to whether or not you're being overcharged or could pay less for a system or a component thereof is the competition, the people in the industry who know what it takes to get capability in a particular area, and if you allow them to challenge, that I think could be an important arrow in your quiver.

Now what happened with DOD is they took the Challenge Program and kind of used it as kind of like a small business set-aside, funded it with a couple of bucks, and I think they thought if they patted Congress on the back, they'd go away with this thing.

You actually had early on when we first passed the Challenge Program, I think you had a company in Arizona that wanted to challenge on the F-22. And, of course, that was quickly dampened by DOD. But perhaps they would have made a good run at it.

But I think you ought to use the Challenge Program to its full capability or as robustly as you can, because I think that's an important tool.

The second thing I would just ask you to do is this: If you design that custom home to be a \$300 per-square-foot home, you can have the best practices in the world, the best people in the world, and you're going to build a \$300 per-square-foot custom home.

If you have the production people at the front end and they tell you how you can build it with all the same capabilities -- or almost the same -- for \$80 a square foot, and then you're going to save money.

And I would just ask you to go back -- see if you couldn't work with the committee -- go back over your major systems with the producers, with the guys that make them, and ask them if they could make them cheaper if they did some changes in terms of the design and perhaps the subsystems that are involved.

I think the question we've got to ask -- you may even have a formula, especially Secretary Young, that you want to put in, maybe Secretary Bolton, and General Hoffman in your particular systems -- what's the cost of explosive on-target?

Now, if you look, for example, an aircraft carrier ultimately delivers explosive on-target. That explosive is manifested in the smart bombs that come off your attack aircraft which are hosted by that carrier.

If you increase the cost of an aircraft carrier from, say, \$6 billion a couple of years ago to \$14 billion, but it doesn't handle any more F-18s than the one that cost \$6 billion,

you've basically doubled the cost of the JDAM on target -- in terms of your capital expenditure. And I think you have counterparts to that in the Army.

I think that's a good type of an analysis that maybe shouldn't be the only analysis but ought to be a question that you ask on all these systems. What are you paying for explosive on-target -- because in the end that's a final manifestation of that power projection is delivering a device into the enemy systems?

So, if you went back and looked at these things not from a requirements standpoint, perhaps, but with the production people, the guys that build them -- whether they build the ships, build planes, build subsystems -- can you make this thing less expensive?

I can just tell you in an area that we're looking at -- it's kind of a sensitive area with respect to IEDs -- we just built a system that does a piece of what a really expensive system does for a fraction of the price. And we built them and we delivered them. And it was interesting, we found commercial guys out there that could do them pretty inexpensively.

I think that that potential is there to save money. And I think perhaps if you go back and you try to mine it again, maybe you won't come up with anything. Or maybe you'll come back and say, you know, by God, the best we can do on DD(X) is \$3.2 billion and that's the way the world is.

But you might come back with a designer who says, "I can give you the same signature reduction for less cost if you let me do this" or maybe "if you take out this whole set of subsystems and put in this new stuff that fairly off the shelf, we can make some shortcuts and get some stuff that's less expensive."

Lord knows the commercial world is full of stuff where one guy's widget that costs \$1 million is supplanted by somebody else's that costs \$100. Right? And that happens not every day, but happens on a fairly constant basis.

How about seeing if we can't go over the big systems and try to see if there's a way that, through strong conferencing with the producers, we couldn't get approximately the same capabilities with a 15 percent reduction in costs.

If we could do that, that would do marvelous things for us. And you know, you mentioned, Secretary Young, you'd need to be able to get these multiyear purchases, right, and you'd need to be able to buy at larger rates, and that gives you better efficiencies.

But to buy bigger packages of systems to make a bigger buy, you've got to save money somewhere because we've got to find that budget.

That means you really have an incentive to go back and scrub that other package that's taking all the money. And that will enable you to be more effective someplace else.

Anyway, if you could work on that, gentlemen, on the idea of trying to come up with a 15 percent reductions on our major platforms and subsystems, and see what happens -- work with the committee on that -- I think we'd do some good things for the country.

So could we give it a shot? The record will reflect that everybody nodded, almost. I think Secretary Krieg slightly nodded.

YOUNG:

Hate to cut you off, sir...

HUNTER:

Secretary Young, yes, sir?

YOUNG:

We have that under way as we speak and are working the schedule. I have asked the acquisition team because I hear what everybody here is saying about DD(X). We have a goal to take no less than \$300 out. Admiral Mullen has agreed to sit in that forum and discuss all the ideas we're going to table and we are going to table some ideas and try to get money out of that, roughly, your goal by chance.

HUNTER:

Will you have the builders with you? Obviously, the systems are extremely expensive. I mean, bending the steel, the metal of the shipyards is part of this, but the builders of the systems is very...

YOUNG:

More than half of the cost of that ship is the combat systems and radars and all. We will have everybody in the room. I've used an executive committee process to manage our big acquisition systems, and I'm adamant the industry has to come in those forums, because they're going to have to implement what we decide -- and they have the ideas in some cases, as you've said.

HUNTER:

OK. Thank you very much.

BOLTON:

We've done that on Stryker. The production engineer, the company was right there when we put that thing together. There was a good example of not only driving the cost

down but getting the capability in the field. Four years from an idea to a combat-deployed brigade. A vehicle alone normally takes 10 or 15 years.

And then on the FCS I mentioned earlier, from day one, the contractor has been there, and that's how we're making the trades...

(CROSSTALK)

HUNTER:

Now, Secretary Bolton, I understand the contractor has been there. That's now what I'm saying.

The contractor that is there when you're building the house will be happy to build you a \$300 per-square-foot house because he gets 10 percent of the profit. He'd rather get 10 percent of \$300 a square foot than \$80.

I'm talking about production engineers that are working for you who tell you if you take out these 10 corners, I'm going to be able to knock your cost down 5 percent.

That may not be in the interests of the contractor because it's going to mean he gets less money. And that's why these incentive contracts are really an art, not a science, right -- making sure you give the right incentive? But I'm talking about having smart production engineers on your side.

Now, again, in the case of Secretary Young, you may need to get the brightest guys you got there at NAVSEA -- the people that actually bend the metal, build the systems. And in some cases here, I think you're going to have to use the competition.

You ask the competition, OK, we've got this fire support system, could you guys make it cheaper? So how much? All right.

Intuitively, I think we've come to the conclusion that there has to be some room for savings here. In the least, you go through a good exercise, but at best, you'll save some money.

BOLTON:

Yes, sir.

HUNTER:

But the contractor is not necessarily going to have the best answer for you. He's going to have in some cases a desire to take care of his shareholders.

I remember as a young lawyer when I was representing a cattleman in a lawsuit against another cattleman, and I wasn't making much money and we were going in to get the deposition set up, and the two cattlemen got together and settled the lawsuit. And the two lawyers came out and we said, "We're ready for the deposition."

And they said, "We don't need you anymore, we've settled this suit."

And my first thing I said was, "You can't do that.."

(LAUGHTER)

... because I had already paid off my month's Master charges in my mind with this lawsuit. I was going to try this case, doggone it.

My point is that the contractors have a dedication or they have a duty to their shareholders to make money. They're going to be the last guys in show business to tell you that you can make this house cheaper than \$300 a square foot.

And I do agree, because of that, with the part of your opening statement where you said, "I've got to have smart, well-trained people in the right spots."

I think the producers, the guys that bend the metal and in cases of the subsystems, the guys that design and create these subsystems -- and we've incredible talent in this country, they spend (inaudible) was getting from A to B with a straighter line than the other guy, and that's why they win.

We've got to use more them and tell them one thing. We need you to design it so we get the costs down.

So that the designer and the producers have a dominant seat the table -- the guy that gets the house down to \$80 a square foot while meeting all of the capability requirements.

He's the guy of great value, and the message which I've been getting over the last couple of years is those people have not had the dominant seat at the table.

So strong letter to follow. Thank you, gentlemen, for being with us, and let's work on this together.

The hearing is adjourned.

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