THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

JUN 13 2014

The Honorable John McCain
Ranking Minority Member
Permanent Subcommittee on Investigations
Committee on Homeland Security
and Government Affairs
United States Senate
Washington, DC 20510

Dear Senator McCain:

Thank you for your April 16, 2014, letter regarding improvements in defense acquisition. I look forward to seeing the ideas put forth in response to your request. Enclosed for your use, and hopefully for inclusion in your assembled compendium, is an article I recently wrote for our defense acquisition workforce on the status of the Better Buying Power (BBP) acquisition improvement initiatives that I am implementing within the Department of Defense. The current version of BBP contains over 30 specific initiatives spread over several major focus areas. Under our "continuous improvement" approach to improving acquisition system performance, the Department is also considering the next steps to improve efficiency and productivity. Your compendium will be helpful to that process.

I agree with your view that acquisition improvement, as opposed to acquisition reform, should be our goal. We have seen enough attempts at acquisition reform to know that there is no easy or simple way to dramatically improve acquisition outcomes. The Weapon System Acquisition Reform Act took major steps in the right direction. However, now we are at a point where our focus should be on the professionalism and incentives of people in government and industry who make thousands of individual acquisition decisions each day, rather than on "rule sets" or organizational responsibilities. When, as mentioned in your letter, "inefficient, outdated, and (at times) imprudent practices" occur, they are manifested in those thousands of individual daily decisions.

As the Defense Acquisition Executive, I offer the following actions that Congress could take to help the Department, and over 150,000 acquisition workforce professionals, be more effective and productive as we acquire products and services for our Warfighters:

1. <u>End the threat of sequestration</u>. Nothing is causing more inefficiency in the Department than the continuing uncertainty about future budgets. The threat of sequestration makes sound planning impossible and causes inefficient execution as our managers try to cope with unpredictable program profiles for both development and production.

2. Continue to fund the Defense Acquisition Workforce Development Fund (DAWDF). The Department has made excellent use of this fund to bring new acquisition professionals onto the team. Increasingly we are using DAWDF funds to provide much needed training and practical experience to all our acquisition career fields, including program management, engineering, and contracting. DAWDF is a valuable resource that is providing a high return on investment.

3. Work with the Department to simplify the rules we already have. We do not need more rules, in fact I believe we have too many already. I have a team working with congressional staff on a legislative proposal that is intended to provide a simpler and more easily understood and implementable set of requirements for our program managers – without sacrificing the good intent behind the original legislation. Our managers are faced with a vast and confusing array of overlapping statutory requirements that is in need of simplification. I look forward to working with Congress and for your continued support for this activity.

4. Avoid highly restrictive rules which particularly limit our ability to make the best decisions about risk management actions or business arrangements. The Department acquires a huge range of products and services with widely varying risk profiles, degrees of urgency, and business situations. We need the flexibility to tailor how we do business to the situation. No best practice is universally applicable. I have seen far too many program plans in the last 4 years where our managers have tried to force fit a program into what they thought was the approved "school solution" way of doing business. There is no one type of contract, or one set of decision points, or one set of risk mitigation techniques that applies to all programs.

5. Reduce the counter-productive incentive to obligate funds on a fixed schedule. For 4 years I have worked to train and encourage our acquisition workforce to take time to get good business deals for the Taxpayer by conducting appropriate upfront analysis, and by doing the systems engineering and planning necessary for successful programs. At the same time our program managers live in a world in which they are punished for not obligating the funds they control on set schedules. We should have realistic plans to execute our budgets, but when a manager has sound reasons to delay obligation, that behavior should not be punished. I have worked successfully with the Under Secretary of Defense (Comptroller) to provide a more balanced approach to how we handle obligation reviews within the Department, and we would like to work closely with Congress in striking a similar balance on this matter.

6. Allow, or even require, Services and Agencies to hold a management reserve to be applied when problems arise in development programs. Development of new products inherently involves risk. Even with the best of risk reduction or mitigation actions as a prerequisite, developing any cutting edge technology-based new product embodies cost and schedule risk. It is also not efficient to plan and budget for a very low risk development program profile; a modest degree of challenge to our managers and contractors coupled with well-structured incentives results in more efficient overall execution. Under our current practices, we are forced to take funding from one program

to address any shortfalls that emerge in another program. Large businesses do not operate this way; they plan for risk and hold reserves available to manage aggregate risks. While Congress would need to provide the Department this authority, I believe there is great value in exploring how a transparent and flexible account could address the inevitable problems that some development programs will encounter. It likely would be of great utility to the Department and would improve Warfighter and Taxpayer outcome.

7. Help the Department improve professionalism of our government acquisition workforce. At day's end, workforce strengthening, rather than any new set of best practices or set rules, is the most effective way to improve defense acquisition. Defense acquisition is a human endeavor that requires a high degree of professionalism in multiple disciplines for success. I have asked all Department acquisition leaders to make leaving behind a stronger, more professional workforce (military and civilian) their most important personal legacy. Our current budget environment instability, years of pay freezes, furloughs, revolving door limitations, threats of workforce reductions, a relatively inflexible civil service system, "up-or-out" career management, and the effects of over a decade of conflict all work against this goal. I would like to work with Congress to find creative ways to recruit, retain, and incentivize our professional government workforce. These are the people we depend on to structure and implement successful programs. While I also have concerns for the health of the industrial base, we have the tools we need to motivate industry using contract financial incentives. Together I believe we should explore ways in which we can do more to strengthen our government workforce. Today we have a large number of high quality acquisition professionals doing their best to support the Warfighter and protect the Taxpayer, but I believe we can do more to build on what we already have.

I close with a final comment about the complexity of defense acquisition system and what it really takes to succeed. Over the last few years I have published a quarterly article on some aspect of acquisition in the Department's Acquisition, Technology, and Logistics magazine. To give you a sense of both scope and scale of what we do, I am enclosing a list of those articles with links to them. I do not anticipate running out of topics to write about over the next few years. Over my 40-year plus career in this field I have heard, and in some cases been subject to, a lot of ideas on how to "reform" acquisition. We should not forget that we have the best equipped military in the world and we have prevailed in multiple modern conflicts with unprecedented battlefield dominance. If acquisition of military equipment were professional football we would have a dominant team, even if there is an occasional fumble or interception. A highly successful professional football team puts it all together: spotting talent; recruiting; training and conditioning; designing offenses, defenses, and special teams around the talent on the team; effective practice; careful study of individual opponents strengths and weaknesses; sound game plans and play calling; openness to innovative ideas; the ability to create surprise; a thorough 'odds of success' understanding for each option; and constant attention to thousands of details. So it is with defense acquisition. At the end of the day, it is about motivation, skills, training, experience, and leadership of the fielded team. I ask for your support of the ideas expressed above and in the enclosed. I look forward to working together to build on the professional defense acquisition team that has already contributed so much to the United States of America by enabling the most capable military in history.

An identical letter has been sent to Senator Levin.

Sincerely,

Frank Kendall

Enclosures:
As stated