F-35 JOINT STRIKE FIGHTER

Development of New Capabilities Requires Continued Oversight

Statement of Michael J. Sullivan, Director Acquisition and Sourcing Management
Chairman McCain, Ranking Member Reed, and Members of the Committee:

Thank you for the opportunity to discuss our recently completed work on the F-35 Joint Strike Fighter (F-35), also known as the Lightning II. With estimated acquisition costs approaching $400 billion, the F-35 is the Department of Defense’s (DOD) most costly acquisition program. Through this program, DOD is developing and fielding a family of strike fighter aircraft, integrating low observable (stealth) technologies with advanced sensors and computer networking capabilities for the United States Air Force, Navy, and Marine Corps, as well as eight international partners. The F-35 family is comprised of the F-35A conventional takeoff and landing variant, the F-35B short takeoff and vertical landing variant, and the F-35C carrier-suitable variant. Over time, the program has made a number of changes affecting the planned quantities and associated costs. According to current projections, the U.S. portion of the program will require acquisition funding of $12 billion a year, on average, from now through 2038 to complete development and procurement of 2,457 aircraft. DOD also estimates that the F-35 fleet will cost over $1 trillion to operate and support over its lifetime, which poses significant long-term affordability challenges for the department.

As we have previously reported, the F-35 program has had significant cost, schedule, and performance problems over its life that can largely be traced to (1) decisions made at key junctures without adequate product knowledge; and (2) a highly concurrent acquisition strategy with significant overlap among development activities, flight testing, and production. This written statement summarizes key aspects of our most recent report, issued on April 14, 2016. Our work was conducted in

---

1 The international partners are the United Kingdom, Italy, the Netherlands, Turkey, Canada, Australia, Denmark, and Norway. These nations contributed funds for system development and all but Canada and Denmark have signed agreements to procure aircraft. In addition, Israel, Japan, and South Korea have signed on as foreign military sales customers.


response to a provision of the National Defense Authorization Act for Fiscal Year 2015, for GAO to review the F-35 acquisition program annually until the program reaches full-rate production. For this review we assessed program (1) affordability, remaining development, and ongoing manufacturing, and (2) future modernization.

For our April 2016 report, we analyzed total program funding requirements. We analyzed program documentation including management reports, test data and results, and internal DOD program analyses. We also collected and analyzed production and supply chain performance data, and interviewed DOD, program, and contractor officials. We reviewed budget documents to identify costs associated with the modernization effort and collected and analyzed information regarding capability and oversight plans. We also compared and contrasted DOD’s F-35 acquisition and modernization plans with best practices identified by GAO and as well as relevant DOD policies and statutes. Further details on our scope and methodology can be found in the full report. The work upon which this statement is based was conducted in accordance with generally accepted government auditing standards.

In brief, although the estimated F-35 Joint Strike Fighter (F-35) program acquisition costs have decreased since 2014, the program continues to face significant affordability challenges. DOD plans to begin increasing production and expects to spend more than $14 billion annually for nearly a decade on procurement of F-35 aircraft. Currently, the program has around 20 percent of development testing remaining, including complex mission systems software testing, which will be challenging. At the same time, the contractors that build the F-35 airframes and engines continue to report improved manufacturing efficiency and supply chain performance.

DOD plans to manage F-35 modernization as part of the existing program baseline, which has oversight implications. DOD has begun planning and funding significant new development work to add to the F-35’s capabilities, known as Block 4. The funding needed for this effort is projected to be nearly $3 billion over the next 6 years (see figure below), which would qualify it as a major defense acquisition program in its own right.
DOD does not currently plan to manage Block 4 as a separate program with its own acquisition program baseline but rather as part of the existing baseline. As a result, Block 4 will not be subject to key statutory and regulatory oversight requirements, such as providing Congress with regular, formal reports on program cost and schedule performance. A similar approach was initially followed on the F-22 Raptor modernization program, making it difficult to separate the performance and cost of the modernization from the baseline program. Best practices recommend an incremental approach in which new development efforts are structured and managed as separate acquisition programs with their own requirements and acquisition program baselines. The F-22 program eventually adopted this approach. If the Block 4 effort is not established as a separate acquisition program, transparency will be limited. Therefore, it will be difficult for Congress to hold it accountable for achieving its cost, schedule, and performance requirements.

Given that congressional oversight challenges are presented by DOD’s plan to manage Block 4 under the current acquisition program baseline, in our April 2016 report, we recommended that the Secretary of Defense hold a Milestone B review and manage F-35 Block 4 as a separate and distinct major defense acquisition program with its own acquisition program baseline and regular cost, schedule, and performance reports to Congress. DOD did not concur with our recommendation citing that it views Block 4 as a continuation of the existing F-35 acquisition program and it is exploring ways to provide further transparency by establishing separate budget lines, instituting contract cost reporting, and developing an independent cost estimate. We continue to believe that our recommendation is valid. Therefore, in our April 2016 report, we made a matter for congressional consideration suggesting that Congress direct
DOD to manage F-35 follow-on modernization, Block 4, as a separate and distinct acquisition program.

Chairman McCain, Ranking Member Reed, and members of the Committee, this completes my prepared statement. I would be pleased to respond to any questions you may have. We look forward to continuing to work with the Congress as we continue to monitor and report on the progress of the F-35 program.

For further information on this statement, please contact Michael Sullivan at (202) 512-4841 or sullivam@gao.gov. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this statement are Travis Masters, Peter Anderson, Jillena Roberts, and Megan Setser.
GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (http://www.gao.gov). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to http://www.gao.gov and select “E-mail Updates.”

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, http://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on Facebook, Flickr, Twitter, and YouTube. Subscribe to our RSS Feeds or E-mail Updates. Listen to our Podcasts and read The Watchblog. Visit GAO on the web at www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:
Website: http://www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, DC 20548

Please Print on Recycled Paper.