ACQUISITION REFORM

Implementing Defense Management Review Initiatives
As requested, we reviewed the Department of Defense's (DOD) efforts to establish a new management structure and make other changes in its system for acquiring major weapon systems. The President's Blue Ribbon Commission on Defense Management, commonly known as the Packard Commission, recommended in 1986 that DOD establish clear accountability over the acquisition of these weapon systems and provide unambiguous lines of authority for the individuals responsible for managing the programs. The intent of the Commission's recommendations was to nourish a new acquisition culture within DOD so that decisions on purchasing major weapon systems were based on realistic program information.

Our objectives were to examine DOD's progress in implementing the Packard Commission's recommendations and to determine whether the intended cultural changes have occurred. We also reviewed several related DOD initiatives addressing the relationship between the federal government and the defense industry.

**Results in Brief**

DOD has made several of the changes to its acquisition system that were recommended by the Packard Commission. DOD, for example, has streamlined the acquisition management structure, established the position of Under Secretary of Defense for Acquisition, and limited formal reporting requirements.

It is not clear, however, whether these initiatives alone will bring about the cultural transformation intended by the Packard Commission. The success of these changes will also depend on strong central leadership.
from the Secretary of Defense, strengthened internal controls in the
acquisition decision-making process, and the free flow of information
both up and down the organization.

Background

The Packard Commission concluded that DOD's acquisition system had
become an increasingly bureaucratic and overregulated process in which
acquisition policy-making and program management responsibility were
fragmented and diluted. The Commission painted, in its words, a "stark"
picture of a highly competitive acquisition system in which program
managers, buffeted by numerous internal and external pressures,
become "supplicants" for, rather than managers of, major new defense
systems. These competitive pressures resulted in a "huckster psy-
chology" that leads program managers to optimistically interpret infor-
mati...
Our review of DOD's progress in implementing five of the six features of the acquisition system recommended by the Packard Commission showed the following:

- DOD has taken significant steps to establish clear channels of command by reducing the number of management levels in the acquisition system to three and creating the position of Under Secretary of Defense for Acquisition with broad authority for policy-making and supervision of the acquisition system.
- The streamlined and more centralized structure established by DOD has, among other things, reduced some formal reporting requirements.
- DOD has begun a process of planning its future spending with more realistic funding assumptions in order to better stabilize its major weapon systems programs. However, several impediments to stability still exist.
- DOD has not yet fully implemented plans for large-scale reductions in the acquisition work force. DOD is beginning to implement the provisions of the Defense Acquisition Workforce Improvement Act, which is intended to improve the quality of the acquisition work force.
- The change in threat to national security resulting from the collapse of the Soviet Union's alliance system reduces the justification for concurrent development and production of major weapon systems and supports the Packard Commission's acquisition strategy that favors the increased use of prototypes.

We did not review the other feature of the Packard Commission's model acquisition system—communications with users.

To establish clear command channels, the Commission recommended the establishment of an Under Secretary of Defense for Acquisition position to establish acquisition policy and supervise the performance of DOD's acquisition system. The Commission also recommended that each service establish a three-tier acquisition management structure for major defense programs. According to the Commission, the three-tier structure should consist of a full-time, civilian service acquisition executive, responsible for all service acquisition matters; program executive officers, responsible for a defined number of acquisition programs; and program managers, responsible directly to their program executive officer for all matters relating to the management of a defense program. This restructuring would remove the services' so-called buying commands from major acquisition management.
In our 1989 report on DOD's progress in implementing the Commission's recommendations, we noted that the first attempt to define the authority of the Under Secretary of Defense for Acquisition was not very promising, and as a result, acquisition policy-making remained fragmented. We also noted at that time that DOD's efforts to establish the three-tier structure were not fully implemented because the Air Force and Navy had merely assigned new titles to existing positions in the old chain of command with little change in responsibility or authority relationships.

The Secretary of Defense's report on the DMR also recognized these shortcomings and directed, in part, that (1) each service establish a service acquisition executive at the Assistant Secretary level with full-time responsibility for all service acquisition functions; (2) the services establish program executive officers with full-time responsibility for managing assigned programs and responsible to the service acquisition executive; (3) program managers, who are vested with broad responsibility commensurate with their authority over acquisition programs, report all program cost, schedule, and performance information only to their respective program executive officer or service acquisition executive; and (4) the services' major buying commands be limited to supporting the three-tier structure for defined acquisitions and managing programs not covered by this structure. The DMR report also clarified the authority of the Under Secretary of Defense for Acquisition, stating, for example, that the Under Secretary's authority "will extend to directing the Secretaries of the Military Departments on the manner in which acquisition responsibilities are executed by their Departments."

In the 2 years since the DMR report, much progress has been made in establishing a streamlined acquisition management structure with more clearly focused accountability. In June 1990, we reported that the Under Secretary of Defense for Acquisition had been provided the authority and support needed to supervise DOD's acquisition system as envisioned by the Packard Commission. The Under Secretary's charter was substantially revised to expand and clarify the authority and responsibilities of the position. However, we noted that the manner and extent to
which the Under Secretary uses that authority will depend on the personality, skills, abilities, and management style of the individual occupying the position.

### Reporting Requirements Have Been Reduced

As we reported in 1990, program managers for major defense systems are no longer required to brief the material and systems commands, since these commands do not have control of the three-tier acquisition system. We also noted that some briefings to these commands may be desired to ensure adequate coordination and communication. The Under Secretary of Defense for Acquisition and service acquisition executives have issued policy guidance to decrease the number of formal briefings required at the Office of the Secretary of Defense and at the service headquarters levels.

While minimizing the formal reporting burden on acquisition program management is a laudable goal, DOD's enthusiasm for it should not come at the expense of having a strong internal reporting system. The free flow of information in an organization is vitally important to the oversight function and for decision-making. Past audits, however, and most recently the Navy’s investigation of the A-12 aircraft program, show that reliable information does not always flow freely in DOD. A principal source of management information about the status and development of a major defense system program is the Defense Acquisition Executive Summary, prepared quarterly by the program manager. In 1989, we observed that DOD's Selected Acquisition Reports to the Congress could be improved by incorporating the program and cost information formats of the Defense Acquisition Executive Summary. The Selected Acquisition Reports are the primary means by which DOD informs the Congress of the status of major weapon system acquisitions.

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5The A-12 was being developed to provide a stealthy replacement for the Navy’s aging fleet of A-6 medium attack aircraft, which are no longer in production. On January 7, 1991, the government terminated the A-12 contract for default.


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Between 1970 and the Packard Commission's report in 1986, four major studies of defense acquisition were made, and all of them decried the lack of funding and design stability in acquisition programs. Stability is enhanced when affordability issues are resolutely addressed.

We have reported and testified in the past on the impacts of unrealistic funding assumptions in DoD's 5-year spending plans. Large gaps between spending plans and actual funding have been a major contributor to program instability. DoD's most recent spending plan—for fiscal years 1992 to 1997—is based on more realistic funding assumptions than its predecessors. The spending levels in the plan also are consistent with the spending levels contained in the September 1990 budget agreement. However, the plan assumes about $172 billion in savings from future legislative action, management initiatives, and program terminations. We have already identified some savings anticipated in the plan that will not be achieved because of program changes and revised estimates. To the extent that savings are not achieved, DoD's attempts to stay within the budget may result in program instability.

Adding to the potential for program instability is unplanned cost growth for the programs currently in development. Our work indicates that the cost for some programs may be greater than planned. Such increases in cost, together with any new or expanded programs based on lessons learned from Operations Desert Shield/Desert Storm, may result in program terminations, delays, or stretch-outs.

The Packard Commission noted that program stability could also be enhanced by expanding the use of multiyear procurement for high-priority systems. In our assessment of multiyear contract candidates for fiscal year 1991, we noted that "multiyear procurement can benefit the government by saving money and improving contractor productivity." However, we cautioned,

A particular disadvantage of multiyear contracts is that they decrease annual budget flexibility because the Congress and DoD commit themselves to fund such contracts through completion or pay any contract cancellation charges, which may be substantial. If DoD's procurement budget is reduced significantly and multiyear contracts are maintained, programs not under multiyear contracts would have to be cut disproportionately.7

The Packard Commission observed that the defense acquisition workforce was "undertrained, underpaid and inexperienced." The DMR report required each military service to submit plans for a dedicated corps of officers who will make a full-time career as acquisition specialists. The development of highly qualified program managers with appropriate experience, training, and education is the key to creating a more streamlined acquisition system which, as the DMR report stated, is "intended to capture all cost, schedule and performance features of all major programs."

In 1986 we called attention to the fact that while some program managers possessed substantial experience and training, many did not. We recommended changes in service programs to ensure a highly qualified corps of program managers. Many of the concerns we expressed in that report have been addressed in the recently enacted Defense Acquisition Workforce Improvement Act. We are required by this act to report to the Senate and House Committees on Armed Services on how well DOD has carried out its provisions.

We have also been asked by the Chairman of the Subcommittee on Investigations, House Armed Services Committee, to review the status of reductions in the acquisition workforce mandated by section 905 of the fiscal year 1991 National Defense Authorization Act. DOD is required to reduce this workforce by 4 percent in fiscal year 1991 and by 20 percent by fiscal year 1995. As we noted in our 1990 report on DMR-related savings initiatives, the 580,000-person acquisition workforce would be reduced by about 107,000 over the 5-year period.

Over the years we have issued numerous reports with a similar message: DOD needs to more fully test the weapon systems it is developing and correct identified problems to assure itself that these systems perform as required before they are procured. The desire to field new weapons as quickly as possible has resulted in weapons being committed to production before testing fully demonstrated that they can meet operational requirements. The threat to national security posed by the Soviet

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10A list of these reports can be found in Weapons Testing: DOD Needs to Plan and Conduct More Timely Operational Tests and Evaluation (GAO/NSIAD-90-107, May 17, 1990).
Union was often cited as justification for concurrent development and production. Because this threat has substantially receded in the last 2 years, the need for concurrent acquisition programs should be reduced.

The recently concluded competition between two prototypes of the Air Force's Advanced Tactical Fighter is the kind of acquisition strategy the Packard Commission envisioned. We recognize that "flyoffs" with prototypes require more funding early in an acquisition program, but such early investment would likely be more than recovered in reduced total program costs.

Communications With Users

We have not reported on the other feature of the Packard Commission's model acquisition program—communications with users. In the context of defense acquisition, this feature concerns the collaboration of the Joint Requirements Oversight Council and the Defense Acquisition Board to ensure, in the words of the DMR report, "that complex systems reflect a sensible calculus of cost, schedule and performance." We are currently examining how and to what extent DOD is reevaluating weapons currently in research and development to validate their requirements against recent changes in the threat.

Cultural Changes May Be Elusive in the Absence of Strong Leadership and Internal Controls

Although DOD has made several important changes to its acquisition management structure and acquisition system, the culture of optimism identified by the Packard Commission may be more difficult to change than anticipated. In this respect, the Navy's experience with the A-12 aircraft serves as a cautionary tale. It may not be reasonable to expect that program advocacy and program management can be neatly separated as the Commission had hoped or that the acquisition culture will be tempered by more realistic program information. Success in changing the culture of optimism will likely require, in addition to the Packard Commission's recommendations, strong central leadership from the Secretary of Defense and strengthened internal controls to ensure that senior DOD executives are basing their acquisition decisions on reliable information.

Strong Central Leadership

In our 1990 report on the key elements for effective acquisition management, we said that the Office of the Secretary of Defense needs to take a strong leadership position to break down the cultural barriers that have frustrated past efforts at reform and to encourage the services to work with the Office in a team effort to implement reforms in the acquisition
The hallmark of such leadership is a willingness to forthrightly face the problems of affordability, which will require making plans that realistically reflect available resources. We believe that even a highly trained and experienced work force will flounder if this kind of leadership is missing.

**Strengthened Internal Controls**

To exercise effective leadership, senior DOD executives must have confidence that their key acquisition decisions are based on the best possible cost, schedule, and performance information available. For example, the Secretary of Defense noted with respect to his decision to terminate the A-12 program that "nobody could tell us what the A-12 was going to cost or when it was going to be delivered."

Effective internal controls should help to ensure that top DOD management is receiving reliable cost estimates and technical risk assessments at critical decision points. Internal controls in general are intended to provide reasonable assurance that program goals and objectives are met; resources are adequately safeguarded and efficiently used; reliable data is obtained and disclosed in reports; and laws and regulations are complied with. Strong internal controls can alert managers to problems in time to correct them at an early stage in the acquisition program.

One DOD internal control that should be able to reasonably ensure that decisions are based on realistic information is the Cost Analysis Improvement Group, whose purpose in part is to review and evaluate defense system cost estimates for the Defense Acquisition Board. The Board makes recommendations to the Secretary of Defense on acquisition policy and on the development and procurement of major defense systems. The effectiveness of the Cost Analysis Improvement Group is currently being evaluated by DOD's Office of the Inspector General.

**Other DOD Initiatives**

As you requested, we reviewed several DOD and DMR-related initiatives that are not specifically related to the model acquisition system recommended by the Packard Commission. Taken together, many of these initiatives seek to improve what the Commission's report termed the "troubled" relationship between the defense industry and government.

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Integrated Financing Plan

The DMR report noted that studies conducted since the Packard Commission report had documented an "alarming erosion" of the U.S. defense industrial base that, if allowed to continue, could jeopardize U.S. security. Responding to this concern, the fiscal year 1989 National Defense Authorization Act requires DOD to develop and maintain an integrated financing plan that considers, among other things, the cumulative impact on the defense industrial base of policy changes before they are made. The act requires DOD to review the plan each year and to report the results of its review to the Congress.

DOD submitted a plan in 1989; however, it lacked the necessary data to prepare a truly integrated financing plan. Notwithstanding this lack of data, DOD has made policy changes that should have a positive impact on contractors' profitability and cash flow. Nevertheless, the need for such changes and their long-term impact have not been demonstrated or assessed.

Contractor Risk Assessment Guide

While the Packard Commission was largely silent on DOD's internal controls, it noted the importance of contractor internal controls to ensure compliance with corporate standards of conduct and with the requirements of defense contracting. A DMR-related initiative—the Contractor Risk Assessment Guide—encourages DOD contractors to develop more effective internal control systems and thereby reduce the burden on the government to provide external oversight. As of May 31, 1991, there were 93 participants (including several different divisions of single corporations) in this program, according to DOD. DOD claims that this initiative has resulted in direct government audit time being reduced 20,000 hours in 1989 and 40,000 hours in 1990.

Last year we testified that the Contractor Risk Assessment Guide is a better approach to restoring trust and confidence in defense acquisition than proposals that would arbitrarily relax laws, regulations, and audit coverage without a requirement to demonstrate effective internal controls by contractors. The government's trust and confidence in contractors must be earned and not assumed. That the basis of such confidence is not yet firmly established was underscored by several reports we issued recently on subcontractor overpricing. These reports showed that (1) subcontractor overpricing is frequent and pervasive, (2) subcontract
cost-estimating problems are chronic and widespread, and (3) so-called “competitive” subcontract prices are often overstated.12

Defense Enterprise Programs

On February 23, 1991, DOD issued instructions on the purpose, policies, and procedures related to “defense enterprise programs.” The purpose of these programs is to streamline the management of defense acquisition programs by reducing the layers through which a program manager reports—that is, keeping within the three-tier structure—and the number of acquisition regulations with which the program manager must comply. DOD officials told us, however, that there is something of a “Catch-22” about this program. According to DOD guidance, defense enterprise programs are exempt from all acquisition-related regulations, policies, directives, or rules except those that are “specified in law.” According to DOD officials, DOD has found that nearly all of its regulations, policies, and directives are connected to some law. Consequently, a program manager’s regulatory burden may not be significantly eased under this program.

The fiscal year 1991 National Defense Authorization Act authorizes the Secretary of Defense to propose not more than six major acquisition programs as defense enterprise “pilot programs,” provided such programs are specifically authorized for participation in an authorization act. The act also gives the Secretary, subject to congressional authorization, authority to waive or limit the applicability of specified statutory requirements, including those governing cost, performance, evaluation, and reporting. To date the Secretary has not designated any provisions of law proposed to be waived.

Use of Commercial Products

For nearly 20 years various commissions have recommended that DOD buy more commercial products. This was the recommendation of the Commission on Government Procurement in 1972, and 14 years later the Packard Commission made a similar recommendation. In our 1989 review of DOD’s progress in this area, we recommended that DOD take action to ensure that acquisition personnel are trained to buy commercial products to the “maximum practical extent.”13 A course on buying


commercial products is part of the curriculum for training DOD's acquisition personnel. In addition, DOD recently issued new regulations on buying commercial products.

Consolidation Initiatives

DOD hopes to realize savings from various DMR initiatives that consolidate such activities as the management of the supply distribution system, finance and accounting systems, and commissaries. We support these initiatives and the Packard Commission's underlying management philosophy that emphasizes centralized policies, procedures, and standards and decentralized execution and implementation. In this context, DOD is also proposing to establish a Defense Business Operations Fund to initially consolidate its industrial and stock fund operations into a single entity. DOD's long-range goal is to include all support activities, such as research and development and military construction, in the Fund. The Fund would provide services to DOD customers and be reimbursed from the customers' operations and maintenance funds. While we believe the underlying concepts of the Fund to be valid, we have expressed reservations over whether DOD has adequately laid the groundwork necessary to ensure that the Fund's implementation would yield the benefits intended. Accordingly, we are encouraging DOD to develop and clearly spell out the policies, procedures, and controls it would put in place to govern the Fund's operations.

Scope and Methodology

We reviewed the Packard Commission's report, the Secretary of Defense's report on the DMR, and DOD's March 1991 DMR implementation status report. In addition, we reviewed some of our previously issued reports on DOD's acquisition system. To gain a better understanding of how the services are implementing DMR-related initiatives, we attended a DOD briefing for congressional staff in April 1991. We also interviewed senior officials in the Office of the Secretary of Defense and program executive officers in the services.

We performed our review between April and July 1991 in accordance with generally accepted government auditing standards.

We did not obtain formal written comments from DOD on this report. However, DOD officials reviewed a draft of this report, and their comments were incorporated in our final report where appropriate.
We are providing copies of this report to appropriate House and Senate Committees; the Secretary of Defense; and the Director, Office of Management and Budget. We will also provide copies to other interested parties upon request.

Please contact me on (202) 275-4587 if you or your staff have any questions concerning the report. Major contributors to this report were Michael E. Motley, Associate Director; James F. Wiggins, Assistant Director; Thomas E. Mills, Evaluator-in-Charge; and Anne Petitti, Evaluator.

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