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DEFENSE MANAGEMENT

Report to the President

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by
Secretary of Defense
Dick Cheney

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July 1989

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DEFENSE MANAGEMENT

Report to the President

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July 1989

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Table of Contents

Section	Page
LETTER OF TRANSMITTAL	i
I. INTRODUCTION	1
II. MANAGEMENT FRAMEWORK	2
The Deputy Secretary of Defense	3
The Under Secretary of Defense for Acquisition	3
The Secretaries of the Military Departments	4
The Under Secretary of Defense for Policy	4
The Chairman of the Joint Chiefs of Staff	4
DoD Executive Committee	5
Defense Planning and Resources Board	5
Planning Process	5
Defense Acquisition Board	6
Joint Requirements Oversight Council	7
Coordinating Committees	7
III. DEFENSE ACQUISITION	7
Clear Command Channels	8
Service Acquisition Executives	
Program Executive Officers	
Program Managers	
Systems and Materiel Commands	
Stability in Programs	10
Limited Reporting Requirements	11
Smaller, Higher Quality Staffs	12
Toward a More Capable Workforce	
Toward a More Efficient Workforce	
Communications with Users	17
Better System Development	18
Research and Development	
Procurement Policy	
IV. GOVERNMENT-INDUSTRY RELATIONSHIP	21
Greater Accountability in Government	21
Greater Accountability in Industry	22
Better Performance by Industry	23
V. CONGRESSIONAL ACTIONS	25
Changes in Legislation	25
Broader Congressional Reforms	26
VI. CONCLUSION	27
APPENDIX A (ACQUISITION WORKFORCE)	A-1
APPENDIX B (SPECIFIC LEGISLATIVE INITIATIVES)	B-1

THE SECRETARY OF DEFENSE

WASHINGTON, THE DISTRICT OF COLUMBIA

June 12, 1989

The President
The White House
Washington, D.C. 20500

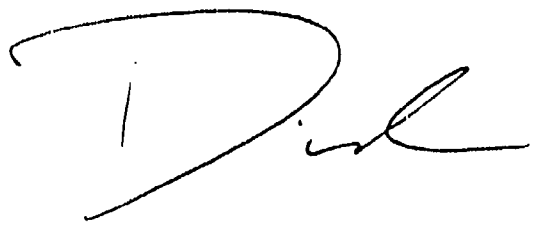
Dear Mr. President:

I am pleased to submit the Report of the Defense Management Review conducted pursuant to your direction in National Security Review 11. This Report is the product of extensive study and sets forth the plan you requested to:

- implement fully the Packard Commission's recommendations;
- improve substantially the performance of the defense acquisition system; and
- manage more effectively the Department of Defense and our defense resources.

With your approval, the Department is prepared to embark immediately on the implementing actions identified in the Report. Some of these actions will require the assistance of other executive branch agencies. The most important will require the cooperation of the Congress. All will demand the Department's sustained attention and diligent effort in the years ahead.

Sincerely,



DEFENSE MANAGEMENT

I. INTRODUCTION

In his February 1989 address to the Joint Session of Congress, the President announced that he was directing the Secretary of Defense to develop "a plan to improve the defense procurement process and management of the Pentagon." Terms of reference provided by the President called upon the Department of Defense (DoD) to:

> ***develop a plan to accomplish full implementation of the recommendations of the Packard Commission and to realize substantial improvements . . . in defense management overall.***

For these purposes, the President directed that specific actions be identified in four broad areas--personnel and organization, defense planning, acquisition practices and procedures, and government-industry accountability. The President also called for recommended "actions the Congress could take which would contribute to the more effective operation and management" of DoD.

The Defense Management Review has examined the various efforts made to date to realize the far-reaching improvements envisioned both by the Packard Commission in its Reports and by Congress in the Goldwater-Nichols Defense Reorganization Act of 1986. It has benefitted from the information provided and views offered by senior civilian and military officials throughout DoD, as well as the valuable insights of numerous outside organizations and experts who have monitored the course of recent defense reforms.

While some progress unquestionably has been made since 1986, there is no basis for complacency. On the contrary, redoubled efforts will be required in order to realize improvement to the degree contemplated by the Packard Commission and the Goldwater-Nichols Act. But the progress to date does give cause for hope that the necessary consensus and commitment can be sustained in the coming years. This will be essential if the U.S. defense effort is to be managed in a manner that:

- ensures the continued strength and readiness of the nation's Armed Forces;
- helps us acquire needed new weapon systems at less cost, in less time, and with greater assurance of promised performance;
- encourages industry and government alike to meet the highest standards of integrity and performance;
- and promotes greater public confidence in our stewardship of defense resources.

The dimension and importance of the task cannot be overstated. The course of international affairs in the years ahead promises to test U.S. leadership in new

and unforeseeable ways. Potential threats to the security of the U.S. and its Allies are likely to diminish in some areas while increasing in others, may well take new and more subtle forms, and undoubtedly will necessitate U.S. military forces that are modern, ready, and sustainable in a variety of contingencies. At the same time, as a result of competing national priorities, the real resources available for defense in the early 1990s are likely to be less than in recent years. If we are to continue to protect our global interests, meet our responsibilities, and minimize the risks to our security, we must preserve essential military capabilities through ever more skillfull use of the resources at our disposal.

Such circumstances compel the utmost attention to prudent management of our defense program--and oblige the Executive branch, Congress and industry, as seldom before, to join in husbanding available defense dollars, cutting unnecessary costs, and achieving new levels of productivity and quality.

Building on recent efforts, in light of experience and current circumstances, this Report is intended to articulate an overall approach for achieving these important objectives and to identify a series of specific management initiatives for the President's consideration. Many of these initiatives can be undertaken on the authority of the Secretary of Defense. Some will require concerted action by the Administration, including other Executive departments and agencies. Still others -- among them actions that hold the greatest promise for long-term improvement -- will require the support of Congress and the defense industry. Together, these initiatives respond to the findings and conclusions of the Packard Commission and to the provisions of the Goldwater-Nichols Act, and speak to their as-yet-uncompleted agenda for constructive change.

None of the additional steps recommended by the Defense Management Review departs from the course already charted for DoD, but likewise none represents a quick fix. The harder part of the job remains to be done -- and the larger improvements are yet to be realized. Nothing less than an unreserved and long-term commitment on the part of DoD will be necessary to meet the President's objectives. Nothing less than sustained cooperation between the Administration and Congress, and between government and industry, will suffice for that purpose.

II. MANAGEMENT FRAMEWORK

The overall framework adopted for decisionmaking within DoD must reflect sound management principles if the President and Secretary of Defense are to be well served. The management framework that follows has been guided by several fundamental principles:

- The individual responsibilities of senior managers must be well understood.

- Managers must be given a range of authority commensurate with their responsibility.
- Subject to final decision by the President, the Secretary, or the Deputy Secretary, managers' participation in the process of establishing central policies should be encouraged.
- Approved policy, including longer-term priorities and objectives for the defense program, must be widely and clearly communicated within DoD.
- Within this context, managers must expect to be held strictly accountable for the overall results of their efforts, for adhering to approved policy, and for executing decisions.
- The full talents, dedication, experience and judgment of all DoD employees must be brought to bear in the execution of their diverse missions. Policy must be implemented in a wide variety of settings, and the process by which this is done must be carefully monitored in order to take full advantage of opportunities for cost savings and quality improvement. Innovation will come most naturally from the military and civilian professionals entrusted to do the job. They must be encouraged to examine and improve continuously the processes in which they are engaged -- and to raise, at all levels, new ideas and approaches that will contribute to a sound, affordable program to maintain adequate U.S. military strength.

The current broad division of responsibilities among the Office of the Secretary of Defense (OSD), the Office of the Chairman of the Joint Chiefs of Staff (CJCS), the Unified and Specified Commands, the Military Departments, and the Defense Agencies provides a generally sound structure within which to implement these principles. The essential challenge is one of integrating their respective efforts more effectively. This will depend heavily upon certain key senior officials, some aspects of whose responsibilities bear emphasizing.

The Deputy Secretary of Defense will assist the Secretary in overall leadership of DoD and exercise authority delegated by the Secretary on all matters in which the Secretary is authorized to act. He will be responsible for day-to-day management of DoD and operation of a more rigorous Planning, Programming, and Budgeting System (PPBS) designed to produce a coherent, integrated, and efficient defense program. He will have day-to-day responsibility, with the Secretary, for ensuring the full implementation of approved actions under the Defense Management Review.

The Under Secretary of Defense for Acquisition (USD/A) will exercise the authority intended by the Packard Commission and provided in law. Under the direction of the Secretary and Deputy Secretary, the USD/A will be responsible for policy, administration, oversight and supervision regarding acquisition matters DoD-wide. In this regard, the USD/A's authority will extend to directing the Secretaries of the Military Departments on the manner in which acquisition responsibilities are executed by their Departments. The USD/A will

have the full confidence and active support of the Secretary and Deputy Secretary as their principal staff assistant on such matters, including implementation of numerous initiatives stemming from the Defense Management Review. The USD/A's role within DoD will be enhanced in certain respects, among them the following: the USD/A will be a key participant in all phases of the PPBS, including deliberations on major budget issues; and will administer the Selected Acquisition Reports (SARs) and other Congressional reporting on acquisition programs and issues.

The Secretaries of the Military Departments, under the Secretary's and Deputy Secretary's direction, will be responsible for managing the affairs of their Departments as provided in law, including front-line implementation of many of the initiatives identified in the Management Review as well as other policy, program and budget decisions. As key advisers to the Secretary and Deputy Secretary, they will provide candid personal views as well as convey the institutional perspective of their Departments. Collectively, they will be charged with helping to coordinate the activities of the Military Departments in the interest of more efficient management of the overall defense program.

The Under Secretary of Defense for Policy (USD/P), among his other responsibilities, will support and represent DoD, as directed by the Secretary and Deputy Secretary, on foreign relations and arms control matters. In addition, the USD/P will serve as the Deputy Secretary's primary advisor for the planning phase of the PPBS, and as a key participant in programming and budgeting decisions as well. In accordance with the Goldwater-Nichols Act, and in order to strengthen the ties between national policy and plans, the USD/P and a select element of his staff will assist the Secretary and Deputy Secretary in developing guidance for, and in reviewing, operational and contingency plans for nuclear and conventional forces.

The Chairman of the Joint Chiefs of Staff (CJCS) was vested by the Goldwater-Nichols Act with critically important responsibilities for planning, advising, and policy formulation. In keeping with his functions as principal military advisor to the President and the Secretary of Defense, and as spokesman for the Joint Chiefs of Staff (JCS) and the Commanders-in-Chief of the Unified and Specified Commands (CINCs), the CJCS will advise the Secretary and Deputy Secretary on the full range of issues and participate in senior councils within DoD.

The foregoing descriptions are not exhaustive, but rather intended to highlight important roles that the Deputy Secretary, USD/A, Secretaries of the Military Departments, USD/P, and CJCS will play as core managers within DoD. Sound working relationships and regular communications among these and other senior officials are indispensable to managing DoD successfully; to ensuring that it responds to the President's and Secretary's priorities; to assisting the Secretary and Deputy Secretary as they are called upon to make major policy, program and

budget decisions; and to guaranteeing prompt and effective execution of those decisions. For these purposes, DoD will rely on several major intradepartmental groups whose broad responsibilities and functions are described below.

DoD Executive Committee. Under the Secretary as chairman, the Deputy Secretary, USD/A, Secretaries of the Military Departments, USD/P, and CJCS will comprise the membership of a new Executive Committee. The Executive Committee will meet regularly and serve as the key, senior deliberative and decisionmaking body within DoD for all major defense issues. In order to promote the candor and confidentiality of the Executive Committee's deliberations on the most important and difficult issues, the Executive Committee's membership will be strictly limited. The DoD General Counsel will attend meetings of the Executive Committee as a legal advisor and observer. The participation of other DoD officials will be subject to the Secretary's approval, on a case-by-case basis. The Executive Committee will assume continuing responsibility for, among other things, reviewing and expediting the implementation of measures approved by the President as a result of the Defense Management Review. The Special Assistant to the Secretary and Deputy Secretary will serve as Executive Secretary of the Executive Committee.

Defense Planning and Resources Board. The Deputy Secretary will manage a revitalized Planning, Programming and Budgeting System (PPBS) as chairman of a Defense Planning and Resources Board (DPRB). The DPRB will replace the current Defense Resources Board. The DPRB will have the following permanent members: CJCS, USD/A, the Secretaries of the Military Departments, USD/P, the Assistant Secretary of Defense (Program Analysis and Evaluation), and the DoD Comptroller. As matters on the agenda of the DPRB dictate, other senior military and civilian officials will be called upon to participate in its deliberations --including, as appropriate, the Service Chiefs, CINCs, and representatives of other OSD offices. Representatives of the Director of the Office of Management and Budget and the Assistant to the President for National Security Affairs will participate in the DPRB on a regular basis. The Deputy Secretary will appoint a single individual from within his office as the Executive Secretary of the DPRB. Through the DPRB, the Deputy Secretary will help to develop stronger links between our national policies and the resources allocated to specific programs and forces.

Planning Process. Responding to the Packard Commission's recommendations and the mandate of the Goldwater-Nichols Act will require substantial improvements in the threshold or planning phase of the PPBS. Under the pressures of the annual budget cycle, consideration of broad policies and development of guidance on high-priority objectives all too often has been neglected, and decisions made instead on a short-term, issue-by-issue basis not well-suited to optimizing the use of available defense resources. As a result, DoD's principal planning product, the Defense Guidance, now represents at best an early,

negotiated settlement on the content of the Service and Defense Agency programs.

Redressing this situation will require a major effort by the DPRB, including continued development of a biennial budget process consistent with the Packard Commission's recommendations, in order to achieve better long-range planning and greater stability in the defense program.

In the spring of the year prior to DoD's program and budget reviews, the Secretary, on the advice of the DPRB, will issue guidance on a limited number of planning topics to be considered and resolved. In addition, the Secretary may wish to issue alternative planning scenarios to be considered. The DPRB, or a select group of its members designated by the Deputy Secretary, will meet through the spring and summer to develop recommendations on these issues for consideration by the Secretary before August 1, and for subsequent communication to the Military Departments and Defense Agencies.

The USD/P will include these and other issues as specific planning guidance in the restructured Defense Planning Guidance (DPG), which the Secretary will formally issue by October 1 in the year preceding the programming phase. In addition to the planning issues provided by the Secretary and military strategy provided by the CJCS, the DPG will contain:

- a dramatically shortened and more concise section on forces, incorporating only a limited set of high-priority "Program Planning Objectives" that will be mandatory guidance to the Services and Defense Agencies;
- broad identification of the projected impact of these objectives on future funding;
- and a rough, 20-year "road map" of the modernization needs and investment plans of DoD, projecting the impact of the Program Planning Objectives, and of additional modernization or replacement of major systems (e.g., ships, aircraft, tanks and satellites) expected by the Military Departments and Defense Agencies, against realistic levels of future funding.

Defense Acquisition Board. The USD/A and the Vice Chairman of the JCS (VCJCS), as chairman and vice-chairman respectively, will direct the efforts of a streamlined Defense Acquisition Board (DAB). The DAB's permanent membership will be reduced, as will its committee and ad hoc working structures. The USD/A will expedite the implementation of decisions following DAB deliberations.

The DAB will rigorously oversee major systems acquisition, to ensure that the acquisition process is managed in a manner consistent with DoD policy. That policy will define minimum required accomplishments, and permit additional

program-specific exit criteria to be established by the USD/A, at each Milestone in a system's life. The paramount objective of the USD/A will be to ***discipline*** the acquisition system through review of major programs by the DAB. This review will be calculated to ensure that every program is ready to go into more advanced stages of development or production prior to receiving Milestone approval, and that the plans laid for such stages are consistent with sound acquisition management.

In order to forge strong links between the DPRB and the DAB, the USD/A will serve as a key advisor to the Secretary and Deputy Secretary on resource decisions affecting acquisition program baselines, including the cost, schedule and performance of all major systems.

By August 1, 1989, the USD/A and DoD Comptroller will submit their recommendations to the Deputy Secretary concerning the assumption by the DAB of responsibility for major automated data processing systems acquisition currently exercised by the Major Automated Information System Review Council (MAISRC).

Joint Requirements Oversight Council. To assist the USD/A and the DAB, the Joint Requirements Oversight Council, chaired by the VCJCS, will assume a broader role in the threshold articulation of military needs and the validation of performance goals and baselines for all DAB programs at their successive Milestones. (This expanded role is more fully described below, in the Defense Acquisition section of this Report.)

Coordinating Committees. In addition, three Assistant Secretary-level Committees will be established to improve internal coordination on arms control, technology transfer, and conventional force readiness and related issues. The arms control committee will be chaired by the Assistant Secretary of Defense (International Security Policy). Representatives of the USD/P and USD/A will serve as chairman and vice-chairman, respectively, of the technology transfer committee. These committees will report to the Deputy Secretary through the USD/P. The conventional force readiness committee will be chaired by the Assistant Secretary of Defense (Force Management and Personnel), and will report to the Deputy Secretary. In each case, committee membership will include representatives, as appropriate, of other OSD offices, the CJCS, and the Military Departments.

III. DEFENSE ACQUISITION

The terms of reference provided by the President for the Defense Management Review focused principally on the defense acquisition system. Major challenges remain to be addressed if DoD is to implement fully the Packard Commission's

recommendations in this area, including the various organizational arrangements, personnel improvements, and revised practices and procedures projected by the Commission to reduce the cost and improve the performance of new weapon systems. Efforts to date have not produced the tangible results envisioned by the Commission. This is indicative of the dimension of the problems the Commission identified, the far-reaching solutions it offered, and the persistence required if DoD's management of major acquisition programs is to emulate the characteristics of the most successful commercial and government projects. Among these characteristics, described in the Commission's reports, were:

- **Clear Command Channels**--the clear alignment of responsibility and authority, preserved and promoted through short, unambiguous chains of command to the most senior decisionmakers;
- **Program Stability**--a stable environment of funding and management, predicated on an agreed baseline for cost, schedule, and performance;
- **Limited Reporting Requirements**--adherence to the principle of "management by exception," and methods of ensuring accountability that focus on deviations from the agreed baseline;
- **Small, High Quality Staffs**--reliance on small staffs of specially trained and highly motivated personnel;
- **Communications with Users**--sound understanding of user needs achieved early-on and reflecting a proper balance among cost, schedule, and performance considerations;
- **Better System Development**--including aggressive use of prototyping and testing to identify and remedy problems well before production, investment in a strong technology base that emphasizes lower-cost approaches to building capable weapon systems, greater reliance on commercial products, and increased use of commercial-style competition.

When considered in this framework, it is apparent that the Packard Commission's recommendations intended to make more fundamental changes in the defense acquisition system than have yet been accomplished. Additional actions are required--including steps that substantially depart from or go well beyond DoD's and Congress' efforts to date.

Clear Command Channels

Positioning the USD/A as DoD's senior, full-time acquisition executive, with the variety of important functions already described, was but one part of the Commission's approach to acquisition management. No less central to its conception was the establishment of clear, abbreviated lines of authority within the Services for performance of their traditional role in managing major programs. In each of the Military Departments, management responsibilities were to flow through an experienced, full-time Service Acquisition Executive (SAE), administering Service programs within policy guidance from the USD/A; through Program Executive Officers (PEOs), as key middle managers responsible

to the SAEs for defined and limited groups of major programs; to individual Program Managers (PMs), vested with broad responsibility for and commensurate authority over major programs, and reporting for these purposes exclusively to their respective PEOs. The intent was to confine management accountability within this greatly streamlined chain of command, which was intended to capture *all* cost, schedule and performance features of all major programs.

The Military Departments have taken different approaches to implementing the Commission's concept, and have had varying degrees of success. None has fully met the Commission's purposes, and a careful review of their efforts to date indicates a need for revising their acquisition organizations in several respects.

- **Service Acquisition Executives.** A single civilian official, at the Assistant Secretary-level within each Military Department, will be designated the SAE. The SAE will have full-time responsibility for all Service acquisition functions. These functions will be conducted within Service Secretariats in a manner that ensures effective civilian control, and will not be duplicated in Service Chiefs' organizations.
- **Program Executive Officers.** Within each Military Department, the SAE will manage all major acquisition programs through PEOs, each of whom will have a small, separate staff organization and devote full-time attention to management of assigned programs and related technical support resources. PEOs will be relieved of other responsibilities.
- **Program Managers.** On all matters of program cost, schedule and performance, PMs will report only to their respective PEO or SAE.
- **Systems and Materiel Commands.** Consistent with this structure, these Service commands will be organized with a primary focus on three roles: providing necessary logistical support; to the extent appropriate, managing programs other than those conducted under the PEO structure; and providing a variety of support services to PEOs and PMs, while duplicating none of their management functions. The Secretaries of the Military Departments and SAEs will be charged with ensuring that Service commands perform these various roles in a fully accountable manner.

The Secretaries of the Military Departments and Service Chiefs will ensure maximum accountability within the PEO structure. PEOs will be selected by the Secretaries of the Military Departments, with the advice of SAEs who will have primary responsibility for evaluating PEOs' job performance. Similarly, SAEs and PEOs will advise on the selection of PMs and evaluate them. In addition, funding and personnel authorizations for PEO offices, and those of the PMs reporting to them, will be administered separately from Service commands.

Secretaries of the Military Departments will submit detailed plans for implementing these changes for the Secretary's consideration by October 1, 1989.

This approach promises to streamline and strengthen the management of major systems acquisition within the Military Departments. It has important consequences at several levels. It tends to fix responsibility and define authority more clearly , and thus sharpen accountability. It should help relieve PMs of requirements for repetitive reviews by and reports to Service command layers. It will vest PEOs with a more active management role -- one performed separately from such commands and hence less susceptible to being defined by the bureaucratic dynamics of those large organizations.

This approach also highlights collateral aspects of the Commission's recommendations -- notably those that relate to the elimination of duplicative or unnecessary functions and management layers and to the achievement of substantial reductions in overall staffing. In this connection, the Packard Commission clearly anticipated that implementation of its recommendations within the Services would occasion a broader streamlining of headquarters and management organizations, and more substantial personnel reductions than have yet been accomplished. As discussed below, the Secretary of Defense will direct the Secretaries of the Military Departments to implement this management chain of command with these larger purposes in mind. Streamlining of substantial magnitude is anticipated as a result of this effort by each Military Department.

Stability in Programs

The Packard Commission properly emphasized the important economies that flow from conducting major systems acquisition in an environment of stable funding and management. Reliable planning, funding, and system configuration, and continuity in management personnel, greatly increase the likelihood that systems will be delivered on time and at projected cost. Reaching and adhering to baseline agreement on factors critical to a program's success, contracting for procurements over two or more years, and maintaining economical rates of production--these and other techniques have been proven to yield substantial savings over the life of a system.

The expected budget environment will make it more difficult, but altogether more important, that DoD avail itself of these means to stretch its modernization resources. For this reason, the Deputy Secretary and the Secretaries of the Military Departments will ensure that the USD/A and the SAEs are more active participants in the program and budget cycles at both DoD and Service levels. These senior acquisition officials will serve as key advisors on resource decisions affecting the baselines of major acquisition programs, and on alternatives that may mitigate the impact of such actions.

To take greater advantage of potential savings through multiyear contracting will require a change in current law, which limits eligible procurements to those in which DoD can achieve demonstrated savings of 10 percent or more. This has

the anomalous result of excluding from multiyear consideration major procurements for which projected savings may be substantial in dollar terms even if marginally less than 10 percent of the contract cost. The Administration should seek to eliminate or reduce this threshold, in order to permit case-by-case evaluation of opportunities for cost savings through multiyear procurement. (See Appendix B to this Report.)

The Secretaries of the Military Departments and SAEs will promote continuity in the management of major programs. They will ensure that successful PMs enjoy a sustained tenure, ideally to direct their programs through an entire Milestone phase or for the four-year period set by statute. They will provide for an orderly transfer of responsibilities between PMs, and ensure that successful PEOs enjoy tenure of comparable duration.

Limited Reporting Requirements

Numerous reviews of the acquisition system, including the Packard Commission's, have found that the system is encumbered by overly detailed, confusing, and sometimes contradictory laws, regulations, directives, instructions, policy memoranda, and other guidance. Little room now remains for individual judgment and creativity of the sort on which the most successful industrial management increasingly relies to achieve higher levels of productivity and lower costs. Much of this stifling burden is a consequence of legislative enactments, and urgently requires attention by Congress. Much also has been administratively imposed and requires prompt corrective action by DoD.

To reduce the self-imposed burden, the Secretary will charter a joint OSD-Services task force to conduct a zero-based review of regulatory and other guidance to DoD's systems acquisition, procurement, logistics, and related activities, beginning first with DoD-level guidance and proceeding down through the Military Departments and their components. The review will include both existing guidance and that which is currently under development. The task force will also assess the processes by which guidance is developed, issued, and disseminated, and recommend changes to ensure that in the future such guidance is held to the minimum required. The task force will be assembled by the USD/A, and will complete its report to the Secretary not later than January 1, 1990. The task force effort will be governed by a ***strong*** presumption against retention or duplication of guidance, absent a clear and compelling need. The burden of establishing such a need will be placed on the proponent of the guidance in question. Special scrutiny will be given to guidance that imposes or occasions unnecessary costs in the acquisition process; that inhibits the implementation of sound procurement policies such as "best value" competitive practices and the buying of commercially-available products; that more narrowly confines the discretion of working levels than is required by law or sound

management control; and that imposes unnecessary reports and reviews on program offices and contractors.

The USD/A, with the SAEs, will establish a similar task force to review existing programs and initiatives for "advocacy" of special, single-purpose requirements (e.g., concerning packaging, transportation, maintenance, etc.) on program offices. The task force will be charged with developing a plan to eliminate as many of these advocacy programs as possible.

Inherent in the concept of limited reporting and review requirements is the principle of management by exception--i.e., intervention by senior management only at Milestone intervals, at a PM's request, or in the event that a program encounters substantial problems in meeting its baseline. In the 1987 Defense Authorization Act, Congress provided authority to DoD to designate a limited number of Defense Enterprise Programs (DEPs) to demonstrate the viability of this approach, and as candidates for milestone authorization. DoD should take better advantage of this special authority than it has to date. The USD/A, with the SAEs, will carefully select several new Defense Enterprise Programs from programs in the DAB's Concept Approval (post-Milestone I) phase, provide strong policy direction and oversight in implementing the DEP concept, and seek milestone authorization for such programs to enhance management stability.

Smaller, Higher Quality Staffs

Toward A More Capable Workforce

Approximately 580,000 civilian and military personnel in DoD spend all or a substantial part of their workday in the acquisition field--broadly defined to include research, development, procurement, logistics, distribution, and related maintenance activities. (See Appendix A to this Report.) Their collective efforts form a core part of the U.S. defense program, and much depends upon how efficiently and effectively they equip and supply our Armed Forces. As the Packard Commission pointedly observed:

> ***The defense acquisition workforce mingles civilian and military expertise in numerous disciplines for management and staffing of the world's largest procurement organization. Each year billions of dollars are spent more or less efficiently, based on the competence and experience of these personnel. Yet, compared to its industry counterparts, this workforce is undertrained, underpaid, and inexperienced. Whatever other changes may be made, it is vitally important to enhance the quality of the defense acquisition workforce -- both by attracting qualified new personnel and by improving the training and motivation of current personnel.***

While small improvements have been made in the nearly three years since the Commission completed work, its major recommendations have yet to be implemented. Identifying steps to accomplish the Commission's broad objectives, accordingly, has been a major focus of the Defense Management Review.

On the civilian side -- In the Navy's China Lake personnel project, DoD has proven the viability of a less rigid personnel management system. It also has demonstrated the clear advantages such a system offers to DoD employees and managers alike, including notable improvements in working environment, professional rewards, recruitment and retention. Although the Packard Commission strongly recommended that Congress authorize the Secretary to implement an alternative system of this sort for all critical acquisition personnel, such authority has not been forthcoming. During the 100th Congress, a measure that would have expanded the China Lake initiative to include up to 100,000 DoD employees was adopted by the Senate but not the House of Representatives. Expanded demonstration authority would be useful, but it is not enough. Accordingly, the Administration should seek to define a broader and permanent authority for the Secretary to set civilian acquisition personnel policies DoD-wide, on the understanding such authority will be exercised without increasing overall personnel costs otherwise incurred. (See Appendix B.)

DoD also will seek to increase the professionalism of its procurement workforce to make its employees' capabilities and career opportunities more competitive with those of their private sector counterparts. This will include actively supporting legislation recently proposed by the Office of Personnel Management (OPM) that would allow DoD to pay for degree-related course work by civilian personnel in critical procurement fields. (See Appendix B.) In addition, as the Packard Commission specifically recommended, the Secretary will seek prompt action by the Administration, through OPM, on classification of DoD contracting officers as a professional personnel series, and, in the case of those contracting officers who can commit DoD to more than $25,000 per contract, the adoption of classification standards that require an appropriate combination of relevant work experience and education.

On the military side -- The sophistication and complexity of military equipment continues to increase, as do the challenges implicit in developing, procuring and supporting such equipment. The need for military specialists to manage the acquisition process accordingly is now greater than ever, and will only grow over time. As the Packard Commission observed, each of the Services has made strides in managing its officer personnel to meet this challenge. Looking to the future, however, it is clear none of the Services has yet gone far enough.

Current arrangements reflect a not altogether satisfactory compromise of two valid, but directly competing interests. On the one hand, it is undeniably desirable that those who manage the acquisition system be highly attuned,

through personal experience in the operational world, to the needs of military users. On the other hand, if these needs are to be met in the successful development of major systems, it is increasingly imperative that acquisition managers possess a range of technical skills and a breadth of experience largely unavailable in operational assignments. It must be recognized that attainment by a military officer of equal competence for senior field grade and higher assignments in both the operational and acquisition arenas is increasingly difficult, and for many purposes impossible. New means must therefore be found to develop and retain the variety of necessary acquisition skills in the military, while at the same time ensuring that development of weapon systems reflects keen regard for operational realities.

For this purpose, the Secretaries of the Military Departments, working with the Service Chiefs and in consultation with the CJCS, will develop and submit for the Secretary's consideration, not later than October 1, 1989, plans for establishment of a dedicated corps of officers in each Service who will make a full-time career as acquisition specialists. These plans will be designed to facilitate the development of officers expert in such distinct sub-specialties as systems development, procurement and logistics. They will identify recommended means to ensure:

- selection of highly promising officers early in their careers;
- timely specialization in acquisition, including the election of such career paths by officers with some significant operational experience (not later than 10-12 years);
- assignment, other than in exceptional cases, to acquisition positions and related training once selected;
- creation of attractive and equitable career paths, including designation of corps-eligible positions;
- and assurance of promotion potential up to the highest flag grades.

So that user perspectives are preserved in the development of weapon systems, appropriate provision should be made for assignment of operational personnel to important supporting roles within program offices.

As part of these plans, the Secretaries of the Military Departments also will submit coordinated recommendations to the Secretary concerning specialized educational requirements and training opportunities for acquisition corps officers throughout their careers. At a minimum, these recommendations will address the designation of the Defense Systems Management College as an intermediate Service school; provision for advanced management and technical training, such as programs in universities and rotational assignments in industry; and establishment of a senior-level Service school, comparable to the National War College, with a specialized curriculum developed to train the most senior acquisition managers. In this regard, such recommendations should address the

rigor and quality of curricula, qualifications and compensation of permanent faculty, and support for scholarly research at DoD acquisition schools, as well as resources required for these purposes. They also should take account of the recommendations of the recently established National Defense University Transition Planning Committee on possible expansion of the mission of the Industrial College of the Armed Forces.

In general -- To ensure that DoD-wide training, education and career development policies concerning civilian and military acquisition personnel are developed and implemented effectively, the USD/A will establish within his organization a central office for such matters. With the USD/A, the Assistant Secretary of Defense (Force Management and Personnel) will develop and administer a central reporting system and data base on the composition and training of the acquisition workforce in the Services and other DoD components.

Toward a More Efficient Workforce

The Packard Commission concluded that implementation of its recommendations:

> ***should allow for a substantial reduction in the total number of personnel in the defense acquisition system, to levels that more nearly compare with commercial acquisition counterparts. Eliminating a layer of management by moving the functions and people of that layer to some other layer clearly will not suffice.***

The President directed DoD to "develop methods and rationale for reductions to improve efficiency and realize direct and indirect cost savings."

For these purposes, the Defense Management Review examined the "turnaround" of the largest private corporations that have realized dramatic, simultaneous productivity improvements and cost reductions. Many such corporations faced problems comparable to DoD's--including management structures, staffing levels, and entrenched corporate policies and cultures that impeded decisionmaking, frustrated innovation, obscured accountability for success and failure, and imposed excessive overhead costs. Private sector experience in overcoming problems of this sort demonstrates the utility of several related actions:

- identifying and eliminating unnecessary functions and management layers;
- concentrating on core functions performed at appropriate organizational levels;
- consolidating related functions where doing so will occasion greater effectiveness or efficiency;
- lowering overall costs, particularly through sizable reductions in management and other white collar personnel;

- and employing a variety of innovative techniques proven to motivate employees and suppliers and to achieve steady improvements in quality and overall performance.

Actions such as these are far more easily undertaken by corporate than DoD managers, who operate with differing objectives and under a variety of unique constraints. Nonetheless, private sector experience is instructive at many levels within the defense acquisition system. It teaches that the achievement of macro-efficiencies *is* possible over the long-term and should be a paramount objective of ***all*** -- in the Executive branch, Congress, and industry -- who play a role in U.S. defense efforts.

DoD and Congress have collaborated for these purposes recently in addressing the traditionally divisive issue of DoD infrastructure. As a result of the work of the Secretary's Commission on Base Realignment and Closure and companion legislation enacted in 1988, DoD will be able to achieve a more efficient base structure and greater mission effectiveness. Through strong management oversight of the closure and realignment process, DoD will seek to realize the full cost savings projected by the Base Closure Commission.

The Defense Management Review has identified a number of other measures that can and should be taken to achieve greater efficiency in its acquisition and related activities. In this context, substantial improvements must ultimately depend upon progress achieved across a broad front--including the establishment of a more capable acquisition workforce and of a statutory and regulatory environment that does not unnaturally limit its productivity. Nonetheless, a variety of nearer-term actions will be undertaken.

Revision in Service acquisition organizations to implement the Packard Commission's recommendations, as outlined above, will be part of a broader effort. This will involve the elimination of management layers and research, development and procurement-related functions that do not add clear value; a consolidation of related functions where possible; an overall improvement in the efficiency of DoD's acquisition management, logistics, distribution and related maintenance activities; and, by these means, a reduction of at least 15 percent (or approximately $7.5 billion) in the annual cost to DoD of such related functions by not later than Fiscal Year 1993, for an aggregate cost saving of $30 billion over the 1991-1995 Five Year Defense Plan. Such reduction will be implemented on a phased basis, beginning with DoD's Fiscal Year 1991 budget review.

To achieve these purposes, the Deputy Secretary will chair a special task force composed of the USD/A, the Secretaries of the Military Departments, the DoD Comptroller, and the Assistant Secretaries of Defense (Force Management and Personnel) and (Program Analysis and Evaluation). A detailed plan incorporating

the task force's recommendations will be submitted to the Secretary by October 1, 1989. The plan will provide for comprehensive review of management structures within OSD, the Military Departments and Defense Agencies, and of field and headquarters functions and operating processes, to meet the cost reduction goal and enable DoD to perform its acquisition and related missions with improved efficiency and effectiveness. Particular emphasis will be given to steps that reduce recurring payroll costs to DoD, whether incurred by direct hire or contract support. The plan will address, among other matters, the potential for increased productivity through broader implementation of OMB Circular A-76 (Performance of Contract Activities). It also will protect near-term funding for labor saving devices (e.g., upgrades in automated data processing capability) that will enhance productivity.

In addition, all DoD contract administration services (CAS), including those currently performed in the Defense Logistics Agency (DLA) and the Military Departments, will be consolidated under a newly-created Defense Contract Management Agency (DCMA), which will report to the USD/A and be charged with more efficiently and effectively performing the CAS function. The USD/A will assist the Deputy Secretary in preparing a plan to establish the DCMA for the Secretary's approval by October 1, 1989. This plan will, among other things, seek to streamline existing CAS organizations, promote uniform interpretation of acquisition regulations, improve implementation of DoD procurement policy, and upgrade the quality of the CAS workforce while eliminating overhead and reducing payroll costs. The plan should make appropriate provision for continued technical and other support to program offices. It should also preserve the existing regulatory division of responsibilities between those of administrative contracting officers, to be exercised within the DCMA, and those of procuring contracting officers, which will continue to be exercised within the Military Departments.

Communications With Users

Both the Packard Commission and the Goldwater-Nichols Act sought to improve the requirements process, i.e., DoD's efforts to define military needs, their links to national strategy and deficiencies in existing capabilities, and the characteristics of specific systems to meet those needs. The Goldwater-Nichols Act staked out an important role for the CJCS, as spokesman for the CINCs, in this process. The Packard Commission emphasized the responsibility of the USD/A and the VCJCS to ensure that complex systems reflect a sensible calculus of cost, schedule and performance. Over the last several years, the VCJCS' Joint Requirements Oversight Council (JROC) and the USD/A's Defense Acquisition Board (DAB) have begun to collaborate more effectively for this purpose. This collaboration should be strongly encouraged, and the JROC should assume a broader role in support of DAB decisionmaking.

Accordingly, the Secretary and the CJCS will charter the JROC to review ***all*** deficiencies that may necessitate development of major systems, prior to any consideration in the DAB. Based on inputs from the CINCs, Services, and elsewhere, the JROC will review the validity of an identified mission need (as distinct from any potential system or program), assign a joint priority for meeting the need, and forward an approved mission need statement to the DAB.

Annually, the DAB will review mission needs identified by the JROC for possible Milestone 0 approval. Those candidates passing through this restructured Milestone 0 would not be considered programs in the traditional sense; instead, at this threshold the USD/A will authorize Concept Direction studies to evaluate potential alternative approaches to meeting validated, priority needs. The USD/A will coordinate the funding of Concept Direction Studies, resources for which may come from one or more of the Military Departments, a central fund controlled by the USD/A, or both. To address alternative approaches to meeting a variety of mission needs, more Concept Direction Studies may be undertaken than will be carried forward past Milestone I (Concept Approval). Particular care will be exercised at Milestone I to ensure that Concept Approval is given to no more new programs than long-term resources available to DoD will support. To provide for programs that do enter the post-Milestone I phase, a rough allocation of out-year resources for such purposes will be made at the DoD-wide level and, following Concept Approval by the DAB, allocated by the DPRB to specific new programs.

The JROC also will be chartered to play a continuing role in the validation of performance goals and baselines prior to DAB reviews of major programs (including, unless otherwise directed by the Secretary or Deputy Secretary, special-access programs) at all successive Milestone intervals.

Better System Development

Principal among the Packard Commission's concerns in recommending establishment of the USD/A was the perceived need for more vigorous policy direction in several related areas.

Research and Development -- Decisions made during the early phases of systems development -- including those that involve funds and schedules for prototyping and testing -- often have dramatic consequences for operational performance and life-cycle cost. The USD/A will be charged with developing and ensuring rigorous application of policies that support sound decisions on major programs through Full Scale Engineering Development. In particular, these policies will dictate that the schedules and management plans for major programs:

- support the building and testing of system and critical sub-system prototypes, the use of systems engineering, and the validation of manufacturing

processes as early as possible and certainly well prior to the commencement of High Rate Production;

- and provide for early test and evaluation of prototype hardware to prove concept, performance, and suitability in realistic operational environments.

The DAB review process will be restructured and disciplined to assist the USD/A in discharging these responsibilities. As prospective programs pass out of the Concept Direction (post-Milestone 0) phase, the USD/A will convene a DAB Milestone I (Concept Approval) review of requirements/costs tradeoffs, initial affordability assessments and other minimum accomplishments required by DoD directive. DAB Milestone II (Full Scale Engineering Development) and III (Production) reviews will ensure that other, progressively more exacting requirements are met. A redefined Milestone IV will replace the current Milestones IV and V. The new Milestone IV review will address the need for major upgrades or modifications to systems still in production.

In conjunction with the DoD Comptroller, the USD/A or his Principal Deputy will exercise so-called apportionment authority with respect to funding for programs passing through successive Milestone reviews, in order to ensure demonstrable attainment of minimum required accomplishments established in revised DoD directives, and the successful completion of all additional exit criteria levied on programs as a result of previous DAB reviews. Only the Secretary, Deputy Secretary and USD/A will have the authority to waive such requirements and exit criteria.

In general, the USD/A will be responsible for improving the timeliness, relevance and utility of the Selected Acquisition Reports (SARs), the Defense Acquisition Executive Summaries (DAES), and other information on acquisition matters available to senior DoD managers.

Constrained research and development (R&D) resources will pose special challenges to the maintenance of a strong defense technology base. The USD/A will be charged with coordinating R&D programs DoD-wide, to eliminate duplication of effort and ensure that available resources are used to maximum advantage. In this regard, the USD/A will have a broad mandate to strengthen technology development programs of the Military Departments and the Defense Advanced Research Projects Agency (DARPA); encourage technical competition and technology-driven prototyping that promise increased military capabilities; exploit the cost-reduction potential of innovative or commercially-developed technologies; and develop procurement policies conducive to this purpose.

Procurement Policy -- In regard to procurement policy, the Packard Commission emphasized specific reforms in two areas:

- substantially greater reliance on ***commercially-available products***, often well-suited to DoD's needs and obtainable at much less cost;
- and adoption of ***competitive practices*** predicated more broadly on a mix of cost, past performance and other considerations that determine overall "best value" to the government.

With respect to the former, the recent Report of the Defense Science Board's (DSB) Task Force on Commercial Components, which revisited the 1986 Summer Study conducted by the DSB in the aftermath of the Packard Commission, details a number of promising actions. These have emerged from the DSB's sustained review of existing impediments to procurement of commercially-available products, and underscore the potential for large economies through reform of DoD's buying habits. The USD/A will be charged with expediting the implementing administrative actions recommended by the DSB Task Force. The USD/A will also establish a data base to track progress DoD-wide in expanding procurement of commercially-available products.

The DSB Task Force's work demonstrates that realizing large cost savings through procurement of commercially-available products will also require simplified contracting procedures. Accordingly, the Administration should make two legislative proposals: first, the Commercial Products Acquisition Act of 1989, which would authorize procurement of such products under simplified competitive procedures that more closely emulate those of the commercial marketplace; and second, a Commercial Acquisition Pilot Program Act, which would establish a pilot program to demonstrate the advantages of adopting a full-range of commercial-style buying practices and streamlined dispute-resolution procedures. (See Appendix B.)

Improving DoD's competitive practices will require two related actions. First, existing laws governing acquisition should be clarified in order to provide DoD broader discretion in making contract awards competitively based not only on cost but on other considerations as well. The Administration should propose appropriate legislation clarifying the Competition in Contracting Act for this purpose. (See Appendix B.) Second, DoD will implement a contractor performance review system, building DoD-wide on recent efforts of the Air Force and DLA to expand source selection criteria to promote contracting relationships with DoD's best-performing suppliers.

IV. GOVERNMENT-INDUSTRY RELATIONSHIP

Any effort to improve the relationship between government and defense industry must be rooted in this proposition: DoD will not tolerate illegal or unethical behavior on the part of ***anyone*** in the acquisition system. As a matter of fundamental policy, DoD, with the Department of Justice (DoJ), will devote its full energies and resources to enforcement of applicable laws.

All too obscured by the glare of recent investigations and prosecutions, however, is a corrollary proposition emphasized by the Packard Commission: bringing law-breakers to book for past deeds is not by itself enough; more affirmative efforts are necessary if DoD is to acquire, and industry to supply, equipment and materiel in a manner that meets the highest standards of accountability and performance. Among the specific approaches recommended by the Commission were the following:

- better administration of existing ethical standards for civilian and military acquisition personnel in DoD;
- greatly improved contractor self-governance, entailing the voluntary assumption by industry management of demanding new responsibilities for oversight of their contract operations;
- and more effective use of DoD auditing and other oversight resources.

The Defense Management Review took stock of progress in implementing these and other recommendations of the Packard Commission, as well as a variety of related initiatives to encourage improved industry performance and promote the health of the U.S. defense industrial base. Specific actions emerging from the Review are detailed below.

Greater Accountability in Government
The Packard Commission emphasized that:

> ***[i]t is critical in defense management to establish and maintain an environment where official standards of conduct are well understood, broadly observed, and vigorously enforced.***

Accordingly, it recommended that DoD mount a greater effort to administer ethics regulations, and develop guidance and training programs tailored to the acquisition workforce. More recently, the President, the President's Commission on Federal Ethics Law Reform, and Congress have spoken to the great need for training and educating government employees in their ethical responsibilities.

Particularly when considered against the range of these expectations, current DoD ethics programs appear notably deficient. For too long, such programs have been at best a secondary concern of DoD managers and relegated instead to lawyers and inspectors general. Consistent with the President's emphasis on

integrity in government, DoD will commit the energy and resources required for a model ethics program--particularly for acquisition personnel.

The Secretary will charter a DoD Ethics Council composed of the USD/A and the Secretaries of the Military Departments, and advised by the DoD Inspector General and General Counsel. An Executive Director for Ethics Training and Communications Policy will be appointed in the USD/A's office to support the Council's efforts. The Council will be specially charged with developing ethics programs for the acquisition workforce. It will concentrate on developing guidance tailored for acquisition personnel, and on improving existing compliance programs. It also will develop broader programs to enhance awareness and understanding of ethical issues--how they arise day-to-day, how existing standards may or may not apply, and what responsibilities DoD managers have as moral leaders. The programs will promote an on-going dialogue on ethics issues within DoD--from the Secretary and Deputy Secretary, who will personally participate, to the most basic working levels. The Council will review existing efforts in this area and recommend to the Deputy Secretary such additional personnel and other resources as may be required, including outside expertise necessary for designing the vigorous program intended.

In this regard, the Packard Commission noted that ethical standards are only as easy to observe, administer, and enforce as they are certain in scope, simple in concept, and clear in application. In the proposed Government-Wide Ethics Act of 1989, the Administration has recommended specific changes in law to ensure, among other things, that official standards are fair, objective, consistent with common sense, and not unreasonably restrictive so as to discourage able persons from entering public service. DoD strongly supports the proposed legislation, which will establish appropriate standards for, and preserve DoD's ability to attract and retain, personnel with the qualifications needed to manage the acquisition system.

Greater Accountability in Industry

Within the context of vigorous law enforcement, contractor self-governance remains the most promising additional mechanism to foster compliance with the high standards expected of DoD's suppliers. The conduct revealed by recent DoD-DoJ investigations, including Operation Ill Wind, is not representative. Major elements of defense industry *have* made strides in answering the Packard Commission's challenge. As with many other aspects of the Commission's recommendations, there is no occasion here for self-congratulations. Much remains to be done, and persistence will be required. Nonetheless, the Defense Industry Initiative on Business Ethics and Conduct and similar industry efforts deserve and will receive DoD's strong support. DoD will oversee the acquisition system in ways calculated to encourage responsible companies in such self-governance efforts, including establishment of corporate codes of conduct. If such codes are to be a meaningful reflection of management's priorities and

commitment, however, it is apparent that they must be adopted by contractors voluntarily, not mandated in procurement regulations. Like quality, ethics cannot be inspected into an organization. Accordingly, DoD will not adopt the rule recently proposed to mandate contractor codes of conduct.

DoD will continue its voluntary disclosure program, under which DoD contractors are encouraged to demonstrate their business integrity and honesty by disclosing evidence of possible procurement offenses. In order to reduce the possibility of inconsistent treatment of defense industry disclosures, the Secretary will work with the Attorney General to adopt and publish a standard agreement for program participation. In addition, to create clear incentives for corporate management, voluntary disclosure of potential violations will remain a central consideration in determination of a contractor's present responsibility to do business with DoD and hence in application of DoD's administrative sanctions (i.e., suspension or debarment).

DoD also will continue to encourage industry participation in its Contractor Risk Assessment Guide (CRAG) program. The CRAG program represents a joint DoD-industry response to several related recommendations of the Packard Commission, and promises more efficient use of DoD audit capabilities through greater reliance on effective contractor systems of internal controls. In conjunction with this program, the Defense Contract Audit Agency (DCAA) has projected broader DoD-industry communications on annual government audit plans in order to highlight opportunities for improved contractor internal controls. The DoD Comptroller, to whom DCAA reports, will be charged with providing strong policy direction and oversight to DCAA for purposes of increasing efficiency and eliminating duplication of effort through improved strategies for the conduct, scope and frequency of its contract auditing.

Over the long term, DoD will seek to develop a procurement system that rewards contractors for demonstrating their commitment to self-governance and all that that notion implies. A supplier's proven reputation for integrity is one aspect of past performance and, as in the commercial world, the totality of such performance merits consideration in the determination of "best value" to the government and in selection of those suppliers with which DoD does business. The USD/A will develop policies intended to guide source selection with these broader purposes in view.

Better Performance by Industry

There is, of course, more to creating a healthy relationship between government and industry than defining ethical responsibilities. There is also a need to promote robust industrial support for the U.S. defense program, and to prompt defense industry to greater competitiveness and to the simultaneous quality improvements and cost reductions achieved in other industrial sectors.

A series of major studies since the Packard Commission have documented an alarming erosion in the U.S. defense industrial base, including:

- a decline in the overall number of defense suppliers;
- accelerating import penetration and growing dependency on foreign sources for vital components and subassemblies;
- and decreasing returns on fixed assets, declining capital investments, and lagging productivity in key defense sectors.

Current trends are cause for concern, and if allowed to continue will jeopardize U.S. security. If these trends are to be reversed, the acquisition system must be managed in ways that promote improved supplier performance and a resurgent defense industrial base. Ultimately, only broad reform of the acquisition system, including the legal regime and oversight practices under which it currently operates, will attract more U.S. firms to do business with DoD. In the near term, DoD can encourage better performance by defense contractors by:

- using contract types that reduce unnecessary financial risks;
- controlling technical configuration;
- adhering to sound policies on profitability, independent research and development, and progress payments;
- and recognizing suppliers for consistently good performance.

DoD will take a series of actions along these lines, and seek to identify other promising means to encourage steady improvements in industry performance.

DoD will establish contractual relations that do not create financial disincentives to the degree of innovation and technical exploration clearly required by contractors in the early phases of major systems development in order to achieve proper operational performance and lower life-cycle cost. In addition to promoting the use of multi-year procurement contracts, the USD/A will strictly limit the use of cost-sharing contracts for systems development and the use of fixed-price type contracts for high risk development. USD/A approval will be required for any fixed-price type R&D contracts in excess of $25 million as well as those for lead ships.

The USD/A will also be charged with helping to promote the long-term, efficient producibility of systems. With the VCJCS, he will seek to expand the use of broad performance specifications in weapons design, and ensure that specifications are "locked in" prior to High Rate Production and upgrades or modifications are made on a block, not a piecemeal basis.

As a complement to DoD's own R&D efforts, R&D by defense suppliers helps encourage technological innovation, stimulate competition, and expand the availability of militarily valuable products. DoD will continue to recognize costs

incurred by suppliers for independent R&D, and bid and proposal, as necessary costs of doing business. Through the DPRB, it will maintain appropriate levels of funding to defray such costs and thereby promote development of promising technologies to meet future defense needs. DoD also will review periodically the level of progress payments on defense contracts, and maintain such payments at levels appropriate in light of prevailing interest rates and restraints on current DoD outlays. It also will use the tools at its disposal to motivate contractors to improve performance (through incentive-type contracts) and productivity (through profit guidelines that encourage capital investments). The USD/A will be charged with monitoring these and other policies that impact the long-term health and competitiveness of DoD's industrial base.

The USD/A also will develop a quality awards program that annually recognizes top performers in industry that meet cost, performance, and schedule baselines and exhibit high commitment to ethical management.

V. CONGRESSIONAL ACTIONS

DoD, with other elements of the Executive branch, can realize significant improvements in defense management. This Review has sought to take full advantage of opportunities for administrative action, but also demonstrates that these opportunities are limited. The potential for improvement can be increased substantially if Congress adopts changes in legislation -- and can be increased dramatically if, and only if, Congress fundamentally changes the way it addresses defense programs and policies. The President called for DoD's views on steps of this sort to be taken by Congress to improve management practices and procurement procedures.

Changes in Legislation. The Review has identified a variety of specific actions by Congress that would assist in better management of the acquisition system. These are collected in Appendix B to this Report. In addition to those treated fully in earlier sections of the Report, one additional initiative deserves special emphasis. The Packard Commission observed that

> ***[o]ver the years, Congress and DoD have tried to dictate management improvements in the form of ever more detailed and extensive laws or regulations. As a result, the regime for defense acquisition is today impossibly cumbersome . . . .Congress [should] work with the Administration to recodify federal laws governing procurement in a single, consistent, and greatly simplified procurement statute.***

Similar concerns have been reflected in the work of other major study groups -- from the Blue Ribbon Defense Panel in 1970, to the Commission on Government Procurement in 1972, to the President's Private Sector Survey on Cost

Control in 1983, to the Office of Technology Assessment (OTA) in 1989. In its recent report on the defense technology base, OTA concluded:

> ***The defense acquisition system is a major contributor to the long delays in getting new technology into the field and erects formidable barriers to exploiting technology developed in the civilian sector. While Congress did not intend the system to be slow, cumbersome and inefficient, laws passed to foster goals other than efficient procurement have made it so.***

With the enactment of additional major legislation since 1986, when the Packard Commission finished its work, there is increased urgency to addressing the body of procurement law in its totality--in order to simplify and clarify the framework under which DoD and other departments operate, and more broadly to restore some breathing space for judgment and incentive necessary to make the acquisition process fundamentally more effective. This will require Congress to take the initiative, which the President should call for in urging the Congressional leadership to establish select committees in both Houses to commence work as soon as possible on a landmark recodification and streamlining of federal law in this area. For its part, the Administration should pledge unreserved support for such an effort, and work closely with the designated committees in order to help them complete their work at the earliest date.

Broader Congressional Reforms. Congress plays a central role in formulating and implementing U.S. defense policy. Much depends on the way in which it exerts its authority, and how well or poorly it carries out its responsibilities.

The intense scrutiny recently paid to DoD organization and management has occasioned a growing conviction that the procedures by which Congress today does its work require careful and thorough re-examination, as do the various ways in which Congress, its staff and Congressional agencies influence DoD operations. Critics, including many in Congress and the Executive branch, have focused on:

- the profound management problems and waste that inevitably result from the redundant phases of budgeting, authorizing and appropriating defense resources year by year;
- the policy gridlock implicit in the overlapping and duplicative jurisdiction over DoD affairs enjoyed by some 30 committees, 77 subcommittees, and 4 panels;
- the tremendous disparity of interests -- many difficult to reconcile with prudent management -- that DoD is given to serve through line items, general provisions in authorization and appropriations bills, and report language ; and

- the questionable benefit to Congress, and the unquestionable cost to DoD, of much Congressional activity. ***Every working day***, for example, entails on average almost 3 new General Accounting Office (GAO) audits of DoD; an estimated 450 written inquiries and over 2,500 telephone inquiries from Capitol Hill; and nearly 3 separate reports to Congress ***each*** averaging over 1,000 man-hours in preparation and approximately $50,000 in cost. In addition, senior DoD officials spend upwards of 40 hours preparing for the 6 appearances as witnesses and the 14 hours of testimony that they provide on average for ***each*** day Congress is in session.

If the ambitious purposes of the Goldwater-Nichols Act and the Packard Commission are ever to be fulfilled, Congress ***must*** devote serious attention to these issues. In a bipartisan spirit, with the objective of promoting essential collaboration between the Executive and Legislative branches, and more particularly of improving Congress' performance of its vital role in providing for the common defense, the President should urge the Congressional leadership to charter a study of legislative processes and identify specific changes (e.g., steps to institutionalize a biennial defense budgeting process) for consideration at the earliest date in the 101st Congress. To support this effort, and to build on recent work of the Packard Commission and others in this area, the Secretary will supervise preparation of a White Paper on DoD and the Congress, for submission to the President by October 1, 1989.

VI. CONCLUSION

As was noted at the outset, realization of the President's full objectives for management of DoD will not be easy. It will require:

- teamwork among DoD's senior managers;
- sound, longer-range planning and better means for managing available resources;
- more discipline in what weapon systems we buy and how we buy them;
- better management of the people we rely on to produce such systems;
- an environment that promotes steady progress in cutting costs and increasing quality and productivity;
- and adherence to the highest ethical standards.

Even actions that can be implemented on existing authority within DoD will take time and devoted effort. Others, including those that demand Congress' and industry's attention, will require cultivating still broader consensus and commitment. Nonetheless, the American people expect that those who manage the nation's defense effort will aim high. And they deserve nothing less than the "quest for excellence" of which the Packard Commission spoke.

APPENDIX A

ACQUISITION WORKFORCE

Most narrowly defined, the acquisition workforce comprises only those who negotiate and administer contracts for major weapon systems. Broader definitions include activities occurring outside the contract process, such as documenting the need for a new weapon, testing systems under development, maintaining systems in the field, and disposing of outmoded or unneeded equipment. Service organizational structures generally group these functions together . A still more comprehensive perspective would encompass all those who procure the ordinary goods, such as office supplies and delivery vehicles, needed to support any large organization within DoD.

Three general methods are available for estimating the size of this workforce:

- Surveying actual job activities;
- Counting people in specified occupations; and
- Counting entire organizations.

Experience has proven the first to be impractical; the second and third, used separately, inevitably miss some employees with significant procurement duties. A combination of occupational and organizational counts, while perhaps marginally overstating the total workforce, is necessary to take into account all personnel involved in these procurement duties.

Applying this method against a "cradle to grave" concept of acquisition is consistent with the charter of the USD/A, which assigns authority for the "system whereby all equipment, facilities, and services are planned, designed, developed, acquired, maintained, and disposed of within the Department of Defense." This method encompasses 11 Service commands and one Defense Agency, as well as those who work outside these organizations in 9 civilian occupations and 38 military officer specialties. It adds four commands to a list developed by the General Accounting Office in an earlier study of defense acquisition. This method also adopts the same job categories used by the Packard Commission in estimating the size of the acquisition workforce. The table following represents the most recent personnel totals available.

ACQUISITION WORKFORCE

ACQUISITION ORGANIZATIONS	Employment* Civilian	Military
1. Army Information Systems Command	18,817	1,701
2. Army Materiel Command**	105,592	2,773
3. Office of Naval Research	5,029	114
4. Naval Facilities Engineering Command	19,650	730
5. Naval Air Systems Command**	43,903	1,128
6. Naval Supply Systems Command**	26,278	640
7. Naval Sea Systems Command**	110,181	1,424
8. Naval Space and Warfare Systems Command**	28,572	630
9. Air Force Logistics Command**	86,676	3,109
10. Air Force Systems Command**	28,366	10,407
11. Air Force Communications Command	6,921	4,088
12. Defense Logistics Agency**	53,134	795***
OTHER ORGANIZATIONS		
Acquisitions Occupations****	18,645	--
Acquisitions Specialties****	--	2,828***
TOTAL	551,764	30,367
GRAND TOTAL	582,131	

* As of December 31, 1988. This does not include subsequent programmed reductions.
** Listed by General Accounting Office as "buying commands."
*** Estimated.
**** As identified by Packard Commission.

APPENDIX B

SPECIFIC LEGISLATIVE INITIATIVES

1. **Stability In Funding Programs: Eliminate the current requirement that a proposed multiyear contract achieve a specific percentage savings before the contract may be entered into.**

   The FY 1989 Defense Authorization Act (Pub. L. 100-456, 102 Stat. 1928 (Sept. 29, 1988)) currently limits the number of programs that can qualify for multiyear procurement savings because they fail to meet the minimum savings threshold. This threshold should be eliminated or, at a minimum, reduced. This can be done at no expense to Congressional oversight of the procurement process because DoD would still have to justify a multiyear procurement in terms of cost savings and other benefits before Congress authorizes and funds the program. In addition, a multiyear procurement would have to satisfy the statutory criteria concerning benefit to the government, stability of requirements, stability of funding, stability of configuration, confidence in cost estimates, and confidence in the contractor's ability to perform. 10 U.S.C. Sec. 2306(h). The proposed amendment would simply permit DoD and Congress to evaluate each multiyear procurement candidate program on its own merits.

2. **Alternative Personnel System: Authorize the Secretary of Defense to establish a personnel and pay system for civilian acquisition employees.**

   The proposed legislation--modelled after the China Lake project--would authorize the Secretary to design employment, compensation, performance, management, training, and benefits programs to enhance the Department's competitive position in the labor market for acquisition personnel. Designed in conjunction with the Office of Management and Budget and the Office of Personnel Management, the personnel system (including senior acquisition personnel, contracting officers, scientists and engineers) would be phased in over a number of years and introduced in discrete stages at the different organizations and for different occupations involved in the acquisition process. The approach would include consideration of, among other things, using the concept of pay banding; paying differentials to supervisors and managers; paying performance/retention bonuses; establishing a system of direct examination and hiring; and designating a certain number of positions in specific research and development laboratories or technology centers requiring extraordinary qualifications. The cost of the alternative personnel system would be limited to the costs that would have been incurred had the system not been implemented.

3. **Pay-for-Degree Legislations: Amend current law (5 U.S.C. 4107(c)) to permit expanded opportunities for the education and training of civilian acquisition personnel.**

Under current law, DoD is barred from paying for training the sole purpose of which is to permit an employee to obtain an academic degree. 5 U.S.C. Sec. 4107(c). The current bar to degree training can be a disadvantage to the DoD in competing in the marketplace for employees with skills critical to its acquisition functions.

On March 20, 1989, the Administration submitted a legislative proposal "To amend title 5, United States Code, to allow degree training for Federal employees in critical skills occupations, and for other purposes." See Letter from Constance Horner (Director, Office of Personnel Management) to the Hon. James C. Wright, Jr. (Mar. 20, 1989). This authority would be an important factor in improving the quality of the DoD's acquisition workforce and should be enacted expeditiously.

4. **Greater Use of Commercially-Available Products.**

a. Authorize Simplified Competitive Procedures--

The Administration should submit the proposed "Commercial Products Acquisition Act of 1989." This proposed legislation would authorize the use of commercial-style, competitive procedures for the acquisition of commercial products. The proposed legislation would provide acquisition officials with the flexibility they need to emulate their commercial counterparts and capitalize on the efficiencies possible when buying products off existing production lines. The proposal is designed to provide acquisition officials with an efficient means for conducting market research and identifying the products constituting the best values. In addition to shortening acquisition leadtimes and increasing competition, the proposal will enhance DoD's ability to acquire high-value commercial products incorporating the most up-to-date technology. The proposal would also exempt commercial product acquisitions from the unique requirements that ordinarily apply and impose source preferences, special contract provisions, and performance requirements when the Government is the purchaser.

b. Establish a Pilot Program to Evaluate DoD's Use of the Full-Range of Commercial-Style Practices--

The Administration should also submit a "Commercial Acquisition Pilot Program Act." In addition to the improvements provided by the proposed "Commercial Products Acquisition Act of 1989," this Pilot Program would require certain DoD components to use the full range of commercial contracting terms and conditions when buying commercial products; exempt the acquisition of commercial products from the numerous statutory requirements

that otherwise govern government contracts; and dramatically streamline dispute resolution procedures. The Pilot Program would last for two years and would be periodically reviewed by DoD and Congress to evaluate its impact.

5. **Best Buy Practices: Clarify the Competition In Contracting Act (10 U.S.C. Sec. 2305(b)(4)(A) (ii)) to permit a contract to be awarded without discussions, on a basis other than price alone, when the award would be in the best interests of the Government.**

The Comptroller General has held that, under the current statute (10 U.S.C. 2305(b)(4)(A)(ii)), when a decision is made by a contracting officer to award a contract without holding discussions with competing contractors, price must be the sole basis for making the award. See Mariah Assoc., Inc. B-231710 (Unpub. Oct. 17, 1988); United Telecontrol Electronics, Inc. B-230246 (Unpub. June 21, 1988); and Meridian Corp., B-228468 (67 Comp. Gen. 233, Feb. 3, 1988). This requirement--that the lowest bid be accepted even where it does not result in the "best value" to the Government--eliminates the benefits that accrue from making awards without discussions where a contractor's design or technical proposal is clearly superior and the price is fair and reasonable. It also limits the Government's ability to select commercial products on the basis of best value to the Government, by lengthening the acquisition time involved and increasing the overall cost of the procurement. The proposed amendment would eliminate these problems, and ensure that DoD has the benefit of more vigorous competition.