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STATEMENT OF  
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COMPTROLLER GENERAL OF THE UNITED STATES

before the

COMMITTEE ON ARMED SERVICES  
UNITED STATES SENATE

on

DEPARTMENT OF DEFENSE  
MAJOR WEAPON SYSTEMS  
ACQUISITION PROCEDURES



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Mr. Chairman and Members of the Committee:

I am pleased to have this opportunity to discuss with you the Department of Defense initiatives for improving its management of weapon system acquisition programs and to offer some suggestions as to how the General Accounting Office can be of greater assistance to this Committee and the Congress.

Over the next 5 years, DOD is planning the expenditure of \$1.5 trillion to acquire new and update old systems, to enhance our military readiness, and to improve the quality of life of our military personnel. Your Committee will play a large part in assuring that these resources are invested and managed wisely. I share your concerns regarding accountability for these expenditures; we at the General Accounting Office stand ready to assist you in assessing how well the Department discharges its responsibilities.

#### RECENT INITIATIVES IN DEFENSE MANAGEMENT

Last March the Deputy Secretary of Defense established a special steering group to make recommendations for improving management of weapon system acquisitions. On April 30, 1981, he announced the adoption of some 31 specific management initiatives directed toward:

- reducing cost,
- stabilizing acquisition programs,
- increasing support and readiness,
- shortening acquisition time, and
- improving the acquisition milestone progress review process.

DOD adopted a comprehensive implementation plan covering legislative changes, rewriting defense directives, identifying weapon systems for application of specific initiatives, and redirecting personnel.

Acquiring weapon systems is an expensive, time consuming, and complex process demanding considerable managerial skills. The sheer size of DOD requires time for new policy and procedures to permeate downward through the many thousands of people involved in the process. Attitudes and established patterns of operation must be changed. Informing people alone on what is now expected is not enough. Persistent, aggressive follow-up and examination of results are essential.

All of the initiatives have merit. Several, in my opinion, are key.

#### Cost Growth in Weapons Systems

There has been a major concern in Congress for years over why the costs of major weapon system acquisition programs usually exceed earlier estimates. The investments to acquire and operate these systems take a heavy portion of our budgetary resources. Currently, the armed forces are going through the largest modernization program in our history in making up the inventory shortfalls caused by obsolescence and the Vietnam War. At September 30, 1981, there were 45 major acquisitions in development and production being reported in DOD's Selected Acquisition Reporting (SAR) system. These acquisitions were estimated at \$304.7 billion, of which about \$161.9 billion represents cost growth over development estimates. And there are many other systems in early development which are not

included in these figures. The MX missile and B-1 bomber programs are two examples. We can expect these systems to experience significant cost growth also if for no reason other than inflation. The Department recognizes the need for aggressive action directed toward the control of cost growth.

Historically, cost estimates on Federal acquisitions have been optimistic. There is invariably general optimism as to the system's capacity to resolve technical problems, to meet schedules, and to control cost. GAO has made a number of recommendations over the years toward the development of better control over the cost growth problem. It is essential, in our view, that DOD provide for:

- (1) An adequate data base of readily retrievable cost data for similar systems;
- (2) An effective independent review of cost estimates, including judgment by top officials as to the realism of the estimates upon which decisions are based;
- (3) More complete documentation of cost estimates coupled with feedback of results, to provide a basis for comparing costs achieved with those estimated;
- (4) Estimates in a range of probable cost including a single-point "best estimate;" and
- (5) Recognition of inflation in the budget year setting forth future costs as a range of estimates dependent on various inflation rates and spending profiles with estimates being adjusted yearly to include actual inflation experienced.

Optimistically low inflation rates in developing cost estimates account for considerable program instability and cost growth. For the past 9 years DOD has used the U.S. Gross National Product (GNP) implicit price deflator to project inflation and further adjust its estimates so as to be consistent with Administration overall economic assumptions. In recent years, defense purchase prices have risen faster than most goods and services as measured in the GNP and the OMB directed rates for inflation have been below actual inflation. DOD is aware of the problems created by using low inflation rates in its estimates.

#### Stabilizing Acquisition Programs

A recent DOD acquisition improvement task force report concluded that the ultimate success of the improvement initiatives will be largely determined by the degree to which programs are stabilized. I agree. Program instability, particularly funding instability, has long been recognized as a severe problem in managing weapon system programs. Often, instability stems from demands for new systems beyond available resources leading to unrealistically low cost estimates and the consequent need to continually adjust for competing demands.

Development and initial fielding of a new weapon system often require 8 to 12 years. During that time there are many opportunities for the Congress and the Administration to make program and funding changes. In making changes both DOD and the Congress must be attentive to the ramifications of the change on program costs. Stable funding is essential. Most programs span several Congresses and more than one administration. Personnel turnover, changing concepts of need, and fluctuations in funding pose difficult problems. The Congress will have to do its share in helping DOD create and apply a system of good business practices.

#### Increasing Support and Readiness

Regardless of how well DOD controls cost and more accurately informs the Congress about probable cost, a weapon system's value is measured by the extent to which it can be supported in the field and by its contribution to our overall readiness posture.

Initiative number nine is specifically directed toward improving weapon system support and readiness. The services and individual program managers at present are primarily concerned with immediate benefits and the priority of cost, schedule, and performance records over other considerations such as future support and readiness requirements. Improving support planning requires long-term commitments which are often sacrificed or not considered under the pressure to develop and field new systems. We must be prepared to make

the necessary up-front investments so that when systems are fielded they can be supported and meaningfully contribute to our readiness posture.

GAO ASSISTANCE TO THE COMMITTEE

Turning now to how GAO can be of service to this Committee and the Congress in the oversight of DOD weapons acquisition management. We will continue to provide reports on important defense issues as in the past. In addition, we can provide:

- Case-by-case analyses of reports submitted by the Office of the Secretary of Defense to the Congress pursuant to section 917 of the Department of Defense Authorization Act, 1982 (Public Law 97-86, referred to as the Nunn amendment;
- Analyses of reports submitted by the Secretary of Defense to the Congress pursuant to section 918 of the Department of Defense Authorization Act, 1982, responding to GAO recommendations;
- Assistance in evaluating programs proposed by DOD as candidates for multi-year procurement;
- Periodic reports on DOD's efforts and real progress in implementing the Deputy Secretary's management improvement initiatives;
- Surveillance over a limited number of weapon programs to report information when needed on a timely basis; and
- Analyses of selected issues in the fiscal year 1983 defense budget.

I have established a task force to review other possible areas in Defense where the GAO can be of help to the Congress. I would like to return to the Committee later in the year to discuss in detail the initiatives developed by this task force and the progress of work we will have undertaken in implementation of those initiatives.

That concludes my prepared statement, Mr. Chairman. I would be pleased to respond to any questions you and the other members of the Committee may have.