

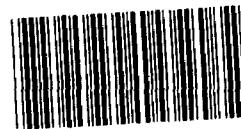
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UNITED STATES GENERAL ACCOUNTING OFFICE

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STATEMENT OF
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AFFAIRS DIVISION
BEFORE THE
GRACE COMMISSION PANEL
OF THE
COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES
ON
SELECTED RECOMMENDATIONS OF THE
PRESIDENT'S PRIVATE SECTOR
SURVEY ON COST CONTROL



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Madam Chairman and Members of the Panel

I am pleased to be here today to participate in discussions on the recommendations of the President's Private Sector Survey on Cost Control (the Commission), headed by Peter S. Grace. I have reviewed Mr. Grace's testimony including his identification of important actions the Congress could pursue in the acquisition area. GAO has performed extensive work in the acquisition and procurement area and has provided extensive comments on the Commission's recommendations--once as a combined effort with the Congressional Budget Office (CBO) and once as an independent assessment of the merits of the recommendations and the validity of cost savings projections. Our February 19, 1985, 2-volume report provided our views on nearly 600 issues and over 1400 of the Commission's 2,478 recommendations.

Before I discuss the areas singled out by Mr. Grace, I would like to make a few observations. First, I believe it is worthwhile for external bodies such as this Commission and the Packard Commission to periodically examine federal operations with an eye toward improving efficiency and effectiveness. In this context, we responded to both Commissions' requests for assistance. We provided this Commission background information on federal programs and literally hundreds of previous GAO reports. We believe further that these periodic external studies should supplement, rather than substitute for, internal reviews by federal agencies as well as reviews by internal and external audit organizations.

Second, I agree strongly with your opening statement on December 3. In that statement, you pointed out the difficulty of reaching overall judgements on the quality and value of the Commission's report in view of the diversity of its proposals and the fact that reactions have been so varied. I agree that assessments of the Commission's work should focus on the relative merits of the individual proposals.

Accordingly, the themes of the report we issued jointly in February 1984 with CBO and our report in February 1985 were that many of the Commission's recommendations have merit but that the basis and reasonableness of the associated savings estimates are often questionable. For example, in our February 1985 report, we found merit in 441 of the 581 issues we reviewed. Many of the detailed recommendations were, in fact, similar to recommendations we had made in previous reports and testimony. However, we continued to disagree with many of the policy-oriented recommendations and questioned the reasonableness of many savings estimates or acknowledged that we had no basis on which to evaluate them.

To illustrate our earlier work further and to tie it into the subject matter for these Hearings, I would like to comment on the acquisition issues. These issues include almost all the recommendations which form the basis for the important areas Mr. Grace identified for Congressional action. They include such

individual topics as procurement stability, regulatory constraints, dual sourcing, and cost estimating. Of the 31 acquisition issues, which constituted about \$45.6 billion of the Commission's projected 3-year savings, we found that 29 had merit--in full or in part. However, for 21 of the 22 issues which had projected cost savings, we either disagreed with the savings projection (3 issues) or found no basis on which to comment (18 issues). In many cases we found the description of the cost savings methodology insufficient to allow an assessment. Stated another way, we agreed with a \$132 million savings projection related to government furnished material; disagreed with projections totaling \$4.5 billion related to dual sourcing, the Department of Defense (DOD) rates for contract financing, and independent research and development costs; and found no basis to comment on the remaining \$41.0 billion.

I would also like to note agreement with statements made in your previous sessions that in an overall sense progress has been made in addressing the Commission's recommendations. This progress, in my view, has resulted because the public awareness has been heightened; the audit and review work of internal and external organizations has focused on inefficient and uneconomical operations and practices; and the Congress and the Executive Branch have taken numerous actions to address the problems identified.

Now I would like to turn to Mr. Grace's suggestions. At last week's hearings, Mr. Grace identified five actions that he labeled as important actions the Congress could pursue. It

should be noted that most of Mr. Grace's suggestions embody not one, but several, individual issues in the Commission's report.

- (1) Limit the number of new program starts and carry out weapons programs economically and efficiently by developing realistic cost estimates and considering the cost of new programs against the estimate of funds to be available in the future.

We agree with the Commission's recommendation that priorities be established in order to optimize the procurement of weapon systems. Accurate cost estimates are, of course, an important ingredient. Too many weapon systems with understated cost estimates have been proposed for the limited funding available, and this situation has resulted in program stretchout and uneconomical production rates.

In my view, the single greatest opportunity for significant savings in Defense lies in the requirements determination process. Savings will not be accomplished without some hard decisions on starting individual weapon systems. As everyone knows, once a program is initiated, it develops its own constituency and becomes extremely difficult to terminate. In the next few years we will be faced with such budgetary demands as maintaining a 600 ship Navy; maintaining the B-1 fleet while developing and acquiring the Stealth bomber; and continuing the Strategic Defense Initiative. There are techniques to produce systems more economically, such as competition, economic production rates,

and multiyear procurement. However, I doubt that the economies attained in these ways will be sufficient. Tradeoff decisions will inevitably have to be made and they will not be easy.

Our work on weapon systems acquisition has been concerned with related problems inherent in Defense's current acquisition process, such as:

--Low initial cost estimates which lead to continual cost estimate increases and contribute to program stretchouts or quantity reductions.

--The "Bow Wave" of funding required to complete ongoing programs.

--The tendency to stretch out, rather than terminate, marginal programs.

--Inter-service rivalry and inadequate coordination and cooperation.

We also believe that improving Defense's planning and budgeting is a necessary part of any effort to improve its acquisition process, but that such improvement is part of a larger requirement to streamline and strengthen financial management throughout the federal government. In GAO's

recent oversight hearings before the House Committee on Government Operations, the Comptroller General said, and I quote:

"In my opinion, the federal government needs to embark on a major effort to rebuild its system of financial management. . . . we [GAO] recently issued a two-volume report dealing with the need for this major overhaul and identifying some of the most important elements of a new financial management system. Many federal financial management systems employ outdated automated equipment and are not designed to and do not provide timely, reliable, and consistent information needed by managers, policy officials, and the Congress. A modern structure for managing government finances will not cause the budget deficit to disappear, but it will enable us to more effectively and efficiently manage our resources and administer our programs."

Moreover, I take note of the discussion in your previous sessions concerning the importance of organizational reform to successful improvement in this area. We need to move to an organizational structure which will promote better decisionmaking on overall Defense solutions.

- (2) Increase competition for defense procurement dollars by ensuring that proper emphasis on dual sourcing is maintained as outlined in the Defense Authorization Act of 1985. Also, make wide use of the spare parts breakout program to reduce the likelihood of abuses in spare parts procurement.

GAO has always favored competition when it is cost effective or is conducted for other legitimate purposes--including dual sourcing and spare parts breakout. However, we have concluded that the overall cost effectiveness of dual sourcing is uncertain and we did not support the Commission's projected cost savings in this area. We should note that the original objective of dual sourcing was not to reduce costs through competition, but to assure an adequate industrial mobilization base. However, we did agree with the Commission that to make dual sourcing more effective there needs to be (1) adequate guidance and methodology for identifying candidates, (2) adequate evaluation of candidates to determine suitability, (3) adequate up-front funding, and (4) revised regulations to permit and encourage the practice.

Regarding the opportunity for economies through greater spare parts breakout, prior GAO work supports this recommendation. We concluded that almost all aspects of the specific Commission proposal in this area were practical and could be implemented within executive branch authority. Commission recommendations included (1) establishment of a formal Air Force process during the weapon system acquisition phase to obtain the procurement engineering/technical data before the system is transferred to the Air Force Logistics Command, (2) use of two methods--technical and economic feasibility--to determine whether spare parts may be reproced from other than the prime contractor, and (3) changes to the Defense Acquisition Regulation to modify the restrictive and complex language regarding technical

data rights. We were unable, however, to validate the Commission's estimate of the additional spare parts that could be competed or of the projected savings.

In addition, we testified before the Senate Committee on Small Business in April 1984 on the Small Business Competition Enhancement Act of 1984. We supported this legislation since it contained many positive provisions for dealing with persistent causes of noncompetitive procurement and otherwise increasing competition where it is currently limited, especially for spare parts and other components.

We issued a report in June 1984 which commented on revisions to DOD's breakout regulation designed to improve breakout and competition. We observed that the revised regulation must be properly implemented with the necessary commitment and resources to ensure increased opportunities for breakout. DOD had done this to some extent with the creation of the Competition Advocate's Office, which was to provide additional full-time resources for breakout efforts. We also suggested a reassessment of a definition used in the regulation to increase the possibility for breakout.

- (3) Require cooperation among the services in the development of weapon systems.

GAO has long advocated cooperation both within an individual service (such as between users and developers) and among the services (such as when more than one service is involved in a mission). We have also advocated cooperation with our allies. Cooperation is necessary in requirements determination, concept formulation, system development and testing, fielding, and product improvement. With cooperation, problems such as the lack of communications interface at Granda, mentioned in your earlier hearings, might have been detected and solved earlier.

The services have missions requiring the use of similar aircraft, missiles, vehicles, and other high cost systems. It would seem that considerable savings could be achieved by using the same or reasonably common systems. However, our December 1983 report on joint service efforts shows that impediments complicate the acquisition process so that, to that date, there had been no real successes in the joint acquisition of high cost major systems. Major impediments included difficulties in:

--getting agreement between or among the services,

--negotiating multiservice requirements, and

--managing and administering joint programs in view of the intervention at all levels that seemed to occur.

This track record indicated clearly that even when there is cooperation and coordination, activities will not be efficient and effective unless they are conducted in an environment where the necessary, but tough, decisions are made on a timely basis.

Moreover, since the services appear to be fundamentally opposed to joint programs and merging of their requirements, evaluation of joint program candidates should consider the following guidelines:

--Essential service doctrines should not be unduly compromised.

--The programs should still be malleable, that is, not too far down the development road at merger time.

--Military effectiveness should not be unduly lessened.

--The potential for economies should be persuasive.

--There should be conspicuous support by the Congress, the Office of the Secretary of Defense, the top military officers, and the Joint Chiefs of Staff.

- (4) Strengthen the role of the Program Manager in the procurement process.

Mr. Grace observed that "There is no incentive for the Program Manager to objectively evaluate the merits of his weapons system." He attributed this condition to the fact that a Program Manager's " . . . success or failure is judged by the effectiveness with which he can push his system along the development and acquisition path." He also commented on the need to place greater emphasis " . . . on the Program Manager as an important function, not only to advocate the development of a defense system, but as a manager with sufficient stature, authority, and incentive to pursue savings where possible and even to terminate an ineffective system or contract before it travels too far down the development pipeline."

The specific Commission recommendations dealing with this issue pointed out numerous problems faced by the Program Manager, including:

--Inadequate support from parent commands.

--Frequent mismatches between the Program Manager's responsibility, authority, and accountability.

--Diversion of the Program Manager's attention away from managing the program to satisfying briefing and other information requests from all levels.

We believe these issues are longstanding and that the services have been unable to deal with them effectively. In theory, the Program Manager is chartered with a great deal of authority and responsibility. However, in practice the Congress, OSD, the services, and the Systems Commands have not usually given the Program Manager the latitude to run the program.

While we agree with the Commission's ideas on improving the lot of the Program Manager, and clearly see the need for greater support, we believe higher levels cannot be expected to relinquish their decisionmaking authority easily. Some balance must be found which gives the Program Manager authority and responsibility for program decisions. Yet, higher authorities should review these decisions based on a broader perspective.

We are nearing completion of a major review of key personnel--primarily program managers and contracting officers--in the early stages of Defense acquisition programs. Consistent with General Sylvester's comments on December 5, we have found that external influences often limit program managers ability to manage programs. These influences include preprogram decisions, unstable commitments or requirements, insufficient up-front funding, and external management direction. We also found problems in role definitions, acquisition strategy criteria, and career programs.

We plan to address issues such as (1) clarifying roles, responsibilities, and timing of assignments; (2) providing criteria and accountability for developing competitive strategies, and (3) strengthening career development and incentives. For example, specific issues related to career paths concern (1) tying the tenure of program managers to tangible results (but in any case not to be less than 4 years or completion of a major program milestone), (2) identifying the desired acquisition experience within the career field, (3) identifying types of program manager positions for which civilians should be considered, (4) selecting program managers based on demonstrated performance, (5) reserving General Officer and Senior Executive Service positions for acquisition managers, (6) expanding the coverage of the civilian acquisition career

program, (7) broadening the experience and training requirements for major system contracting personnel, (8) developing specific education, experience, or other criteria for appointment as a system contract officer, (9) providing career incentives for system contracting personnel by allowing them to enter other acquisition fields through development and opportunity, and (10) evaluating reclassification of system contracting personnel from administrative to professional after the roles have been clarified and qualification criteria established.

(5) Eliminate impediments to effective procurement and contracting out of commercial functions in the Defense Department in accordance with stated Federal policy.

~~(OMB Circular A-76).~~

Reliance on the private sector for commercial products and services has been federal policy since 1955, but without widespread compliance by agencies. At least nine individual Commission issues were related to full implementation of OMB Circular A-76. In responding to those issues in our February 1985 report, we agreed with the Commission that legislation would be beneficial in encouraging more consistent and widespread compliance with the A-76 policy. Moreover, since 1978, we have advocated that the Congress legislate a national policy of reliance on the private section for the government's goods and

services. Several bills have been introduced but none have been enacted. We also acknowledged that the Congress has passed legislation which limits implementation by precluding some agencies from contracting out certain commercial functions because of the potential impact, such as in areas like national security and veterans activities.

We issued a report in July 1985 which summarized information on A-76 from previous GAO and other reports. We reported that:

--Although contract costs increased in functions contracted out, savings were usually realized.

--Savings were generally attributable to contractors using fewer employees and paying them lower wages.

--Most employees obtained other federal jobs when functions in which they were working were contracted out.

That concludes my discussion of the five specific actions Mr. Grace identified. I would be happy to answer any questions you have.

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