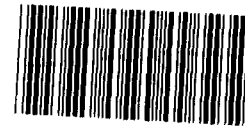


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OBSERVATIONS ON THE
DEFENSE ENTERPRISE PROGRAM

Statement of
Charles A. Bowsher
Comptroller General of the
United States

Before the
Subcommittees on Conventional Forces and
Alliance Defense and on Defense Industry
and Technology
Committee on Armed Services
United States Senate



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Mr. Chairman, we appreciate this opportunity to share our views on the recent legislation establishing a milestone authorization process for defense acquisition programs. As part of the Committee's efforts to move forward on this program, you requested us to review 20 major acquisition programs that might be candidates for milestone authorization. Our report on this effort is being released today. The report outlines the cost, schedule and performance status on each of the programs.

The Packard Commission, which completed its work last year, was very effective in calling attention to needed improvements in the defense acquisition process. It reaffirmed that such things as short, unambiguous lines of communication, an emphasis on innovation and productivity, and a stable funding and planning environment were all characteristics of successful programs. The Commission was candid and correct when it noted that all too often these characteristics were missing in the defense acquisition process.

Under the current process, the Congress evaluates and authorizes funding for programs on an annual basis while in the Department of Defense (DOD), senior decisionmakers review programs in detail at key milestones in the acquisition process. If senior DOD decisionmakers believe that a program can proceed, then the service establishes a baseline which is considered sufficient to support the program until the next acquisition milestone. The Packard

Commission recommended extending this baseline and milestone review process to the Congress with the objective of reducing the funding uncertainties associated with the annual review process.

The Commission's recommendation provided the impetus for the recent amendment to Chapter 144 of title 10, United States Code which provided authority for the establishment of "enterprise programs." The purpose of this legislation is to (1) enhance program stability through multiyear authorizations and (2) provide a more efficient management structure for defense acquisition programs. A service secretary may nominate as a defense enterprise program any program that is in or ready to go into full-scale engineering development or full rate production.

This year, each service secretary is required to nominate at least three programs to the Secretary of Defense. From these nominations, the Secretary of Defense is required to designate at least three as defense enterprise programs to be considered by the Congress for milestone authorization.

The new legislation is a major change in how funds are authorized. We support the objectives of the legislation and hope that it will lead to progress in stabilizing system acquisitions. Instability within the weapons acquisition process has long been recognized as the major stumbling block inhibiting greater efficiency. I am sure this Committee recalls that a few years ago former Deputy Secretary

of Defense Carlucci identified enhancing program stability as the cornerstone of the Defense Acquisition Improvement Program.

Unfortunately, recognizing the problem is not enough. It has proven to be an extremely difficult issue to solve. Despite the unprecedented peacetime budget growth in the early 1980s, our work indicates that DOD has had limited success in stabilizing the acquisition process. For example, in 1985 we asked defense program managers in both government and private industry whether they believed that the stability of their programs had improved during the 1980s. In their opinions, stability had not improved. While this is not encouraging, I do not believe that the problem is insurmountable. The enterprise program approach provides an opportunity to enhance and improve the acquisition process. With a continuing top level commitment within DOD and support from the Congress, we may be able to make some progress in stabilizing defense acquisitions.

This Committee has recognized that the transition to the enterprise process will not be easy. The enterprise program concept is designed to introduce improved management practices on a selective basis rather than radically overturning the process in the short term. The expectation is that if this concept proves to be an effective way of managing a few acquisition programs, it could be expanded to more programs.

In this early stage, a key to successfully implementing the enterprise process is to proceed deliberately and carefully select a few stable programs. While most programs have some degree of risk, programs selected should be stable in terms of not having significant cost, schedule or performance problems.

Our review of the 20 major acquisition programs that are in or ready to go into full scale engineering development or full rate production underscores the need for care in selecting programs. As you might expect, a majority of the programs we reviewed are experiencing cost growth, schedule slippage or technical difficulties.

Another key to success will be achieving an appropriate level of oversight. While a major purpose of the legislation is to reduce congressional oversight and the levels of review within DOD, there should be sufficient oversight to ensure that programs are proceeding on track. The legislation provides the framework for oversight (1) by requiring the program manager to prepare a comprehensive baseline of cost, schedule, and technical issues from which to measure program progress and (2) by requiring the Secretary of Defense to submit a deviation report to the Armed Services Committees whenever a program strays from the baseline. If the baselines accurately portray program expectations and if DOD provides timely reports on program deviations, that information will be useful for oversight purposes. I believe GAO should

continue to review cost, schedule, performance and other aspects of the selected programs as part of the oversight process.

Earlier this week DOD announced that it would request milestone authorization for three programs--the Army's Mobile Subscriber Equipment; Navy's Trident II D-5 Sea Launched Ballistic Missile; and Air Force's Medium Launch Vehicle. DOD stated that these programs were selected primarily because of their high priority. One of these programs, the Trident II, was among the 20 systems we reviewed, and it appeared to us to be a viable candidate for milestone authorization for the following reasons

- The program has a sound management structure, characterized by program manager stability.
- Lessons learned over the past 30 years on the Strategic Missile Submarines, Polaris and Poseidon, have been effectively applied to the Trident II; and
- The program has been reasonably fully funded and the Navy has been quite successful in meeting its milestone objectives.

We have previously audited the Mobile Subscriber Equipment Program but have not reviewed the Medium Launch Vehicle Program. We are prepared to assist the Committee in its assessment of these three candidate programs.

In the long term, we also would be prepared to assist in evaluating the overall implementation of the enterprise program process and determining whether the anticipated objectives are being realized. One key question that needs to be assessed is whether the multi-year funding authorizations for enterprise programs will cause unacceptable production stretchouts or inefficiencies in other programs.

Mr. Chairman, you specifically asked for our views on how milestone authorizations might be integrated in a biennial budget. A key issue here is that an acquisition program might be scheduled for a milestone late in the biennial period and only limited information would be available at the time milestone authority is being considered. This would increase the uncertainty about the program. For example, a program might be scheduled to reach its full rate production milestone well into the second year of the biennial budget. Before reaching a decision on whether to authorize full rate production, decisionmakers should have operational test results. However, in my example it would be very unusual for such results to be available at the beginning of the biennial period. In this case, it would seem prudent for the Congress to (1)

withhold approval of the system as an enterprise program until operational test results are available or (2) provide only tentative approval pending a certification by DOD that the operational tests show that the system meets performance expectations.

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