



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

MAY 12 2009

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
CHAIRMAN OF THE JOINT CHIEFS OF STAFF

SUBJECT: Department Position on Acquisition Reform

The Department remains committed to improving our requirements and acquisition management practices to deliver needed capability at acceptable performance levels and rates.

The Department strongly supports the improvements in the areas of defense acquisition organization and policy that are addressed in S. 454, the Weapon Systems Acquisition Reform Act of 2009 and in H.R. 2101, the Weapons Acquisition System Reform Through Enhancing Technical Knowledge and Oversight Act of 2009. We agree with the sponsors of S. 454 and H.R. 2101 that the defense acquisition process needs improvement in the areas of systems engineering, developmental test and evaluation, technological maturity, and cost estimation, and that changes are needed to strengthen a culture of acquisition excellence. With some changes that we believe can be satisfactorily resolved as we work with the Hill, S. 454 and H.R. 2101 will enable the Department to meet those objectives.

An information paper outlining specific acquisition reform initiatives, approaches, and ongoing activities is attached for your use on the Hill next week.

Ashton B. Carter

Attachment:  
As stated

*This background might be  
useful to you as you visit  
The Hill re budget*

## **Information Paper – Acquisition Reform**

**Background:** DoD is focused on acquisition reform at the strategic and tactical levels.

- At the strategic level, we are ensuring investments are affordable and consistent with warfighting priorities.
- At the tactical level, we are focused on acquiring warfighting capability via a disciplined, effective and knowledge-based acquisition process.
- Our objective is to achieve predictable cost, schedule and performance outcomes based on mature, demonstrated technologies and realistic cost and schedule estimates.
- We are also implementing initiatives that will increase the numbers and capability of the acquisition workforce, improve funding stability, enhance the source selection process, and improve contract execution. Our intent is to provide the Warfighter with world-class capability while being good stewards of the taxpayer dollar.

**Assessing the Problem:** The first step in reforming our acquisition system is to clearly identify the major problems.

- Often, we establish requirements that are at the far limit of the technological boundaries. Sometimes these can lead to breakthrough developments that can revolutionize warfare. But far more often the result is disappointing initial performance followed by cost and schedule overruns to correct those performance failures.
- We lack critical skills in the acquisition workforce. Over the last 10 years, defense contract obligations nearly tripled while our acquisition workforce fell by more than 10 percent. More important than the raw numbers is the fact that the Department lacks sufficient numbers of technically trained personnel to conduct effective oversight. We need additional cost estimators, systems engineers and acquisition managers.
- Often, we rely on overoptimistic cost estimates. To produce weapon systems efficiently, it is critical to have budget stability. But it is impossible to attain that stability in our modernization budgets if we underestimate the cost of our weapons systems from the start.

**Acquisition Reform Initiatives:** To address these problems, the Department is undertaking a far-reaching set of reforms.

**People:** To operate effectively, the acquisition system must be supported by an appropriately sized cadre of acquisition professionals with the right skills and training to successfully perform their jobs. To address these personnel deficiencies, we will increase the number of acquisition personnel by 20,000 positions over the Fiscal Year 2010 to 2015 Future Years Defense Program or FYDP. We will make significant increases in training and retention programs to bolster the capability and size of the acquisition workforce.

**Strengthening the Front End of the Process:** A mandatory process entry point, the Materiel Development Decision Milestone, is required for each major program prior to Milestone A. This will ensure programs are based on approved requirements and a

rigorous assessment of alternatives. To reduce technical risk, we will use competitive prototypes when it is prudent and cost effective to do so. Our standard practice will be to conduct a Preliminary Design Review before Milestone B. Independent reviews must certify the maturity of program technologies for a program to progress to the costly final phase of development – Engineering and Manufacturing Development. We must not overburden the process with unnecessary reviews. We will be mindful to not overburden ourselves with more “checkers” than those being “checked.”

**Improved Cost Estimation:** To strengthen our cost analysis capability, we plan to expand the size and capabilities of the Department’s independent cost arm – the Cost Analysis Improvement Group or CAIG. We will also modernize cost and price analysis education and training programs. To strengthen our cost data base, we will improve contractor data reporting of actual costs, earned value management, and pricing.

**Executing Programs Properly:** We also need to strengthen the execution phase of our weapons development programs.

- First, we plan to use fixed-price development contracts more frequently.
- Second, to address the issue of “requirements creep,” we will continue to employ Configuration Steering Boards that were endorsed by the FY2009 National Defense Authorization Act.
- Third, to align profitability with performance, we have several initiatives. Contract fee structures will be tied to contractor performance. We will also rigorously examine services contract strategies to ensure an alignment of fee earned and services provided. We will eliminate the use of unpriced contractual actions, whenever possible. And, we will ensure the use of multiyear contracts is limited to instances when real, substantial savings are accrued to the taxpayer.

In short, we need to match requirements with mature technologies, maintain disciplined systems engineering integrated with testing and, avoid sacrificing cost and schedule for promises of improved performance.

**Bottom Line:** The Department is committed to acquisition reform. We are determined to improve the effectiveness of our acquisition system – a key element of our overall national security capability. Critical initiatives are underway. We agree with the strategic intent of recent legislation and will work closely with Congress to achieve our collective intent.

As noted by Secretary Gates in his Defense Budget Recommendation Statement April 6, *“The perennial procurement and contracting cycle – going back many decades – of adding layer upon layer of cost and complexity onto fewer and fewer platforms that take longer and longer to build must come to an end. There is broad agreement on the need for acquisition and contracting reform in the Department of Defense. There have been enough studies. Enough hand-wringing. Enough rhetoric. Now is the time for action.”*

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