Fiscal Challenges Within Defense Acquisitions

A Marine Corps Project Officer's View

Maj. Romeo Paolo Cubas, USMC

Decades of inefficiencies have plagued the Department of Defense (DoD) acquisition system because its organizations continue to suffer from fiscal irresponsibility. Regardless of the intensity of congressional oversight or the number of DoD policies and regulations, the cycle of programmatic mismanagement continues while the taxpayer and warfighter feel the pain.

The fiscal challenges inherent to the acquisitions system are difficult to solve and layered with complexities. Congressional budgetary issues, a culture fraught with risk aversion, an obsession with obligations and expenditure benchmarks, manpower shortages, a lack of communication, and fundamental differences of what is in the best interest of the taxpayer collectively have a significant impact on the efficiency of the process. The success of the defense acquisition system is predicated on a solid foundation of fiscal responsibility, and any cure for inefficiency and mismanagement will only take effect when the DoD workforce is allowed to operate in an environment that fosters judiciousness and budgetary discipline.

Cubas *was a project officer and team lead for Program Manager M1A1 Tank Systems, at Marine Corps Systems Command. Currently, he is the Battalion Executive Officer at 2d Tank Battalion, 2d Marine Division, Camp Lejeune, N.C.*

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For the sake of the user, practical decision making must trump a misplaced loyalty to frugality. In its present form, the contracting process is hamstrung by factors that affect a Program Management Office's (PMO's) ability to deliver a material solution while staying within cost, performance, and schedule constraints. All the issues with the defense acquisitions system are not necessarily under the control of any particular organization. However, it is incumbent on acquisitions professionals to judiciously address most of these challenges with strong leadership and accountability.

Requirements Generation: A Dysfunctional Process

Five years ago, during a testimony to the Senate Armed Services Committee (SASC) on the acquisitions of major weapon systems, former Under Secretary of Defense for Acquisition, Technology and Logistics (USD[AT&L]) John Young recognized a growing trend in unrealistic requirements that exceeded technological capabilities, as well as established cost and schedule parameters. According to the testimony, unpredictable and inadequate budgets coupled with additional technical certifications compromised a program's affordability and led to schedule slip. In the same 2008 hearing, former Government Accountability Office (GAO) Managing Director of Acquisitions and Sourcing Management Katherine Schinasi declared that the acquisition process was inherently dysfunctional because DoD lacked a coherent and prioritized procurement strategy that valued joint needs instead of individual service interests. She also noted that requirements generation tended to revolve around assessments that focused on defeating potential enemy threats vs. achieving overmatch over current enemy capabilities, which needlessly increased programmatic costs and unnecessarily extended schedules. One only has to look at the characteristics of any number of weapon systems, aircraft, ground vehicles, Navy vessels, or command and control systems to realize there is a prevalent trend in unnecessary features, questionable service uniqueness, and capability overkill.

The Army's development of the 120 mm Advanced Multipurpose (AMP) tank round is a perfect example of this service redundancy and programmatic gold plating. Among its few characteristics, the (AMP) round will have the ability to arm as it leaves the Abrams's gun-tube, have more than three modes of detonation, and be able to detonate in airburst mode with incredible precision. It is hard to imagine a target inches or perhaps a few feet away from the front of a tank that cannot be suppressed or destroyed with machine-gun fire, a gunner having the time to select a mode of detonation based on the characteristics of a bunker or wall, or an airburst detonation that requires accuracy. This program is especially difficult to comprehend given that the Marine Corps tank community began a similar program in 2006—the Multipurpose High Explosive (MP-HE) round—and fielded it to a tank company in Afghanistan in 2011. Proven in combat, the round has a point-detonate, delay, and airburst capability, meets approximately 90 percent of the Army's requirements, and costs less than what it is estimated the AMP will cost when fielded in 2016, at the earliest.

However, program success is not defined by efficiency, performance, or timeliness, as was the case with the Marine Corps' MP-HE round; instead, as briefed by Ms. Schinasi, program success has been improperly defined as the receipt of funding and eventual initiation. Her Senate testimony and a number of follow-on congressional testimonies echo a sense of frustration among acquisition professionals that various stakeholders such as the DoD workforce, congressional sponsors, and the defense industry are complicit in a failed system that does not provide tangible incentives for efficient and timely product delivery. In the end, the warfighter and taxpayer are left dealing with the consequences of mismanaged programs and wasted funds.

Unrealistic Benchmarks and an Uncooperative Budgetary Process

Fiscal benchmarks and institutional processes further complicate the defense acquisition system and add to a PM's frustration. Any formalized acquisitions training program suggests that PMs are graded on whether their programs meet cost, schedule, and performance parameters. However, the unwritten rule in an acquisition command states that PMs are evaluated on how effectively they can obligate

and expend funds while meeting prescribed Office of the Secretary of Defense (OSD) benchmarks. If a DoD organization saves operating costs, the Comptroller will take the agency's funds the following year, in the hope it doesn't have negative consequences. In a 2011 testimony to the SASC on DoD Efficiencies Initiatives, the Comptroller, USD Robert Hale, confessed that while this approach might seem problematic, he has not found a better approach and recommends that the DoD continue looking for incentives.

In addition to the wasteful game of obligation and expenditures, congressional funding profiles and Continuing Resolutions (CRs) significantly impact the defense acquisition system. Contracts, test schedules, and delivery schedules are among a few of the programmatic events that cannot get executed properly unless there is a reasonable amount of predictability. Service headquarters prepare their Program Objective Memorandum (POM) initiatives outlining their fiscal needs for the next 6 years, but it seems rather irrelevant when the entire budget process is subject to change from year to year due to fiscal instability, political discord, and a lack of a signed budget. PMs plan for these eventualities and know the most realistic contract award date is during a fiscal year's third quarter due to the high likelihood of a CR. A PMO may be ready to execute a procurement contract award in the first quarter, but there is far less chance of a schedule slip if significant programmatic events are planned between April and June.

Although a CR may cause an activity to receive funds in January, PMs still have to meet OSD-mandated obligation and expenditure benchmarks. For example, a program's Research, Development, Test, and Evaluation (RDT&E) funds have an 80 percent expenditure benchmark by the end of the first fiscal year in which they were assigned. This unrealistic constraint forces a PM to find ways around the system to expeditiously obligate the funds, and it makes it almost impossible for test agencies to expend their funds in an appropriate amount of time. Acquisition commands often place additional funding constraints upon themselves in order to monitor obligation and expenditure rates. Some of these self-imposed limitations have adverse effects, such as when a PMO mandates that procurement funds be obligated in 1 year vs. its normal 3-year window for the sole purpose of achieving a quick obligation rate. These budget controls make it more difficult to use prior year funds, even though it is perfectly acceptable under federal fiscal code.

In a 2012 memorandum concerning the management of unobligated funds and obligation rates, USD(AT&L) Frank Kendall rightly concluded that acquisition leaders should rethink their programmatic success metrics. He said that, instead of focusing on benchmark execution and worrying about the threat of funds being taken away, acquisition leaders should concentrate on changing the culture to incentivize savings and the judicious obligation of funds. An individual's performance might also need to be evaluated by the amount of funding returned to the U.S. Treasury. Regardless of the incentives used to prevent fiscal gamesmanship, USD Hale acknowledges that the real impetus for changes has to come from top leaders.

The Contracting Process: The Ugly Truth

A former and well-respected PM of M1A1 Tanks Systems at Marine Corps Systems Command and Secretary of Defense (SecDef) Corporate Fellow, LtCol Wendell Leimbach believes that the slow contracting process is really a symptom of a congressionally controlled budgetary problem. The process is delayed further by an inherent risk aversion and an incessant fear of making mistakes. Some Contracting Officers (KOs) excessively agonize over Federal Acquisitions Regulations (FARs) interpretations, legal reviews, peer reviews, policies, and prolonged contractual language editing periods to ensure that a request for proposal (RFP) or a contract is completely defensible against industry protests or against allegations of fiscal irresponsibility. It is not uncommon for an Acquisition Category (ACAT) IV or Abbreviated Acquisitions Program (AAP) contract to take anywhere from 9 to 14 months from contract initiation to contract award. Fiscal responsibility is an obvious necessity, but over-analysis and excessive caution inevitably lead to inefficiency or inaction.

Aside from budgetary challenges and a culture of risk aversion, the contracting process also suffers from manpower problems and procedural inefficiencies. Many good KOs are not incentivized to stay in government and are recruited by industry with promises of more pay and greater career progression. Any remaining good KO is in high demand and overworked by several PMOs, and the increased workload on the KO demands that a PM rely more on the office's contract specialist. It is a unfortunate reality that regardless of the branch of Service or level of acquisitions management, project officers and PMs struggle with the contracting competency.

LCDR Elizabeth Hernandez, a renowned avionics systems project officer with Naval Air Systems Command, points out that to alleviate the problem, both competencies must ensure that the contract specialist be treated as an equal member of an Integrated Product Team (IPT) and involved in key conversations and significant events. While not quite as effective as having a readily available KO, the integration of a contract specialist results in the contracting competency having an increased understanding of the project's cost, schedule, and technical risks and overall improved communications. The back-and-forth of administrative changes in documentation and mundane programmatic questions also can be avoided with an available contracting representative. Furthermore, if KOs were to empower contracting specialists to make decisions and recommend strategies, they could work more independently, and better support the PM, thus mitigating the negative consequences of reduced manpower.

Influenced by various factors such as a heavy workload, a necessity for frugality, the looming expiration of funds, drawn-out legal reviews, and fears of industry protests, KOs generally prefer to expedite the contracting process and award lowest-

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price-technically acceptable (LCTA) contracts. The irony is that most PMs responsible for weapon systems desire best value contracts in order to maximize the opportunities of achieving the best solution at the best price. Contracts that focus on lowest cost may work for well-established technologies, but former PMs like LtCol Leimbach warn that they can prove disastrous for projects that require development or integration. This philosophical difference can be a source of tension within an acquisitions command, and it can be especially problematic during a source selection process when the KO serves as a Source Selection Authority (SSA). In today's fiscal environment there is an increasing tendency to select a vendor whose price is more palatable even in best-value solicitations regardless of the recommendation of the Source Selection Chairman. For this reason alone, KOs should not be assigned as SSAs, since they may lean toward the path of least resistance. Unfortunately, this habit continues within acquisition commands, even though KOs do not share the same level of accountability for cost, schedule, and performance as do members of the program management competency.

Conclusion

A dysfunctional requirements generation process, uncertainties in the budget cycle, adherence to fiscal benchmarks, and the challenges of government contracting are some of the contributing factors that lead to financial irresponsibility and mismanagement within defense acquisition. Although there are fiscal challenges that are out of the DoD's control, the department has to focus on what it can influence, and this begins by radically changing its cultural mindset. The acquisition workforce is programmed to believe that their organization's inability to obligate or expend its funding will mean certain cuts in next year's funding levels. This government culture fosters wasteful tendencies and forces employees to participate in a process of monetary gamesmanship.

Within the acquisitions disciplines, particularly the program management and contracting functions, there is a fundamental difference of what truly is of best value or a judicious use of taxpayers' dollars. A PM is guided by a requirements document that lists a system's key performance parameters and has to ensure delivery of a capability within prescribed cost, performance, and schedule constraints. Meanwhile, a KO wrestles with manpower limitations, FAR interpretations, legal opinions, threats of industry protests, and a product's cost. A PM and KO will more than likely be at odds because of various external pressures and differing levels of accountability. Consequently, the warfighter risks not receiving a capable system in a timely manner.

Congressional funding delays further complicate the contracting process. A PMO might receive funds as late as January and will start feeling significant pressure to obligate or expend money in July or risk losing it to a higher priority within the organization. Funding delays, pressures to meet benchmarks, and threats of funding reallocation effectively shortens a fiscal year to 7 months. A compressed timeline puts a PM and a KO in a predicament, since contracts will likely be awarded without the necessary attention to detail, eventually affecting product quantities, performance, and overall cost. Additionally, the availability of funds, established benchmarks, and schedule commitments may play a role in determining whether a program should be pursued as an LCTA or best-value contract.

Regardless of the challenges inherent to the defense acquisition system or the differences between the contracting and program management competencies, acquisitions leaders should focus on judiciously executing taxpayers' funds, instead of worrying about protecting their annual budgets or furthering their own organizational agendas. A change in culture that incentivizes government employees for saving money is urgently needed, and Kendall's memorandum on the management of unobligated funds and obligation rates, is certainly a step in the right direction. Key officials should abide by his guidance and actively look for opportunities to instill a culture of accountability and fiscal responsibility. If acquisition professionals are fiscally responsible, embrace a spirit of cooperation, and are ever mindful of their warfighting end users, they will make great strides toward solving the challenges of the defense acquisition system.

The author can be contacted at **romeo.cubas@usmc.mil** *or* **paolocubas@hotmail.com**.