

ACQUISITION REFORM

INTRODUCTION

Although DoD has long sought to improve its acquisition processes, the changing world environment including a dramatically different and unpredictable threat, rapid advances in technology, and a declining defense budget have combined to make the existing system insufficient for meeting the new challenges of today. DoD must fundamentally reengineer the way it does business if it is to help improve long-term military readiness.

The Department has aggressively pursued an intense and focused effort at reforming its acquisition process. To accomplish this, the Secretary of Defense created a full-time, senior executive presidential appointee position -- the Deputy Under Secretary of Defense (Acquisition Reform) (DUSD(AR)) -- as the focal point for development of a coherent and practical step-by-step plan for reengineering the acquisition process.

Immediately following appointment, the DUSD(AR) began working with the Deputy Secretary of Defense and the Under Secretary of Defense (Acquisition & Technology) to develop a vision for acquisition reform. In February 1994, the Secretary of Defense issued a paper entitled *Acquisition Reform: A Mandate for Change*. This paper provided the conceptual foundation of DoD's approach to acquisition reform. By following a plan based upon the mandate, DoD will institutionalize business processes that facilitate affordable and timely delivery of best-value products and services that meet warfighter needs. DoD will also create and maintain an environment for continuous process improvement while supporting the nation's social policies, protecting the public trust, and fostering development of an integrated national industrial and technology base.

THE DOD PROCESS FOR ACQUISITION REFORM

To assist in the implementation of the vision, the DUSD(AR) organized the DoD Acquisition Reform Senior Steering Group (ARSSG) to serve both as an advisory body in implementing acquisition reform initiatives and to build a consensus within DoD on acquisition reform initiatives. This group is composed of senior acquisition executives from the Services, the Director of the Defense Logistics Agency, the Director of the Defense Contract Audit Agency, the Vice Chairman of the Joint Chiefs of Staff, the DoD Inspector General, and senior executives within the Office of the Secretary of Defense (OSD) involved in making acquisition policy and conducting or reviewing acquisitions.

Process Action Teams (PATs), composed of full-time, multidisciplinary, interdepartmental personnel, have been and will continue to be created to develop plans to reengineer various business processes. The personnel selected for the PATs have a mixture of practical, field-level experience and policy backgrounds.

Due to the size and complexity of the acquisition system, the decision was made to attack the reengineering effort on a process-by-process basis. In addition, the work was prioritized in three rounds or phases, noted below, that reflect the immediate, near-term, and long-term goals, respectively.

- Round One. This involves targeting steps in the process with a high payoff or a one-time

opportunity to effect change. Three issues requiring immediate action fell into this category. The first was legislation for streamlining the acquisition process. To accomplish this, the recommendations of the DoD Advisory Panel on Streamlining and Codifying Acquisition Laws (known as the Section 800 Panel) and the Secretary's Bottom-Up Review were converted into a DoD legislative proposal. That proposal was presented to the Office of Management and Budget (OMB) for interagency review and served as the foundation for the Federal Acquisition Streamlining Act of 1994 (FASTA). The two remaining issues -- improving the use of Electronic Commerce/Electronic Data Interchange (EC/EDI) in contracting, and reducing DoD's reliance on military specifications and standards -- were pursued through the use of quick reaction PATs.

- Round Two. This concerns issues of high priority but not as critical in terms of timing as Round One actions. The DUSD(AR) is just beginning to work these issues. Additionally, FASTA legislation and recommendations made by two Round One PATs are being implemented in Round Two.
- Round Three. This entails additional priority issues and processes that require change and will institutionalize continuous process improvement, but must be delayed due to prioritization of available resources.

Priorities will be readjusted continually as reform goals and progress towards achieving them are reviewed.

DOD ACQUISITION REFORM GOALS

A strategic plan has been completed, including identification of specific problems with the existing process, objectives, or benchmarks that should be considered in creating new acquisition processes, and specific goals and objectives of particular processes within the acquisition system. This plan will guide ongoing efforts to ensure institutionalization of reform measures and create an environment for continuous process improvement that will last beyond the tenure of this Administration. The specific goals on this strategic plan are outlined below.

Enhance the Needs (Requirements) Determination Process

One immediate goal (Round One) in this area is to eliminate DoD-unique product or process specifications or standards that inhibit the purchase of commercial products or services, or dictate to a contractor how to design or produce a product or service. The Department has made significant strides in accomplishing this goal.

As a result of a Process Action Team report on Military Specifications and Standards entitled *Blueprint for Change*, the Secretary of Defense signed a memorandum in June 1994 directing that the Department rely on the use of performance specifications and, if performance specifications are not practicable, on the use of nongovernment standards. Government-unique specifications or standards may be used only with a waiver when use of performance specifications or nongovernment standards are impractical, do not meet user needs, or are not cost effective. While not eliminating the use of military-unique specifications, this essentially reverses the existing preference system. The Standards Improvement Council, composed of representatives of the Services and defense agencies, is working on a complete plan of action detailing each tasking that must be accomplished to implement this policy change and is responding to concerns regarding such issues as logistics supportability when using a performance standard.

A lower priority goal (Round Two) for this process is integration of needs (requirements) determination; resource allocation within the planning, programming, and budgeting system (PPBS); and the acquisition processes. Working groups will be established in the near future, utilizing an Integrated Process Team (IPT) approach, to identify and recommend cost, schedule, and performance trade-offs. The working groups will also look at enhancing program stability.

Improve the Systems Acquisition Process

The main goal (Round One) for improving this process is to use commercial practices to acquire military-unique as well as commercial items. In support of this goal, nominations for seven pilot programs were submitted to Congress for review and approval under the FY 1991 National Defense Authorization Act. Congress approved five pilot programs in FASTA. These programs, which will test the use of commercial practices in the acquisition of major weapons systems, are:

- Fire Support Combined Arms Tactical Trainer (FSCATT).
- Joint Direct Attack Munition (JDAM).
- Joint Primary Aircraft Training System (JPATS).
- Commercial Derivative Engines (CDE).
- Commercial Derivative Aircraft (CDA).

Extensive relief from myriad Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS) requirements waivable at the OSD level had already been provided for these programs prior to the passage of FASTA. Metrics are being developed to measure the impact of the relief granted, from both statutes and regulations, and on the ability of the government to buy commercial and government-unique items under commercial terms and conditions.

The Round Two goal is to improve Service and OSD milestone decisionmaking and information collection processes for major systems, commensurate with risk, dollar value, and acquisition strategy. An Oversight and Review PAT was chartered in September 1994 with the following objectives:

- Identify the critical decisions that must be made at each milestone.
- Identify information necessary to support oversight authorities.
- Identify the most effective and efficient means to make information available.
- Develop a set of alternatives to implement goals of the team.
- Identify barriers to implementation of each proposed alternative.
- Evaluate the impact the alternatives will have on the ability to make milestone decisions.
- Identify any required changes to law, regulations, or policy to implement the preferred approach.
- Develop metrics to measure progress towards new system.

- Create a plan for implementing the preferred approach.
- Identify a system for follow-up to ensure compliance with the new approach.

The PAT report was completed in December 1994. The recommendations from the report are now being reviewed by the ARSSG for implementation.

Improve the Procurement Process

The immediate goal for honing this process is to make maximum use of technology to facilitate and enable reengineering of the acquisition process. A PAT was chartered in August 1993 to develop a plan for implementing the use of EC/EDI in contracting within DoD as soon as practical, particularly for making small purchases. The PAT's report -- *DoD Electronic Commerce (EC)/Electronic Data Interchange (EDI) in Contracting* -- was approved by the Deputy Secretary of Defense in December 1993. The implementation calls for a two year phase-in. DoD is fully coordinating and assisting other government agencies as part of the implementation of the National Performance Review initiative. The DUSD(AR) was also recently appointed as the executive agent for implementation of EC/EDI across all functional areas within DoD, in addition to contracting.

Perhaps the most important goal for achieving long-term benefits in this process is to ensure that DoD emulates the best procurement practices of world-class customers and suppliers. Significant work has been accomplished towards achieving this Round Two goal. A PAT to reengineer the procurement process began work in October 1994 with a charter to accomplish the following:

- Determine how to identify and disseminate best procurement practices throughout DoD.
- Improve sole source proposal preparation, evaluation, and negotiation processes.
- Streamline the source selection process.
- Address buying activities, roles, and missions.
- Encourage early involvement in the process.
- Eliminate nonvalue added activities.
- Optimize the procurement process at a system level.

The procurement process team's report will be completed in early 1995.

Improve Contract Administration

An immediate goal for this process is twofold: to shift DoD's emphasis from end-item inspection to a system of process controls, and ultimately an output oriented system; and to ensure that oversight and review of contract management add value to the process and are minimally intrusive. In February 1994, the Secretary signed a memorandum allowing the use of any acceptable quality assurance system, including internationally recognized standards. The intent was to make it possible for contractors to use one quality system throughout a facility.

In October 1994, as a Round Two effort, the Contract Administration PAT was chartered to review the

goal for minimally intrusive, value-added contract administration. The objectives included in the charter for this PAT are outlined as follows:

- Identify customer needs for contract administration.
- Determine how to best ensure delivery of quality products (Quality Partners Initiative).
- Facilitate early involvement of contract administration resources.
- Simplify management of government property.
- Improve oversight of contractor overhead rates.
- Improve contract closeout and payment processes.
- Determine and review commercial contract administration infrastructure.
- Clearly define roles and missions.
- Maximize use of technology to reform contract administration.

The PAT's report, like the Procurement Process team report, is expected in early 1995.

Improve Contract Terms and Conditions (Legal, Pricing, and Financing Issues)

The first priority for improving this process is to eliminate, to the maximum extent practical, government-unique terms and conditions. After appointment of the DUSD(AR), one of the first focus areas where work began was preparation of a DoD legislative proposal which addressed the Section 800 Panel recommendations to eliminate, where practical, government-unique terms and conditions. Now, with passage of FASTA, DoD is in the process of implementing its provisions and wants to provide the relief granted by Congress as soon as practical. A government-wide implementation plan for FASTA chartered 11 teams to address various portions of the legislation. The FAR Council expects to publish changes to the FAR for public comment in the near future. The plan also calls for full implementation of FASTA by April 1995, a full six months ahead of the statutory requirement.

A near-term priority for this process is foreign contracting and contingency operations -- update laws regarding contingencies, the lending and borrowing of defense equipment, and war risk to contractor personnel. Preparation of legislative changes in the FY 1996 National Defense Authorization Act is in process to provide authority for lending and borrowing to and from U.S. allies and to provide the Department authority to grant waivers during contingencies declared by the Secretary.

Change the Culture

The top priority in this area is to increase the quality and effectiveness of the acquisition workforce. The Defense Acquisition University is providing seminars to students and faculty on acquisition reform. New courses are being established and the curriculum is continuously revised. Acquisition workforce qualification standards have also been increased.

An intermediate goal is to improve federal and DoD acquisition regulations and DoD system acquisition policies to better facilitate the acquisition process. As mentioned above, implementation of statutory changes into the regulations is in process. DUSD(AR) will support the FAR rewrite mandated by the

National Performance Review that will create a guiding principles section as an introduction to the FAR and will also include all government-wide and agency-unique mandatory provisions. The chartered Procurement Process PAT, noted earlier, is looking at ways in which best practices can be incorporated into acquisition desk books.

Define Measures of Success -- Metrics

A Round Two goal of this process is to establish clear measurements of system responsiveness and metrics to determine success of change efforts. The Defense Acquisition Pilot Program Consulting Group (PPCG) on Metrics was established in March 1994. The group's interim fall 1994 report was drafted and is under review. This report describes the activities, methodologies, and accomplishments of the PPCG and offers an interim assessment of the work to date to assist in the development and validation of evaluation criteria and metrics for each of the defense acquisition pilot programs. Initial metric agreements were reached with three pilot programs and the remainder are under development with the objective to conclude, where possible, by February 1995.

CONCLUSION

If DoD is to continue to become a world-class customer, reduce acquisition costs, foster the development of a national industrial base composed of companies that can compete in the global marketplace, and maintain its technological superiority, it must change the way it does business.

The past year has made a critical difference. The accomplishments of the Process Action Teams and the passage of FASTA are milestones in the pursuit of acquisition reform, validating the strategy of reengineering the acquisition system.

Much work remains to be done -- in fact, arguably the hardest part is ahead. DoD leadership is focused on reform and its criticality to national security. To be successful, support and input from the entire acquisition community, both within and outside of the government, are needed.