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ACQUISITION REFORM

Acquisition Reform Introduction

The Department of Defense (DoD) has long recognized the need to find ways to streamline its acquisition system and reduce the cost of the acquisition process both to DoD directly, by reducing DoD's administrative costs, and indirectly, by reducing the costs of DoD's supplier base and thus the amount of money DoD pays for the supplies and services received. Complicating DoD's desire to streamline the acquisition system and reduce acquisition process costs is the obligation DoD has to ensure the integrity of the system both in terms of the system's treatment of the supplier base and in terms of the way which the taxpayer's dollars are spent.

For many years DoD suggested to Congress that Congressionally imposed government unique requirements, terms, and conditions, made it impossible for DoD to make any significant headway in streamlining the acquisition system and processes. Congress responded to this suggestion in the National Defense Authorization Act of 1990, by directing in Section 800 of that Act, that DoD organize a panel consisting of representatives from government, industry and academia to study all of the laws impacting acquisitions within DoD and make recommendations as to the disposition of those statutes. The panel became known as the Section 800 Panel (Panel). The Panel finished its' work identifying \_\_\_ statutes which applied to acquisition within DoD. The panel recommended that \_\_\_ statutes be deleted as no longer adding value, that \_\_\_ statutes be modified to continue to add value and that \_\_\_ statutes be retained without change. The Panel submitted its' report to Secretary Cheney, who forwarded it to the Congress in January 1993. This report forms the largest part of DoD's foundation for reforming the Acquisition Process.

During 1993 the President directed the Vice President to conduct a review of the way the government operates and to make appropriate recommendations for improving the way in which government provides services to the citizenry. The Vice President completed his report and submitted it to the President in September of 1993. The report is now known as the National Performance Review (NPR). One chapter of the NPR deals with problems the Vice President found in the way the government's acquisition system responds to its' internal customers. Basically the report found that the acquisition system is a rules laden system which stifles, rather encourages, risk management.

Based on the recommendations of the Panel and the NPR, DoD through, the Office of the Deputy Under Secretary of Defense (Acquisition Reform), developed a vision for reforming DoD's acquisition system. The vision was shared with Congress in February 1994 and was entitled "Acquisition Reform - Mandate for Change." In that document the Secretary identified the need to move DoD from its' web of laws and regulations to guiding principles. The vision also identified the need to re-engineer the entire system, one process or step at a time, to ensure that DoD would become the smartest most efficient most effective buyer of best value goods and services which meet the warfighters' needs relying upon a globally competitive national industrial base to satisfy DoD's requirements.

In the execution of this vision DoD decided to fundamentally change the process by which change was made in the process. Teams were formed pulling in members from throughout the Department, civilian agencies and where permitted, industry, to identify problems in the acquisition, recommend solutions and develop implementation plans. For the

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first time DoD worked hand in hand with its' counterparts finding ways to satisfy the mutual interests of all concerned through the use of open and meaningful dialogue.

DoD has reported on a number of its' initiatives over the last several years, initiatives which were developed using the knowledge and experience of folks who actually do the work. Most of those initiatives have been implemented and are in the process of being evaluated to ensure that changes made actually add value. Several new initiatives are discussed more fully below.

DoD has not finished re-engineering the acquisition system, but it has come to the end of its beginning. The Department is in the process of evaluating changes already made and looking at areas within the acquisition where in-roads have barely been made. These areas include the logistics, financial management, test and evaluation and requirements processes within the acquisition system. There are more savings to be realized and efficiencies to be achieved while assuring our ability to respond where and when the Commander-in-Chief directs.

#### Acquisition Reform Legislation

The biggest challenge the Department faces in the legislative arena is working with the Administration and the Congress to avoid undoing the tremendous strides we, collectively, have made in reforming the acquisition system. DoD is, and will continue, working hard with the Administration and Congress to avoid making changes to the improvements already made until evaluation of the impact of those changes can be fully evaluated. DoD is, and will continue, to seek additional changes which will allow the Department to fully benefit by the work done by both the Panel and the NPR. DoD is, and will continue, to seek legislation which allows the Department to maintain its commitment to the Small Business community and helps that community become an integral part of a globally competitive national industrial base.

A number of significant pieces of legislation which further the advance the changes already made in the Federal Acquisition Streamlining Act of 1994 (FASA) were passed in 1996. The first among these is the Federal Acquisition Reform Act of 1996 (FARA) which was signed into law in February 1996. FARA provides a number of significant opportunities for DoD to further streamline and reduce non-value added steps in the acquisition process. Among the most significant changes authorized by FARA is a test of the use of simplified acquisition procedures (SAPs) for commercial items between the simplifies acquisition threshold (SAT), \$100,000, and \$5 million. This will allow the Department to reduce its administrative costs, and the overhead costs for DoD's vendor base for purchases of relatively low risk items. This change will also give the Department greater access to the commercial marketplace. In addition, FARA provides the authority for contracting activities to use SAPs for all requirements between \$50,000 and the SAT while the government works to fully implement Electronic Commerce/Electronic Data Interchange (EC/EDI). By providing DoD additional time to implement the effective use of EC/EDI and allowing the use of SAPs in the interim the Department can reduce its overhead while ensuring that it is providing an effective and efficient EC/EDI capability.

In addition to FARA, Congress passed the Information Technology Management Reform Act of 1996 (ITMRA). ITMRA provides substantial relief from cumbersome processes which added little value but significant cost to the acquisition of information technologies. The passage of ITMRA allows DoD to focus on the appropriate use and management of

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information technology (IT) resources. It should also reduce the amount of time an IT acquisition takes by reducing the number and frequency of protests, while moving the Department in the direction of the use of sound acquisition strategies.

The final piece of significant legislation this year was the Defense Authorization Act for Fiscal Year 1996 in which Congress provided the Department of Defense authority to align the preparation of independent cost estimates with the level of milestone decision authority.

Acquisition Reform Regulatory Implementation

The Department led the federal government in the implementation of FASA. DoD advocated a changed process for implementing statutes in the acquisition process. This process called for the use of multi-functional teams with representatives from field offices where the work is actually performed. It empowered the teams to take an approach which the team felt was appropriate and would not only effect the letter of the law but its' purpose as well. Over 70% of the Federal Acquisition Regulation (FAR) was changes in a matter of 12 months. Completely new approaches were developed in a number of areas and perhaps most importantly industry was more fully involved in the preparation of the implementing rules than ever before in history. In addition, plans for training on these new rules was incorporated in the teams work to ensure that the right message was delivered to the workforce and for the first time industry participated fully in the development of the training and its communication. Industry was supportive of these changes that it has urged OFPP and DoD to institutionalize these changes for all future rulemaking endeavors.

The Department is also leading the effort to implement the statutory authority found in both FARA and ITMRA.

DoD also recognized that there are changes that could be made without statutory authority and that those changes could have a measurable impact on the way in which the Department does business. The Department chartered a number of teams and participated in teams chartered by the Administration and other civilian agencies focused on reducing non-value added steps and processes. These efforts included: rewriting of the DoD regulations governing the acquisition of major weapon systems (DoD 5000 series) by identifying that which was mandatory and moving the discretionary material to another location; implementing protest reform. providing protections to DoD's industry partners while reducing the costs of these processes to both DoD and industry; rewriting the guidance in FAR Part 15 on source selections providing for more efficient, not less competitive, negotiated procurements; and re-evaluating the role that past performance should play in the source selection by focusing on the way in which the commercial marketplace utilizes past performance in their source selection process.

The new policy and procedures, which are contained in DoD Directive 5000.1 and DoD Regulation 5000.2-R, represent dramatic change in almost every major aspect of the way the Pentagon has traditionally done business: commercial practices and products are given special emphasis; cost is treated as an independent variable, rather than a byproduct of performance; program managers and other acquisition personnel are empowered to use their professional judgment; over 30 separate policy memos and report formats are canceled; and - in a move designed to implement the President's executive order to cut federal regulations- the new policy documents themselves are almost 90 percent shorter than the previous documents.

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Major accomplishments of the new policy and procedures documents include:

- ***Implementing Landmark Legislation.*** The new documents fully implement the Federal Acquisition Streamlining Act of 1994, the landmark legislation passed by Congress in October 1994.
- ***Implementing the Roles and Missions Commission.*** The new policies also implement the recommendations of the 1995 Commission on Roles and Missions. For example, the new documents now state a clear preference for contractor-provided
- logistics support and direct the collocation and consolidation of joint programs at the location of the lead Component's program office.
- ***Minimizing Mandatory Direction.*** The new policies explicitly recognize that since each acquisition program is different, tailored management approaches are a key element in successful program execution. To facilitate this approach, the new documents set forth only a minimal set of mandatory direction and encourage program managers to tailor acquisition strategies. Useful information that professionals should know and may incorporate into their strategies - but that is not mandatory - will be contained in the soon-to-be-released Defense Acquisition Deskbook, a computerized reference set for acquisition professionals.
- ***Policy Integration.*** The new policies consolidate and integrate acquisition policy and procedures for both weapon systems and automated information systems, rather than maintaining two separate sets of rules and regulations as the Department has historically done. This integration allows DoD to cancel several AIS policy documents.
- ***Decentralizing Policy Execution.*** While the new documents articulate a few guiding principles for all acquisition across the Department, mandatory procedures are set forth only for major programs. In this way, the Acquisition Executives of the Military Departments and Defense Agencies are empowered to manage the programs under their purview as they see fit, without a lot of second-guessing from higher headquarters.
- ***Institutionalization of New Ways of Doing Business.*** The new policies institutionalize Integrated Product Teams as a means of bringing representatives of all functional disciplines together as a team to build successful programs, identify and resolve issues, and make sound and timely recommendations to facilitate decision-making.
- ***Regulatory Streamlining.*** The new documents represent a significant reduction in regulatory volume; the previous version of the policy documents was over 1,000 pages long whereas the new version is only 160 pages long. This reduction helps the Department to implement President Clinton's Executive Order 12861 to reduce the volume of internal management regulations.
- ***Streamlining Paperwork.*** The policy documents mandate standard formats for only a handful of reports and authorize cancellation of the DoD 5000.2-M, a 300-