

TRANSCRIPT

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Q: Welcome to John J. Young, Jr.. He's the Under Secretary for AT&L, has been since '07. Before that he was DDR&E. It's good to have you back.

A: Thank you, sir.

Q: Are you one of those who said they would stay through January 20th if asked, and do you want to stay longer?

A: I'm not going to answer any transition questions, I don't think. I appreciate the chance to do it. It's a sensitive issue. There are people working it. It's just not something I want to talk about

Q: Can you give me a feel for the types of information you're preparing for the team in terms of weapons programs?

A: Consistent with the President's direction and definitely Secretary Gates' direction we are prepared to make available all the information they know. Each member of my team has transition memos on issues that they need to deal with. I have personally written a memo that says kind of here are the things I think really require attention in the next six months, either because they have contractual actions, I've got a list of programs that have milestone decisions--A's, B's, or C's--and then a list of programs that I think, based on my ability to speculate they will be interested in looking at pretty hard. None of those would surprise you. Yesterday I had a chance to testify on F-22 and that's pretty high on

my list of issues that the new administration needs to think through all the details on.

Q: When to make a decision on buying, a calendar date of some kind?

A: Right.

Q: What about the LPD-17. You and I talked about this a number of years ago. There have been some new stories about it showing up in Bahrain, not to vacation but to fix oil leaks. [Laughter]. From a professional--You've been down this road before. Assess their performance, and from a policy contracting standpoint moving forward, what do you do since the Navy took delivery of that? What do you do to discipline the company and assure the taxpayer that this stuff doesn't keep happening?

A: I stand by what I said in the past. In the past the company had defect rates over 30 percent or higher on high temperature, high pressure welding, and even on rather simple drain pipe welding. None of those are the lube oil system, which I don't know that we had excessive defect rates there. So when I said I stand by what I said, I still do. The government should not be paying under cost-type contracts in any area of product delivery for a poor standard of performance where we have to pay because it's cost to have it redone. I think the defect rates on some of those high temperature, high pressure welds and the drain pipe welds were excessive and the government needs to find a different way to do business with industry in any sector where we get something that's totally anomalous to what would be reasonable commercial practice, and because it's cost we just pay anyway. In the lube oil area, the Navy's still doing an investigation. The initial results of this are somewhat concerning and that is both industry and the Navy may have inspected these welds to a lesser standard than the Navy called for. So there's actually a stand-down in the company and a stand-down in the Navy to look at these issues and understand them in detail, and all of that needs to be complete before we can say where the problems lie on this, although there's no question, it seems to have started with welds that are less than are required for Navy spec in the company, but the Navy also may not have inspected them to the proper standard.

Q: Inspect them to the proper standard is one, but not proper to begin with, isn't that a company problem? If the welds weren't on the spec?

A: If the wrong spec was applied to the welds it's not that the welds were deficient. My understanding of the problem is the issue is related to vibration and it's fatiguing the welds so the welds needed to be to a higher standard, not in terms of quality, but to a higher standard in terms of structural strength. So if the welds were performed to a lesser spec, it failed to recognize the vibration environment, it's not good news but it's probably not a shock that--

Q: The larger issue though, is should the government be paying--Are you going to be making any recommendations going forward--

A: Some of the ships, probably not 17, but the Navy is also in the investigation looking at and understanding, there's a warranty period essentially for ships, naval vessels. Some of the ships are still in that warranty period. But I'm getting a little too far here. We need to really figure out the details and then understand responsibility. There's no question there will be a discussion about it, though. If the government feels the company was deficient we will pursue every remedy available to us.

Q: But you can't say--

A: I can't say that right now, and I just talked to the Navy this morning before I got here anticipating your great questions.

Q: A quick follow-up on that, sir, is the inadequate inspection on one vessel or on a class?

A: All the vessels of the class are being reinspected. All the LPD class. I just don't know yet the results of that, but I think the Navy's doing the prudent thing to go back and look through the class.

Q: Mr. Young, what does the Air Force need to do to fix its acquisition processes at their core? You've gone on the record saying you were somewhat displeased or dissatisfied with the state of the CSARX program. In the last several years we've had CSARX, you know there's the ability to move forward with KCS and the KC-135, depot maintenance. About the only major program I think the Air Force has successfully [inaudible] is GPS-3 in which you have the milestone decision already. So what are the issues, how do they resolve those?

A: I hesitate to say this, but I will. For one, just like in my business the issues that go badly get all the attention, so I need to be clear with you. There are many things that are managed very well every day in the Air Force. But to the extent we've had a set of issues that have had problems, I like you have tried to look for the root cause in that. I can't tell you I have it exactly, that continues, that effort continues. But one factor that's probably going to be on a list, there will be more than one factor. If you wanted to have a root cause the factor would be some of these things to varying degrees. One, as amazing as it might sound, I've had members of my team tell me there's still some of the practices and culture that evolved during Darleen Druyan's tenure that are there. Source Selection Evaluation Boards reviewed all the data and probably assessed its validity, the proposals that is; and Source Selection Advisory Committees did the same; but none of them made recommendations. That's not the same practice as is used in the Army and Navy. When I

was the Source Selection Authority in the Navy, the information came to me with recommendations and value judgments as to the quality and the value of different elements of the proposal. It actually came to me as a recommendation and it was up to me to agree or disagree and possibly change the recommendation. In the Air Force, at least historically, things came up just as a lot of information and the Source Selection Authority as asked to judge all that information and make a decision and then thoroughly document it, because you have to thoroughly document that decision. In fact that's one of the issues in the tanker, is the feeling that the Source Selection Authority's decision was not adequately document. Now whether adequate documentation would alone have remedied the tanker source selection I can't say. I'm sorry for the long answer. One, that's why we have a Joint Analysis Team on source selections. That's why we're going to go across the services and identify the best practices and then share them and try to get more commonality across the services in how we do source selection. And I think we do have to keep working some elements of the Air Force culture. The thing I think is great news there is I've got to tell you the current Air Force leadership in General Schwartz, General Schwartz has come to see me to talk about acquisition. He is laser focused on improving those issues. Mike Daly and I just made a trip together in the [same], had a lot of discussion about acquisition. So the leadership team, and that's where some culture changes have to start, is prepared to make those changes. But I do think there is lingering elements of culture that do have to be changed and I think the combination of Air Force leadership and some of the OSD work on best practices, which has been well received by the Air Force, will not only help but I think will fix many of the issues there. That's where you see my frustration, is I think the Air Force has begun that learning process, and I would have hoped that yearning process would have yielded a solution other than where we are on CSARX. I can't deny that CSARX has a couple of the problems that were in tanker and I think they should have been caught sooner. It is to the credit of the team that they listened to, one team that banged the drum on this was the OSD independent team. They went in and said CSARX is not in a good position to be awarded right now. I just wish we'd all found that sooner, because we were marching up, as you know, to the potential for a November/December award. To postpone this in October is not optimal.

Q: A quick follow-up, Darleen Druyan, that was what, five or six years ago? Has it been a resistance or an unawareness or an inability to change the culture?

A: That part is harder for me to answer. I think there were other things, and I discussed this--Now I'm beyond the Darlene piece and starting to get some of the other things on the list. But there's been a lot of talks in hearings about rotation of acquisition people. I will tell you a couple of things in that regard. One, I think there were other things, and I discussed this--Now I'm beyond the Darlene piece and starting to get some of the other things on the list. But there's been a lot of talks in hearings about rotation of acquisition people. I will tell you a couple of things in that regard. One, my experience is in the Navy

I had and I generally would not sign waivers for program managers, major program managers and program executive officers, to rotate. They're supposed to be there at least three years. The Air Force I think has one of the lowest rates of tenure in those jobs. They've rotated people more frequently. I've seen data, not the names, for the recent Air Force promotion boards, and I believe flag officers are under-promoted. So that Air Force has got to do a better job, consistent with the law, of promoting flag officers. They've got to be qualified. You can't promote people that aren't qualified. But if we have qualified flag officers I think the Air Force has got to work hard to reinvigorate its acquisition flag officer ranks, just like the Army's got to work to reinvigorate its contingency and contracting flag officer ranks. In all areas of the services I think this is one of the, it's not MARTI, it doesn't get a lot of press and all, but it is probably one of the fundamental things that the SAE and the Secretary and the Service Chiefs have to pay attention to is the proper development of the flag officers you need and frankly the captains and colonels to manage and promote programs and be program executive officers, then eventually run systems commands. I'm frequently confronted, was in the Navy a few times, with a request to have a non-acquisition officer run a program or be a PEO. That is a dangerous situation. I am actually, to be honest with you, violently against those kind of solutions.

Q: Would it make sense for the Air Force to go back to something like Air Force Systems Command?

A: No. I think the Air Force needs to look at, in its existing structure they've made a change that may or may not be consistent with Goldwater/Nichols because I think the PEOs report to the SYSCOM and then report to the SAE. Is that not right? That's inconsistent with the acquisition law that says, and the fundamental element frankly of the Packard Commission and implemented I think in Goldwater/Nichols, is you have a program manager, a PEO, and a Service Acquisition Executive. Very clean chain of command. I think some of the Air Force organizational changes over the past few years, and some of this goes back to previous leadership at least a time or two removed, have diluted and undermined the chain of command in the Air Force acquisition team. That's something else that needs to be looked at.

Q: Sir, [inaudible] development of the forces, Secretary Gates told the services to take a risk in force application when building POMs. One, have you seen evidence of that actually happening, other than DDX?

A: I don't think I have a, I wish I could tell you--I'm going to be candid with you guys. I always am. I don't think I have a feel for the total picture of the POM thing. We've been fighting it as a bunch of tactical battles, and I have definitely been aggressively engaged in a lot of tactical issues in POM '10. From where I sit today I don't have an adequately comprehensive picture. I can't tell you I think I've seen a lot of trades in force

application.

Q: A quick follow-up. You had a Defense Acquisition Board meeting last week on the 17 Joint Strike Fighters, part of [inaudible]. Did you approve it? Do you plan to approve it?

A: I think the DAB was a successful and productive discussion on Joint Strike Fighter. I certainly didn't see anything in the DAB that would say we shouldn't approve it. I'm anxious for the program office in Lockheed to agree on the negotiated prices, but right now the good news is they seem to be on or below the pricing curve, which is really positive curves for the program as a whole and for the warfighter and the taxpayer. I've asked them to give me a good sense of how those negotiations are going to come out, but I can see approving at least the CTOLs. The STOVLs will have to wait until, or they may be approved contingent on getting the full STOVL flight clearance, getting the engine cleared for STOVL operations.

Q: That makes sense, given that the engine failed [inaudible].

A: That would be a good idea, right? It failed in STOVL operating conditions. To be clear, a STOVL plan is flying with a STOVL engine right now. It's just not cleared for STOVL operations.

Q: That's not why you're buying it. You're buying it for the STOVL--

A: Right.

Q: There's been a series of reports from Think Tanks and outfits like the Defense Science Board and Defense Business Board that basically seem to agree that given the resources that are projected in the coming year's budget that the Defense Department will have to cut some acquisition programs. I wonder if you share that view. If so, which you think are prime candidates for cuts or slips?

A: [Laughter]. I have no idea what the projected resource levels are. Could you tell me?

Q: Your FYDP levels are the ones that are in the--

A: Oh, our projected FYDP levels?

Q: Yeah.

A: In like '09 to '13 because that's what's public.

Q: Yes.

A: As you know and I think has been publicly commented on by some of the leadership, the POM '10 budget that's been built has been built to higher levels than the '09 to '13 FYDP. It's a budget template that will be left behind for the next administration to review and alter and adjust or accept, and I expect it will be more like alter and adjust. But I don't know what directions or any of those things. I would tell you that, I'm getting on the edge of--

Q: That's good. Go on. [Laughter].

A: It's good for you guys if I go on the edge going across and throw myself into the abyss. I think the higher top line levels in the POM '10 FYDP still, as surprising as it may sound, force some tough choices but they also allow some opportunities to do better with recap of platforms that have been really heavily used. In the hearing yesterday we had a discussion about the fact that the DoD does normally, when it buys an acquisition program, buy enough quantities to address some projected level of attrition, but none of those buys and attrition levels assumed eight years of war, nor did they assume the kind of usage rates which we're putting on our equipment which are three to five or more times the peacetime usage rate. So to say that we already bought attrition aircraft fails to recognize what's going on. So there is some need for recapitalization. I've seen the services put some money in operations and maintenance, and it's really frustrating as an acquisition official that the out years of the budget in O&M and personnel are always under-funded. So when the out years become the near years, all the pressure, those accounts get funded. You have to pay your personnel and you by and large have to pay for your O&M. So you end up going back into the procurement program and taking what was a projected program that was healthy and cutting it and sub-optimizing everything so you can fully fund those accounts. So I think the higher resource levels have made the whole of the budget healthier. They haven't forced, to my knowledge, a lot of hard termination decisions. But I don't want to speculate and I have no idea what the next team will do. It's really a template. It's a template that does some positive things--

Q: I'm really not asking you to speculate, I'm just asking you whether you personally--

A: But then you're asking me to talk about POM '10.

Q: I'm asking you, given what you know, whether you think it would be advisable to cut or slip certain major acquisition programs, and if so what--

A: It's never advisable to slip. It just costs more money. Are there major acquisition programs that should be cut? I think there are major acquisition programs that should be discussed in great detail.

Q: Which do you have in mind?

A: I won't be able to discuss that. It would be presumptive of me to suggest what the next team should look at.

Q: It's not presumptive at all for you to say--

A: Actually, in my transition memo I've laid some of those out for them.

Q: Can you give us some general outlines of which areas you're talking about when you say that they should be scrutinized? A little more detail to flesh out your thinking.

A: I'll give you one, not as a forward looking or future issue, just as a today issue. I had a meeting last week on aero common sensor and EPX which is the Navy's replacement for the EP-3. I had that as a joint meeting because a few years ago as a Navy acquisition executive with the support of Admiral Clark who was a great team mate to work with, we joined those two programs. The Navy said I'll give some ground here to be joint with the Army to buy roughly comparable capability. But not all the Navy requirements for sure get met when you do that. Now obviously ACS was basically a disaster, from my point of view, and sure enough, the recovery from that is no longer a joint program. It's a Navy, separate EPX program with some Navy unique requirements that say why they can't buy the Army's ACS and the Army has unique requirements that says what won't, and I want to have an intense discussion about doing that jointly, which is the hardest thing to do in the department. Then I think there's a bigger macro discussion like you're raising, because these are modest numbers of airplanes, 20s and 30s. And when you add up the development and the purchase price of these airplanes, they are also 20 and 30 billion dollar kind of packages. These airplanes on an aggregate cost, I guess a procurement average unit cost where you include the development and the purchase price are \$500 to \$700 million airplanes. How many times can the department buy in pockets of 20, 30, 40, 50 airplanes worth of capability for \$20 to \$30 billion? I think those are the kind of issues that are getting attention right now and will continue to need attention. In the end the department may decide this is exactly what we have to do. We have to pay the price to have that capability to make sure our warfighters can succeed. But I think it merits more debate than rubber stamping unique service requirements.

Q: Mr. Secretary, I'd like to give you a gold star for talking about procurement unit costs as opposed to fly-away cost. It's just very refreshing. But moving on, when you were before the SASC in June talking about weapons prices; and this morning you've said several interesting things about the individual services. But you're talking about them as individual trees. Get up in the air and talk about this forest. Which service is the best at buying weapons? Which is the worst? And why?

A: I can't answer that question. You won't grant me that I can answer that question with neutrality. Right? Even though I'm purple now, I can't hide that--

Q: You're going to say Navy's the best.

A: I was the Navy Acquisition Executive.

Q: You can grade yourself low if you want to. [Laughter].

Q: Is it a dumb question or is there an answer that you just don't want to give?

A: It's not a dumb question. I tend to be harsh. It's probably a bad trait in management, but I tend to be pretty harsh. So I wouldn't give anybody an A right now, and I wouldn't even give myself an A. I have a list in here of program successes. There are more Navy programs on that list than other services. But I can't tell you that means I think the Navy's doing everything right, because I think, how can I say this. Looking across the services, we just had a Nunn-McCurdy terminate Armed Reconnaissance Helicopter, and there's no question I think the Army came up short in that program and industry came up short. To be honest with you, there are some tremendous parallels between that and the Presidential Helicopter in the Navy. And then you've already talked this morning about the issues in the Air Force. So I can go to each service and point to issues, but I can go, as I started with the Air Force, and go--What we would be talking about is all the things that are in the news and we'll be ignoring 60-70 percent of the program in each service that is successfully executed every day and doesn't garner your attention because it's not as newsworthy. Army is doing a tremendous job on UH-60 Black Hawks. We've boosted and boosted again the rate because the current operational environment demand for helicopters is extreme. And I can't even, I went to Sikorsky a couple of months ago and I struggled to believe they've successfully executed the program. The Navy successfully executed and largely has completed now SSGN. That was one of the most complex programs around because it was private design and private management inside public shipyards of the conversion of submarines, and then they were done two on the West Coast and two on the East Coast. If you want to make life hard and ask to create a circumstance for failure, that was it, and it was successful. Likewise, I think the Air Force continues to manage well in a number of spaces. There's no hiccup on C-17. C-130J is starting to get back on track. If we will properly fund C-5, having--The things I end up telling you, like I think C-5's on track now, but it's not--I can't put it in the good story category because it went through a Nunn-McCurdy to get there. I'm not happy with the business and my management's not happy with this. I can tell you, I personally had this discussion with Secretary Gates. I think he knows we're all trying, but he wants to see a higher standard of performance. So I'm not prepared to give anybody an A, and I'm not even sure I'm prepared to give anybody a B.

Q: Let me ask. Are the problems that you see specific to services or any specific programs? So it's really not fair to lump the services together and say this service is having problems?

A: If I'm understanding your question, I think I would agree with you. It becomes more a community issue, and whether a community was so anxious to move a program forward that they did all the wrong things in a program. And that definitely, the ARH is a perfect example of that. It was never going to cost just \$200 million of R&D to take a commercial helicopter and make it into a Kiowa warrior with ball sensors, weapons, the whole nine yards. Did they deceive themselves? Did they sell themselves? Some of all that happened. The requirements are set too high, budgets too low, schedules too optimistic. There's [space] programs. Across the board I could pick out a lot of different programs and tell you those things. I think to be honest with you, you hit on it right. It becomes discreet programs and whether they get set up with the right conditions from the beginning because the enterprise, and it's not just the acquisition. The acquisition team, the comptroller, the programmers, the requirements community demonstrate the discipline necessary to properly execute a program. When those things fail you end up with ARHs and all our other problems. SBIRS. Take your pick. So I don't think it's service specific. But MMA's gone well in the Navy. E-18G's gone very well. Small diameter bomb's going very well in the Air Force. I'm thinking of more things on the success list without pulling it out. There are a lot of very successful programs that don't get the news.

Q: On Prompt Global Strike, I wanted to ask you what your view is of whether the conventional Trident mission [inaudible] modification idea has really been put away, dead and buried, given congressional opposition to a submarine-based conventional [inaudible] strike [inaudible] that kind of thing. Or is it something that OSD maybe sees as [inaudible] but could be brought back [inaudible]?

A: My experience in the Pentagon is ideas never die, they just get new labels or different things like that. So to the extent there is an advocacy that has a voice, that voice will find its way as far as it can. So I wouldn't tell you it's dead. I think there are still a lot of questions to be asked in that space. If you re-use, at one point in time there was an opportunity I think to re-use the precursors to the Trident because they have to be demil'd anyway. I thought that was an interesting idea, to take motors I'm going to spend money to demilitarize, and instead make them conventional missiles. The complaint was there's not enough accuracy. So what? Shoot two of them, because they're going to demil them anyway. But when you start escalating up that ladder and buying long range delivery systems that cost tens, approaching a hundred million dollars for one weapon, those are national decisions that need to be taken carefully, and you have to convince yourself you have all the elements to support that. Do you have a command authority and a chain of command and a quality and timeliness of [inaudible] to let you target that

and all those things? I think there are a lot of people who think we ought to have this in our arsenal. I'm not sure I want to argue all day with them. But I do think it is a very expensive capability that I'm not sure all the rest of the elements of our structure are prepared to support. And you ought to answer the question holistically. Just like I expect every acquisition program to be holistic, this ought to be holistic. If I'm going to spend that much money on even a small number of weapons, I ought to convince myself I have all the command and control authority, intelligence apparatus, to exercise that weapon.

Q: Would you apply that across the board to the other Prompt Global Strike concepts as well?

A: Yes, absolutely. I think they're probably going to end up being as or more expensive.

Q: So would your recommendation to the next administration be let's put aside this whole thing until we study it more--

A: I wouldn't presume--If they ask my advice I can give them my personal opinions, but I'm definitely not going to--

Q: What would your advice to us be?

A: To talk to the next administration.

Q: Sir, earlier this fall Secretary Gates called for a cooling off period on tanker. Yesterday [they] brought a visual aid-- [Laughter]. Sir, do you think this is in the spirit of cooling off? One of the companies also sent out this talking about the [inaudible] company's expanding relationship with and reliance on China for parts. I'm just curious, is this in the spirit of cooling off? And what do you do about it if it's not?

A: To be clear, I agree totally with Secretary Gates, but this is a democracy. They can say what they want. They don't directly work for him. I called the company and said I don't appreciate this and I don't think it's necessary, and what is your objective? What value does this serve? I was talking about this with my wife today and I said--right now that ad says a senior DoD official. I have no idea who would have said those things.

Q: What do you [inaudible]?

Q: What can you do about it? If it concerns you, what do they say back when--

A: I didn't get a good answer.

Q: Did you talk to [Shugert]?

A: I just don't see what the purpose was. But, what I just trapped myself into, and I'll go ahead and say it. I did in a forum with some of you there, I said some of those things because I think the public was entitled to know those things. What I said to my wife this morning is my disappointment is you all didn't write that story, that it got run as a newspaper ad. I don't want it to be run as a newspaper ad. I wanted you all to communicate to the taxpayers that there's a more balanced story to be told here on tankers. I don't know what else to say about that.

Q: What should the cooling off period look like? What did you guys have in mind?

A: I think the cooling off period, well, how do I address this? I think the answer is nature abhors a vacuum. We can make a cooling off period, and we are doing it per Secretary Gates' orders by moving ahead. That's what's going on. Right now the requirements are being reviewed aggressively within the Air Force. My OSD team is working with them. We expect to have in place some new requirements. There's a very big vacuum right now because of the transition process, so people are sometimes filing it poorly. But I think the cooling off period will turn into progress here shortly because the requirements will get settled; the new administration will get in place; they'll be briefed on those requirements; then they'll make a decision about all the relative priorities they have, advised by the military's view of those priorities. I think one of those on the list will have to be tanker. What do we or don't we do about tanker relative to all our other priorities? But it will at least be tee'd up in terms of military requirements, the age of the current fleet, and I think all the information that's needed to make a good national authority decision. Moving forward with the tanker program will help finish the cooling off period far better than just asking everybody to be quiet.

Q: You said [inaudible] settled soon. On the tanker?

A: I don't know. I don't know whether it's going to be a reaffirmation or a tweaking. I can tell you that for Secretary Gates' part and my part, there has to be an adjustment. If nothing changes, something has to change and that is some set of the requirements have to be deemed to be mandatory, must meet requirements; and then the rest of the requirements have to be something other than requirements. They can be things we're interested in, nice features, they can be whatever. But we cannot have 800 tradable requirements again and ask people to bid to that and be expected to have a successful source selection through a minefield of 800 requirements where they're tradable. You and I could have this discussion. If you offer me two different cars and I have 800 features I want and one has 400 and another one has 500, which ones are the most important and why do I buy which one? So I need to get down to a minimum set of features, and Secretary Gates has been very clear about this. The Air Force needs to think hard about getting down to a minimum set of requirements and features and then

probably this one is so complicated and so politically charged that we need to then evaluate whoever bids as whether they are technically acceptable or not and then have a second round where we say okay, you're technically acceptable, give me your best price and the best price is going to win because then I'll get the best deal for the taxpayer and I'll get my minimum set of requirements met. That's the path that Secretary Gates was very comfortable with but wasn't comfortable we could execute. I can tell you for sure I think that is a path he and I and others will recommend to the new administration.

Q: The Air Force has a couple of operational communities that would desperately love to get their hands on anything. The combat search and rescue community needs a CSARX. They probably don't care which one. The mobility communities are in desperate need of a replacement for the oldest KC-130s, they probably don't care which one. The Air Force picked a winner for both of those programs. Whether or not the Air Force picked the right airframe, do you think the contractors have become too eager to resort to protests on these programs and throw things into limbo?

A: There's no question I think industry's been, in some cases--You're trying to ask me to generalize about things that aren't generalized. I think some protests, industry has legitimate questions. One, we ought to avoid that by doing better debriefings, and I've heard that from senior leaders. We should work towards that. In fact one of the first steps, Secretary England issued a memo on November 13th about improved industry communication and it makes clear that we need to do-- I think one of the very negative effects about recent issues, including Darlene, has been a chilling of communication with industry. So this memo says we have to actually go out and talk to industry and communicate and do so within the laws and regulations. There's an attachment that makes clear, obviously you can't talk about source selection information, proprietary information. But otherwise in that it says we should go out and talk to industry. So I believe talking with industry in conjunction with some other policies I've issued about how we conduct source selections has a chance of minimizing or reducing the number of protests. Some protests are valid and the government wins. Some protests are invalid and I think they are excessive on the part of the industry. I won't sort this case by case. But if you look at the statistics, the statistics also don't quite yet bear out the attention we're giving it. We still only have a single digit percentage of programs that are protested, and a fractional portion of those that are sustained. We can get you that data for the record. We have it. I just don't have it with me right now. So that probably covers the protest piece. I'd start back from the beginning premise of your question. You said a very important thing. I think you said community. I do find an intensity of community in the enterprise that probably is going to have to be revisited by the new leadership so that you have an enterprise view instead of a community view. Right now we're doing pretty good on the community view and I think you've heard Secretary Gates say that. I'm not so sure, and I said this internal to the building. You start with the premise CSARX community is in desperate need. Well, we have a lot of assets that can be used in

rescue missions with planning, so I don't necessarily just automatically rubber stamp the CSARX requirement. I don't know that that community has to have its own set of assets for the occasional rescue mission. We have new things coming one line like B-22s and other things that can be pressed into service. When we do our rescue mission we're going to do a come as you are operation anyway, unless all the CSAR assets are prepositioned for that. So I don't start with some of these starting premises. I think that's one of the things the enterprise has to do much better is from the beginning question the requirement. I had a recent meeting, I didn't finish it, I talked about ACS and EPX in detail, but another one, the Navy wants to do two new command ships to replace the Whitney and the Coronado, I think. I'm not sure how often the command ships have been used, and I'm not sure buying them just because we had them in the past is the right--We need to seriously challenge, and it's not so much in the environment we face in the future but the fact that we have many other things we have to do today from biometrics to cyber to human--all the different soft power things that as Secretary Gates has said aren't well resourced in the budget, because everybody wants to do the hard power things. Well, both of them ought to be questioned, and for sure some of the hard power things, and there are requirements and the presumption that my community must continue to have assets, has to be challenged at every turn so that we carefully spend the tax dollars.

Q: Two separate questions. One is a budget question. How is the Pentagon trying to [inaudible] supplementals? I'm asking because, for example, the Army has been [inaudible] supplementals [inaudible] on the FCS [inaudible] program. Obviously the next administration [inaudible] there's going to be huge [inaudible]. How are you trying to [inaudible] big programs [inaudible]? My second question is on the F-22, how concerned are you about the [inaudible] problems. I understand they weren't discovered up until a while ago, and [inaudible]. But [inaudible] maintenance on the F-22 [inaudible].

A: I'm not going very far on, because I already opened the door and I feel like others have opened the door, I told you that at least the budget template that will be left behind, because it's going to be subject certainly to change and review, has increased the top line from 9 to 13, in the '10 to '15 budget the top line was increased relative to the numbers you're familiar with in 9 to 13.

A significant portion of that increase was to try to recognize the higher pace of operations globally, largely associated with activities to combat terrorism and other things. And essentially put some portion of the supplemental costs in the base. That's one of the buzz words in the building is sup to base. And some amount of supplemental to base was accommodated because of the top line. The one thing that's not realistic is to say you're going to continue all the current operations, have no supplemental, and do all that within the base budget, I think that would be extreme, although I want to be clear,

there are, I already said, there are some programs and I think some scrutiny that can be brought to bear to many things in the defense budget. But that is how the department is dealing with trying to reduce some of the supplemental demand and make sure the enterprise budgets in the base budget for a core set of activities and accepts that that core set of activities is probably going to include some heightened level of presence, some higher tempo of operations through depots because we're using the equipment harder, and all those other things. F-22. I'm not as familiar with the corrosion per se other than maybe at a macro level to tell you there's been this, it's not unlike the community discussion. There's obviously this level of discussion in support about F-22 and the Congress has added money for advanced procurement to buy more airplanes. And I don't think that debate's informed by all those facts. The recent mission capable data for FY2008 on F-22s had a mission capable rate somewhere in the 62 percent range. I think that's troubling. Follow-on operation tests in 2007 raised operational suitability issues and noted that the airplane still does not meet most of its KPPs. It meets some, but not all. Key performance parameters. The trend in those operational tests, there was an IOT&E, a follow-on test I think in 2004 and a follow-on test in 2007. The trend is actually negative. The maintenance man hours per flying hour have increased through those tests. The last one was a substantial increase. The airplane is proving very expensive to operate, not seeing the mission capable rates we expected. And it's complex to maintain. In the Air Force I did talk about this a little bit yesterday in the hearing, the Air Force had planned and expected to have kind of a two-tiered structure where some of the earlier jets were not fully capable jets, not to the block 35 or increment 3.2 configuration which provides important capabilities. I think something like 100 jets would kind of be lesser models. So one thing that's in the budget and I talked about yesterday is to bring more of that fleet, most of that fleet, to a common, high end, capable configuration. But the cost of that is \$6.3 billion of R&D. This is in a platform we've already developed. We're going to spend six billion more of R&D to engineer the 3.2 upgrade for the software and the changes in the jet, and then about \$2 billion to modify on the jets. That's \$8 billion more, and \$8 billion I think needs to be spent in order to make sure the 183 airplanes we have will be highly capable fighters. Those discussions need to be had before I think you talk about buying more jets. You still might have that discussion. That's really a requirements and a capability discussion that the Air Force and OSD has to have, and there are lots of studies, as people said yesterday. But I think people are executing a fair amount of discipline and just making sure the airplanes that we've already made a substantial investment are capable, and I'm not so sure there still isn't more work to do there. You've highlighted corrosion. I would highlight in general the maintenance on the airplane is too high. They're struggling with some of the LO and other issues, and there's clearly work that needs to be done there to make that airplane both capable and affordable to operate.

Q: Do you have a cost per flight hour on the F-22 currently?

A: I don't with me.

Q: You mentioned that you [inaudible], you might not have given any of the services the highest points in terms of grading on acquisition. In your years of watching--

A: Can I modify that? I'd say that in aggregate, but there are places where I'd give A+'s. I'd definitely give an A+ to SSGN, give an A to Virginia Class submarines.

Q: Okay. Is it unusually bad now? Looking back at your years of watching this. Doing this work in the Navy as well as up on the Hill. Has it gone downhill? And what are you telling--not necessarily what are you telling the transition team, but what would you recommend to them to try to right the ship?

A: I think that's a good question. I have those discussions with people, senior people. Johnny Foster from way back, Jack Gansler and others. I don't end up with a sense that it's worse now than it's ever been. I don't know that I can support that with data, other than the best data I can give you is people obviously thought there was an extreme crisis when the President set up a blue ribbon panel, the Packard Commission, in '86. Secretary England chartered the Defense Acquisition Performance Assessment a couple of years ago. Somebody said the other day there's been 130 studies of acquisition, not all of them done in the last few years. I can't find any particular metrics that tell you it's particularly worse now than ever. Before I came into the job there was a wave of something like, I forget, I should get you the numbers for the record, but it was low double digit Nunn-McCurdy's. I've had a handful of Nunn-McCurdy's to deal with but they're not that level. But I don't know if that's really an indicator. What pains me is the real indicator is the things that are being done now like competitive prototyping and configuration steering boards and joint analysis teams and funding to independent cost estimates, all that stuff's going to take one to three years to play out and see the results. I'm very confident what we're doing is exactly the right thing to do. If you read Packard you'd see a lot of the stuff that I'm doing is what the Packard Commission recommended. There's no question there's a set of best practices that are being applied, it's just going to take some time to see the results. I hope there will be results, but also as I told the acquisition community, I can thin the documents, I can have a competitive acquisition strategy, I can fully fund the program, I can thin the requirements to the right set. I still, people manage this business. If I don't have a good program manager who prototypes the critical technology elements of that program it will still fail. I don't know how to fix that other than with training and hiring. There's no question, Secretary Gates has talked about this and I would continue to talk about it. We've more than doubled the procurement and R&D budget, and at the same time we've essentially hired nobody on the government side acquisition workforce. I fought an aggressive battle this year in the budget process. Secretary Gates, for example, has talked about the Defense Contract Management Agency. It's come down, I forget, something on the order of 25

percent from 2000 to now. And yet their workload has grown enormously. Not only do they have a role in this higher procurement, higher R&D, they've been brought into the role of doing some of the contingency contracting so they have to oversee a lot of the supplemental funding. So I fought aggressively in the POM '10 budget to get a significant budget increase for DCMA to add the manpower needed, and I won't tell you we're even, we're gradually going to work our way back closer to the 2000 level, so we're falling short. But you can only hire good people so fast. I don't think I was totally budget constrained. I will tell you, I had good support from Secretary Gates and Secretary England to grow the DCMA budget and restore that manpower so we can better manage our programs. But we have to do that in our program offices with billets. The government personnel system is about the most ineffective hiring and managing people process I've ever seen.

Q: Let's try from an oblique angle. A lot of the Nunn-McCurdy problems before you came in were space programs, probably two-thirds.

A: I should know that. Right off my head is JASM--I ended up having finished JASM, C-130J--

Q: Leave aside services. Are there capability sectors that are in particular troubled? And how can that be addressed?

A: I'm not going to disagree with you. I think space is probably high on that list. As I've said this morning, when you have a problem area, I said this to Secretary Gates. One magic solution or silver bullet, it would probably already be done by now. These are multiple factors that have to be tackled in space. They have all the fundamental factors, like we assigned MUAS a schedule that was faster than we historically had ever built a communication satellite, so from the beginning we were probably not on a path to success. Then we under-funded. Then we changed the requirements, lots of things. Another thing is space management. I think when many multiple parties are in charge then it's not clear who's in charge and accountable. And I particularly think at the OSD level authority for space programs is diffused among several organizations. I've worked pretty hard to at least make clear what's consistent with the law. That is AT&L is the milestone decision authority for those programs and we need to execute kind of a detached purple oversight of those programs and make sure the budget and the schedule and the technology are right. That hasn't been done as well as it has in the past, and there's a perfect example of my answer to you, is I actually have nobody on my direct AT&L staff who I rated higher paid and reviewed doing space programs. It was being done at ASDC3I then AII and USDI and some role of PA&E and other people. We need to clarify that. I have expressed and I would continue to express concerns about the idea that you can put all space and all milestone decisions in the Air Force. That recommendation create a complication where you have a person who is the Under in the

Air Force and is therefore somewhat a steward and a champion for the Air Force, also having to make hard decisions about the children in his family, i.e. the space programs. I found particularly as DDR&E where we had a space technology we wanted to develop, I found the person who notionally would be in charge of space as the executive agent wanted to kill that technology program because they thought it threatened their multi billion dollar space acquisition program. You can't have that kind of behavior in the enterprise. That's why you have to have purple oversight, detached oversight, and some neutral view of this, and that's why I believe space milestone decisions have got to stay with AT&L. And I'm not so sure space is so unique versus ships and air tactical fighters and other things. We need to get, I don't know that the law and the authorities aren't already there. We just need to make clear and execute and treat space like other programs and apply a level of discipline to it that hopefully will let us successfully manage in the future. I think the diffusion responsibility, did OSD have a role, how many people in OSD had a role? The Air Force self-enforcing discipline on itself which is an awkward model. Those were at least high on the list of contributing factors to, as you rightly said, several big problems in space.

Q: A few months ago you sent a memo to your staff about cost cutting, the need to cut costs everywhere. A lot of the industry analysts say that if DoD used more cost [inaudible] especially like in MT communications, you could save a lot of money. Have you looked at that? And why is that not being done [inaudible]?

A: Tell me what--cost technology?

Q: COTS. Commercial off the shelf--

A: Oh, COTS. I'm sorry, I didn't hear the acronym. The answer is yes, DoD is looking at it. I'd say yes, we're making some progress. I have a limited and occasional role in that space. What has been my limited and occasional role? In the Navy as an SAE we had four pilots for enterprise resource management, supply chain management. They were all using a particular company but they all weren't sharing, so we converged that. Then I found myself with OSD telling me, well you can't go forward until you're compliant with the business management enterprise architecture that the comptroller is promulgating and this and that and the other thing. So frankly, sometimes OSD's the impediment. I tell my guys, if we can add value, add value. If we can't add value, get the hell out of the way and let the services manage the programs. That's how the business has got to run and the business has got to run with some velocity. So I had some frustrations in trying to take advantage of that. Then I found myself there and in DDR&E and now as AT&L working with the Business Transformation Agency. In some places they're doing a good job. I think they've got reasonable ideas. But things like DIMRS, personnel pay system. We were struggling with that in the Navy. I think it's getting better. But what I've been adamant about is you can't customize--It isn't a COTS solution if you take the COTS

solution and customize it and conform it to your business practices. You actually have to do that very hard cultural problem. Every company leader I've ever talked to says rolling out an ERP, rolling out some of these practices takes a couple of years because really you have to adapt the culture to the COTS best practice instead of adapting the--I think DoD is still struggling hard with that feature. I am adamant that we do that, but we get back to the other thing I said to you. At the end of the day that takes a program manager and some of those program managers who are captains instead of generals or captains instead of admirals or colonels instead of generals, takes a lot of juice, so it takes leadership. You've got to have the N4 operations community, some of the people that are living in this business space, be prepared to change their requirements and their business practices. I personally think that's one of the bigger impediments to the better use of commercial IT which we can do.

Q: I have two questions. You mentioned earlier this problem of O&M, sort of expanding it and contracting it. I wonder, are some of the problems that you're facing in the acquisition shop caused by problems at the comptroller level or the budget shop level? And then second I wanted to kind of follow up on what you told Roxanne about the F-22, the ongoing problems with the cost and operating the F-22. If it is such a problem, it's a perfect time, the end of the administration, why not just kill it?

A: Kill what?

Q: The F-22 program. Why not end it? The discussion is are you keeping the line alive and--

A: I should just go through and kill everything, because I am the acquisition czar. [Laughter]. Said tongue in cheek. That was so entertaining, let me get back to your first question. I probably won't answer it directly other than to tell you that Enterprise has a problem, in my view. If you ask me about new acquisition initiatives it might surprise you that--But I don't have--If you go do this, this, this and this I guarantee you your \$20 billion program will be successful. It's people. And then if you give them some reasonable processes. Above that, if you wrap enterprise processes around the rest of my acquisition processes that work. Build up to this. That is every year I believe the department squanders a precious opportunity. We build a '10 to '15 POM, and this one is I think better than any of them I've seen, because my understanding is O&M in this one is actually pretty well funded. But again, it's probably pretty well funded because we increased the top line. But that's all very good news and very encouraging. But my experience in the now approaching eight years of being in the building, we squander every year a chance to build a multi-year budget with accuracy because we build the next year, the execution year, or the budget year accurately, have to, and the out years are meaningless. I've watched and I've been very harsh on program managers who have said I'll get next year right and then I'll go back with the programmers and the comptrollers

and get the out years right. My view is absolutely not. If you know you have a known cost to your program, you make sure it's in the out year budget. I want to fully fund programs in the whole FYDP. Don't give me this crap that says in POM '11 or POM '12 I'll fix my out years. That's wrong. But the enterprise does that everywhere. We squander the chance to build a true strategic multi-year budget in favor of getting one year right and knowing all the out years are wrong and meaningless. Then right away the out years are wrong and meaningless so you've got to change them. That change creates churn. In that churn people create opportunities for communities to come in and say oh, I've got a new need, and I need this and I need that. We have too much churn in the budget. I've told this to my leadership. I think we need to go back to that opportunity. And I do think everybody can help in that. I think the Comptroller, PA&E and the acquisition team can help take advantage of that opportunity instead of squandering it. F-22, pretty simple answer. Secretary Gates is the Secretary of Defense. He went to the Congress. He knew the Air Force had some disagreements with the OSD studies and some concerns and he felt like it was fair and reasonable for the next administration to be able to review this issue, so he directed that we create a reasonable bridge to allow them to make that decision. You can take any other sets of course of action. I tend to agree with him. There is a new administration that's going to have to lead the country in the years ahead and they've got to take responsibility for preparing the nation four years beyond that. The things I'm doing today are really, as I told you, one the, success of them will play out in one to three years from now, but the capability they deliver will play out five to 20 years from now. The next administration has to assume that role and in assuming that role they need to make a decision about F-22 and I think it's fair and reasonable.

Q: In the beginning you said that there are still elements [inaudible]. [Inaudible] favoritism [inaudible]. Is that what you meant?

A: That's not what I meant. I just meant, I tried to articulate it. I appreciate the chance to articulate it better. We have DoD 5000. I've read it two or three times lately, because we're about to sign a new 5000 instruction. But at the end of the day that instruction alone does not tell a program manager exactly how to manage a program. A program manager goes to the Defense Acquisition University and learns things, then he does the same thing I've done. He works with a bunch of programs and he learns best practices. So all those pieces of knowledge come together. I'd say all those pieces of knowledge are kind of some amount of process, some amount of experience, and some amount of culture and training. That culture and training issue in the Air Force is what I'm talking about. People became culturally attuned that the Air Force practice is to evaluate proposals but not provide judgments and recommendations about proposals. I think we need to change that procedural and cultural aspect of it. I'm not in any way suggesting that I see--In fact to the contrary. I would tell you the OSD independent team, one thing, because of the concerns that were expressed by the Congress and others, one thing I asked them to do above all was to look at the tanker source selection and make sure it

was being executed fairly and without bias, without a favoritism in any way. I would tell you, I think if Shea were here, he'd tell you they did not see any of that. He saw a bunch of Air Force people looking very hard at the facts of the two different proposals and trying to make a good decision. He did not see favoritism or bias or any of those things. I think the source selection decision bears that out. That was not a factor in it. I don't want to say I see that. I worry about that and I've sent notes out to people to remind people constantly that we are neutral brokers. We form partnerships with industry to work with them, but we don't form favored partnerships and have favored suppliers. What makes America work is we come to the table as government representatives prepared to neutrally look at any and every idea and pick the best idea.

Q: We're not only out of time, we're beyond time, so thank you. Thanks very much.

A: Thanks.

[Post-Script, immediately after session]

Q: Up until the time when Wynne and Moseley left, the Air Force still had a validated requirement for 381 F-22s. Does it still?

A: I don't know the exact state ... [inaudible] ... There is an answer to that question. I am not ducking that. I just don't know the answer to that. I can tell you the Air Force--I said this at the hearing yesterday--the deputy had the discussion with the Air Force about this. He said to Air Force, 'Do you or don't you require more F-22s?' And they couldn't answer that question. They said, 'We are reviewing this issue.'"

Q: When was this?

A: About two weeks ago. 'We are reviewing this issue so we can have a solid recommendation to support this new Presidential certification.' So the fact that they couldn't answer the question then, I think, is troubling, and I'll be honest with you the deputy said that to them. He said ...

Q: You are talking about Schwartz and Donley?

A: Well, Gen. Schwartz wasn't there. I don't want to talk about who was there. 'Air Force leadership'--whoever wanted to come to the meeting. Whoever the Air Force deemed appropriate to meet with the deputy. The deputy said, 'Where is the Air Force on this?' And the Air Force said 'We are looking at this so that we can have a recommendation.' And the deputy said, 'Well the transition team is going to show up shortly and you need to have a recommendation.' But the other thing to be clear: the building is filled with requirements that are not met, that aren't funded, that aren't addressed.... [inaudible] ...

And I would tell you in building POM '10--and I have said this publicly--the Air Force had the hardest time getting in balance. I think the Air Force will really struggle to find a way to address all of the demands [inaudible] ... And I see a refreshing responsibility about that shown by Gen. Schwartz and Mike Donley. They understand the Air Force has accepted the mission responsibilities in space and they have to resource space. They have mission responsibilities for airlift and tankers and they have to meet that. And they have mission responsibilities in force application and tactical aircraft and they've got to meet those. They have got to balance across all of those. And I think Gen. Schwartz is taking a very disciplined approach to this. It's great. He has got to have some time to get his feet on the ground, but he is going to do a great job.

END TEXT