

BETTER BUYING POWER IN DEFENSE SPENDING

MONDAY, MARCH 28, 2011

Commission on Wartime Contracting

Washington, D.C.

The Committee met, pursuant to notice, at 10:00 a.m., in Room 216, Hart Senate Office Building, Hon. Christopher Shays, Co-Chairman of the Commission, presiding.

Present: Commissioners Henke, Schinasi, Tiefer, Zakheim.

SHAYS:

Welcome, we're going to start this hearing because Mr. Carter needs to leave in 90 minutes, and we want to utilize our full 90 minutes.

Good morning, I'm Christopher Shays, co-chairman of the Commission on Wartime Contracting in Iraq and Afghanistan. The other commissioners at the dais are Robert Henke, Katherine Schinasi, Charles Tiefer and Dov Zakheim. Co-Chairman Mike Thibault and Commissioners Clark Kent Ervin and Grant Green could not be with us today.

I might just say, our co-chair just returned from nearly two weeks in Afghanistan and is a bit under the weather, but he was joined by Charles, and Charles may be just sleepy. So I apologize for any tough questions he may ask.

This hearing will come to a hard stop at 11:35, so this statement is short. We want to maximize the time available for the question-and-answer session.

Today's hearing has a single witness, Ash Carter, Ph.D., who has served the nation as undersecretary of defense for acquisition, technology, and logistics since April 2009. His formidable resume includes degrees in physics and medieval history, positions at Harvard and MITRE Corporation, and author of 11 books.

We've asked Dr. Carter to meet with us today because his work bears critically on contingency contracting—I might say, you're probably the most important witness we've had—which is the focus of all the commission's efforts.

We have three purposes in mind. We are looking for his current assessment of the progress and prospects of his Better Buying Power initiatives at the Department of Defense, especially as they relate to contingency contracting. Dr. Carter's initiatives aim at targets like cost and process efficiencies, increased competition and incentives, and improved acquisition tradecraft, all topics of interest in the commission's work as well.

We are also interested in how these initiatives will fare given the chronic understaffing of the federal acquisition workforce and the poor outlook for addressing that shortfall under current pressures.

Two, we are interested in his reaction to the recommendations we offered to Congress last month in our second interim report entitled "At what risk: Correcting over-reliance on contractors in contingency operations."

Three, as we prepare our final report for release in July 2011, we welcome Dr. Carter's thoughts on contingency contracting issues that may warrant further analysis or new directions for improvement.

Individual commissioners may hold slightly different views on details and directions of Dr. Carter's work, but all of us sincerely appreciate the insight and dedication and his talents, as well, that he brings to his mission. And we recognize that bringing policy, culture, and process change to defense acquisition is both urgent and challenging in light of operational demands and the battles over the federal budget.

The commission sincerely thanks you, Dr. Carter, for being with us today. And as you know, we swear in all our witnesses. And so I'd invite you to stand up, and I'll just swear you in.

Do you solemnly swear or affirm that the testimony you will give before this commission is the truth, the whole truth and nothing but the truth?

And note for the record that he has responded in the affirmative.

Mr. Secretary, you're welcome to give your full statement. It's important that it be on the record and that we listen to it as well as read it.

CARTER:

Thank you, Mr. Chairman. It's a pleasure to be here before the commission, and I appreciate the introduction, and I salute the work of this commission. I'll say more about that in a moment.

And if you don't mind, I will certainly not read or try to cover all the material in the written statement. I did want to make some preparatory comments, and then we'll leave plenty of time for questions.

SHAYS:

And your full statement will be, obviously, in the record.

CARTER:

Thank you. Thanks very much.

Well, let me begin by thanking you all for taking the time that you are taking to serve on this commission and congratulate you on your work and the interim report, which I've read carefully.

I know you've worked very hard. And for my part, I thank you and am grateful for your interest in this topic.

And especially to you, Chairman Shays. I mean, I look at this as an extension of all the work you've done on behalf of national defense in the Congress and thereafter, and grateful especially, sir, to you for your service on this commission.

I wanted to be with you today because of the importance of your work and the extent to which our agendas are shared. I've emphasized since I've gotten to know the commission, I've emphasized to you all and to my staff that we're working off the same list of challenges that you have identified and that you've been working on, namely to combat waste, fraud, and abuse in contingency contracting, to root out corruption that can follow in the wake of our contingency contracting, to get control of the particular risks of abuse posed by private security contractors, and above all of these, to balance, balance effective response to warfighter needs and value to the taxpayer in the difficult circumstances of wartime contingency.

Failure to do so is not only a theft from the taxpayer—it's a theft from those who have put themselves in harm's way on our behalf and an essential compromise of the mission of counterinsurgency itself, which is to support the people being protected.

It's fair to say that we have not done contingency contracting as well as the taxpayer and warfighter deserved, that the learning curve has been gradual, and we're not yet where we need to be, though we've made a lot of progress. Part of this is the unaccustomed need to have so many contractors support our contingency operations, though by now this should be recognized as a phenomenon that's here to stay and should not be unaccustomed.

Part of it is the exigent circumstance of war. Part of it is associated with the difficult local circumstances of doing business in Iraq and Afghanistan. And part of the slowness to learn and get better, at least early on, was no doubt a result of our constant hope that the conflict in Iraq would be over quickly. We're trying to learn the lessons of Iraq and apply them to Afghanistan, and I think we are.

Secretary Gates asked me two years ago to work hard on these issues and I have. They're central to the two principal missions I have from Secretary Gates: first, to support the current fight; and second, to get better value for the taxpayer in our acquisitions. In my opening remarks I'd like to make the connection between the work of the commission and these two missions: support the current fight and get better value for the taxpayer in our acquisitions.

Let me just say overall that we have been working closely with this commission, have benefited from doing so. DoD witnesses have testified at 16 separate hearings of the commission; 33 different officials have made 49 appearances before this commission.

I have read all of the 32 recommendations in your second interim report. I see and share the intent of every single one. Nine of them fall outside of my purview. Of the 23 remaining, we agree with 19 and are in fact implementing them. And we disagree in part with not the intent, but the method of implementation of four of them.

Let me now make a few remarks about the larger context in which the management in the department is taking on the challenge of improving contingency contracting. As I said earlier,

this context has two parts: improving war support in general and improving value to the taxpayer in contracting in general.

We start with support for ongoing operations. When Secretary Gates and I first talked about this job, he said to me something that made a big impression on me. He said that "the troops are at war, Ash, and the Pentagon is not, especially your part." And I took that to heart and have been trying to make that not so over the last two years. The focus by now overwhelmingly is on Afghanistan. We did, I think, as a department a remarkable job of the uplift last summer. Part of that was logistics and I say that our logistics community achieved a miracle last summer.

When we started in December of '09 and President Obama told us he wanted the uplift completed by the end of August, if you had asked me candidly at that time were we going to be able physically to do that in that most forbidding of logistics environments, I would have told you that we'd try, but I wasn't sure. And I was very gratified and really kind of amazed that by the end of August we were able not only to get in the uplift forces, but to accomplish the rotations of the forces already there and provide the enablers that make that force not only larger, but much richer and more capable than was the force in Afghanistan in the years before.

My focus right now, I mean really right now—today I just half-an-hour ago discussed this with Secretary Gates—is making sure that we're doing the same thing this year as we approach spring in Afghanistan. And that we are providing to our forces everything we possibly can to make them safer and make them more successful as the fighting season begins.

For that reason, we have come to the Congress in recent weeks for reprogrammings. These are always difficult things for the Congress to approve, but our budget system, our annual budget system, is simply not adequate for dealing with ongoing wars, so we have to do things through reprogrammings. I'm happy to say that in the main, the four committees of Congress supported our reprogramming requests and now we are focused on program execution and then on delivery into theater.

And I'll give you some examples of things that we're looking at. These are four or five examples drawn from just so many. And Commissioner Tiefer, if you've just come back from Afghanistan, you've no doubt seen some of these underway. We will be about doubling, a little bit more than doubling the number of tethered aerostats for intelligence surveillance and reconnaissance, just to give you one example. That was out of a recognition a year ago that we, despite the fact that we're constantly increasing the number of Predator, Reaper, Shadow, Warrior, Puma, and so forth aircraft, air crews and orbits in Afghanistan.

General McChrystal said a year ago that we were only able to service a small fraction of the requests for overhead full-motion video. And I realized that we were never going to be able to do that with fixed-wing aircraft. We had this alternative. We had experimented a little bit in Iraq of a tethered aerostat with a camera on it. And we began to buy and deploy them in Afghanistan, a difficult thing to do.

You have to have the helium. You have to have the plant to make the helium. You know how things are in Afghanistan. If you're going to have a helium plant, then you need to clear the space around Kandahar airport of mines. And then you need to put the gravel down. Then you need to bring in the workers to do the work. And then you have to have the housing for the workers who

do the work. And then you have to have the housing for the people who bring in the housing to do the work and so forth. Everything is like that.

And we were able to do that. And the reports coming back from isolated FOBs (Forward Operating Bases) and COPs (Combat Outposts) that have these tethered aerostats is just remarkable. And these people are able to look down the road at the market and see how much activity there is. They're able to surveil the road continuously, see if somebody is burying IEDs. They're able to look around their perimeter and see somebody approaching their perimeter. It's really just extraordinary.

We are putting on those and other surveillance aircraft now as a placement for the full-motion video, sort of soda-straw view that you see from the highway helicopters, highway-traffic helicopters on your morning television, that kind of thing; replacing them with wide-area sensors that take essentially a continuous high-pixel density, high frame-rate photograph of everything beneath the aerostat.

Now, we can't look at all that date. You don't want to look at it all the time, but it is all available to you. So if an incident occurs, you can go back in the film and see where the vehicle came from that detonated the bomb and so forth—very powerful.

Another example, in addition to ISR (Intelligence, Surveillance, and Reconnaissance), is MRAPs. In summer of '09, I signed the order for the MRAP all-terrain vehicle. And a few months ago in Kandahar saw the delivery of the last one to the Marines down there. They're remarkable things, because they have the protection of an MRAP but some of the off-road traversability of an ATV, as the name suggests. They're real lifesavers.

I was at Walter Reed on Saturday. And there were at least five soldiers there; they were all of these particular individuals Army, who are alive because of MRAP and several of them alive because of the MRAP ATV.

And, last, just as other examples of the kind of enablers we're trying to give are all sorts of detectors for IEDs. IEDs with homemade explosives are very difficult things to detect.

Turns out that it probably still remains true that the best detector of homemade explosive is the dog. Dogs have a lot of practice with fertilizer-like material over the evolutionary time, and they turn out to be very good at it. And we're making increased use of dogs.

And so somebody who's used to buying tankers and helicopters and so forth finds himself buying dogs these days, and that's a consequence of us being in the kind of complicated war that we are in in Afghanistan.

So I just wanted to give you those examples. The job-one for the acquisition workforce in today's environment, and I tell folks this all the time, job-one is to make sure that we're doing everything we possibly can. We don't know how long we're going to have. We have to be as effective and as safe as we possibly can. And we are doing everything we possibly can.

Our system doesn't make that easy. Our system, the PPBS (Planning, Programming and Budgeting) system was designed for normal times, was designed to prepare for war, not to wage

war. It is an annual cycle. If we followed that, we'd always be behind the eight-ball in Afghanistan and Iraq.

So we have to create a fast lane for contingency acquisitions, so that requirements are done not in the ponderous, usual way, but quickly, so that we do the acquisition quickly, including assisting our contracting officers to use all the latitude that they have to get things under contract quickly.

The funding, which I've mentioned already, requires reprogramming, that requires help from the Congress, requires a fast lane in the committees of jurisdiction in Congress that have to approve our reprogrammings and then speed in fielding in the very austere environment that is Afghanistan.

So all those things the normal system won't do. So we're constantly hot-wiring, working around and so forth.

And that is not satisfactory. We need a better system. And the secretary has asked me to put on a more permanent footing the constellation of ad hoc systems that we've been using.

And I'm doing that. I'm doing that, while also making sure that we take the time that we don't take attention away from the task at hand.

Let me change subject now to a second front, the second most important thing that we try to do, which is to deal with the new budget realities that we face.

We're entering a new era. Secretary Gates began to sound that note about a year and a half ago, or about a year ago, at a speech at the Eisenhower Library, in which he said that we needed to conduct our business in a way that was, to use his words, "respectful of the taxpayer at a time of economic and fiscal distress in the country."

We don't anticipate, and certainly we don't plan, to see the defense budget go down in any way like it did in the 1990s. I mean, after all, the country's at war and we cannot compromise on the capabilities that we now plan on acquiring and fielding.

At the same time, we're not expecting the double-digit, year-on-year growth that we enjoyed in the decade after 9/11.

So flat is going to feel very different to us from ever-upward. And the secretary wanted us, particularly those of us who manage in the department, to begin to adjust to the new era.

Looking out over the last five years, you all are aware that we have identified overall in the defense budget \$178 billion of less value-added activity. And we've taken those funds, and \$100 billion of those have reinvested in higher-priority capabilities within the defense budget and another \$78 billion returned to the Treasury.

My part of that, the part that Secretary Gates has charged me and my office with, is the \$400 billion out of the \$700 billion total defense budget, roundabouts, the sum of the base budget and the overseas contingency operations or supplemental funding—a total of 700 billion. \$400 billion of that is contracted out about equally for goods and services—\$200 billion and \$200 billion.

And he has asked me and our entire acquisition workforce to see how we can improve the buying power of that part of the defense budget.

What I'm looking for here, and I tell people as an example all the time, is what you experience when you go into the computer store, and you buy a computer this year that's better than the one you could have bought last year and cheaper too. That's called productivity growth in economics.

And the question is, why am I in the position of going to the Congress every year with a Joint Strike Fighter, for example that is the same one as last year and costs more? Where's productivity growth in the defense economy? We need to find that.

Under Secretary Gates' leadership within the last couple of years, we've canceled a lot of programs that were low, not value-added, whose time had passed, where we had enough of them, or that weren't performing.

But we're getting to the point where what we have left are things that we do want and do need, and we need to get them for the amount of money we're going to be given. And that, in a sentence, is the purpose of the Better Buying Power initiative that Secretary Gates and I announced on September 14th.

And I'll touch on just a few features of it, and then many of them are germane to recommendations you've made in your interim report.

The first . . .

SHAYS:

If you could try to do that in the next two minutes . . .

CARTER:

I'll do that.

The key is affordability, and as we start new thing like the Ohio Class replacement, a new presidential helicopter, a new bomber in the Air Force, the Army's ground combat vehicle and so forth, all of those are going to need to be begun and designed with affordability in mind.

For our ongoing programs, we're doing something called "should cost," which is a counterpoint to the cost estimation process which I'd call "will cost." It tells you what something's going to cost if you keep managing the way you're managing already. We're going to start our managers managing to what things should cost.

Competition: you see competition at work in the littoral combat ship. You saw competition at work in the KC-X solicitation. Very important: one of the major drivers of value in defense. Important for services contracting, a point you've made in your report.

Services overall—\$200 billion. It's so much money that we can't continue to have poor tradecraft in the acquisition of services. And so we're doing a great deal to improve our acquisition of services. That is also germane to your report.

And, finally: the acquisition workforce. Chairman Shays already made reference to the importance of that. None of what I've talked about so far and nothing that is in the Better Buying Power initiative, none of that matters if we don't have good people executing.

And we're short of good people. We know that, we've been this for about a decade. We oversteered in the direction of reducing the size of the acquisition workforce.

Secretary Gates has made it clear that the acquisition-workforce initiative that he began two years ago is an exception to some of the hiring actions he's taken as part of his efficiency initiative. So the acquisition-workforce improvements will continue in coming years.

And contingency contracting is a subset of our overall contracting, but the workforce that does that has some unique skills, unique to contingency contracting. You've signaled some of them in your interim report, and they're very important as well.

So my point is, Chairman, all of this is connected to the work of the commission, both what we do in general to support the wars and what we do in general to pursue better value.

Contracting officers, contracting officer representatives are an essential part of the acquisition workforce. Competition is a key driver of value. Services is a key area where we need to improve our acquisition tradecraft.

The annual budget cycle is a Cold War creation that does not keep up with the pace of modern contingencies. We're still adapting to the reality that there are and will be contractors on the battlefield. And most of all, in the closing days of March, as we face rising combat in Afghanistan, we need to renew our effort to balance effectiveness and efficiency in our wartime contracting effort.

I know the commission is aware of all these connections, and I salute you for your effort and your wise counsel.

Happy now to answer questions.

SHAYS:

Thank you, Dr. Carter.

Dr. Carter, we're going to get you out at 11:35, as agreed to, and so we're going to get right into it. I'm going to take a minute of my eight minutes right now, before going to Mr. Tiefer, just to point out that we'll go with Tiefer, then Mr. Henke, Ms. Schinasi, and Dr. Zakheim. We're going to do eight minutes, as we've all agreed to, and then we'll figure out how much time we have for the second round to get you out at 11:35.

I want to say with gratitude that your folks, Shay Assad as the defense procurement and policy director, and his deputy, Dick Ginman, former admiral, have been incredibly helpful to us and probably have made you feel that you didn't need to come. But we still wanted you. So thank you for coming.

And . . .

CARTER:

Thank you for mentioning them. I'm glad you did. They're both incredibly able, and they're right at the center, along with Mr. Motsek . . .

SHAYS:

They couldn't . . .

CARTER:

. . . of this activity.

SHAYS:

Right. They couldn't be more cooperative, and they're both very talented, and we appreciate their help.

I'd also like to point out our executive director. He has been incredibly helpful to us. Mr. Dickson has been incredibly helpful to us this during whole time, and we appreciate his work as well.

And then I just want to say for the record that we look at waste, fraud, and abuse in many forms. An ill-conceived project, no matter how well managed, is wasteful if it doesn't fit the cultural, political, and economic mores of the society it's meant to serve or if it can't be supported and maintained. And we see a lot of waste in that area.

We see poor planning and oversight by the U.S. government, as well as poor performance on the part of contractors, too much of it, and it's had costly outcomes in time and money misspent.

And finally, we see, you know, frankly, criminal behavior and blatant corruption that needs to be addressed as well.

What's a little disconcerting about your statement is you tended to focus on the hardware, and we're totally into services. And services are half of the contracting. And we know that the

hardware's easy to identify and illustrate in terms of savings, but we're going to focus on the service part of your work, which I know you've spent a good amount of time focusing on as well.

So with that, we're going to start off with you, Mr. Tiefer.

TIEFER:

Thank you, Mr. Chairman. I did just come back from two weeks in Afghanistan in general, in Kandahar in particular, with my chairman, Mr. Thibault. The dust of Kandahar is not yet shaken off my shoes. And traveling with my chairman is an extraordinary experience. He goes everywhere and he drags me everywhere. You talked about the dogs, and he dragged me into the kennels to see them being trained.

I want to say I know you, yourself, go to Kandahar to learn and to check implementation, but it also means a great deal for the troops that you come there in person, as you did, and show yourself, as you did. It means a lot to them.

Now, my first questions, I'm going to tell you my issue up front and then tell you the background. Sole-sourced extensions of contracts, I think, are a pernicious problem that I would like to see you tackle. Say, you know, you have your memorandum of instructions, your memorandum, and you have your implementing memoranda, and it's something you could cover in a supplement to those. Alright?

Here's what we found out. Last year a Walter Pincus article in *The Washington Post* revealed that the Defense Logistics Agency had sole-sourced a \$2 billion extension for in-theater food supply to Supreme Food Service. We followed up. I was taken personally to Defense Logistics Agency in Fort Belvoir and spent the whole day with Nancy Heimbaugh, who turns the cards face-up on the table. She's a straight shooter.

The public had not known, was not let in, but I was on what the reasons were that DLA gave for being in this incredible situation that they had to put off their solicitation for more than a year, more than a year, while sole-sourcing the extension.

The number-one reason was the surge. They were faced with the new problems of whatever, 40,000 troops, and so they wanted more time to do the solicitation.

Well, that's a reason—that was the reason. That's not good enough. That's not good enough for not competing.

There are two evils in these sole-source extensions which you, Dr. Carter, have denounced and rightly so in your memo. Number one, we need more frequent re-competes, and you've said we need more frequent re-competes. Number two, this is not just sole-sourced, it shows that the incumbent has much too large an advantage, and you point out in your memo that the incumbents have too large an advantage.

So do you think you can put something forward in writing at some point about these sole-sourced extensions? I haven't even mentioned KBR's sole-sourced extension of LOGCAP in Iraq. We dealt with that before, that's a familiar story.

Please?

CARTER:

Respond to that?

First of all, thank you for going to Kandahar. Appreciate that you took the time to go there, and I believe that the troops are as grateful to see you as to see me. They want to see anybody from back home who's working on their problems and supporting what they're trying to accomplish there. So thank you for that.

With respect to sole-source extensions, you're right that more frequent re-competes are a key tenet of good tradecraft in the acquisition of services. To get back to something that Chairman Shays said and perhaps I didn't make clear enough in my opening statement, acquisition of services is probably the area where we have the greatest opportunity for improvement in acquisition. We've been at the planes, tanks, ships, trying to do better there for a long time, and we still have a ways to go.

But in the area of services tradecraft, that has received a lot less attention and what goes under, generally, under the word "reform" over the decades in the department, yet it has accumulated into half of our contract spend. Half is on services, half is on goods. We can't ignore that \$200 billion.

And whether it's contingency services or lawn mowing at a base or medical services or professional services or depot and other sustainment services for fielded systems, whatever kind of services it is, we have to improve our game.

Competition is one of the key ways of doing that, as it is in all acquisition, and therefore you have to have competition, to get to Mr. Tiefer's point, and you have to re-compete work and continue to challenge incumbents to deliver better value because if they don't, they'll be replaced.

And you're right that in the contingency circumstance, an incumbent does have an inherent advantage because you—that is, we collectively—can't afford to let the troops down. So they have the advantage of continuity. But notwithstanding that, in the interests of better value, we need to be able to re-compete and change horses, and that's a challenge for our people, but not an insurmountable challenge.

So I would say I don't want to go into the specific case of the DLA sole-source with respect to Supreme, only to say that I understand that on occasion the argument can be made that it's simply too hard to change horses and that the effectiveness of the support provided to the troops will suffer, and that we can't allow to have happen.

At the same time, it's, to get to your point, it's very reasonable to expect our managers to be able to change horses without letting the warfighter down in the interests of better value. And so this can't be an excuse for not re-competing.

TIEFER:

I have a shorter follow-up question. And I thank you, Dr. Carter, for analyzing that so well.

It turns out that Supreme Food Service got this sole-source extension for \$2 billion even though the DoD IG has come out with a report that as much as \$600 million of their cost is questioned, \$100 million each for transport and boxes, over \$400 million for fruit and vegetable, as to whether it's fair and reasonable prices.

What concerns me and what I'm going to bring us to is that the comment on this excellent report by the DoD IG from the deputy assistant secretary for logistics was that that sums of money would be treated as, quote, as "merely," quote, "potential," unquote, and not, quote, "validated," unquote, overcharges.

Now, I wondered what that meant. Now I've found out what that meant. Excuse me for a rather crude translation of it. If it's just potential and not validated, they're saying, well, my guess is it'll get shoved under the rug until it's old and then forgotten. That's potential rather than validated overcharges.

So here are my two questions, and I know you're not . . .

SHAYS:

You're going to have to wait . . .

TIEFER:

Oh.

SHAYS:

. . . unfortunately, because of the time.

So we go to Mr. Henke.

HENKE:

Dr. Carter, good morning and thank you for being here with us this morning.

I'd like to pick up on a thread from your statement, from your written statement, that I think is very important.

You make the observation, as it relates to contract management and proper contract surveillance, that having—quoting your statement, "having the properly positioned senior leaders is a

fundamental key to success." And further, that with military leaders in the place, it sends a clear leadership message on the critical nature of contract management.

Now, one of the most critical agencies for yielding value for a dollar in execution and managing support contracts in Afghanistan and Iraq is the Defense Contract Management Agency (DCMA). It reports to you through, I believe, one of your subordinates. But they provide critical contract surveillance.

As you know, Doctor, they don't cut contracts; they manage contracts that are in place.

And you've been challenged—the department's been challenged, since the onset of the war with putting the right number of management professionals in place to oversee contracts in a war zone. Obviously, it's a difficult and critically important task.

Now, the history of DCMA is that it was led by a three-star officer, a vice admiral, or a lieutenant general. And I believe sometime, well before your tenure, that position was harvested to do other things, and it's now led by a civilian senior executive.

We learned in a memo released two weeks ago that in the secretary's decision to harvest some of the general- and flag-officer positions, that you've taken off the table a two-star position for a major general at DCMA. So that billet has been unfilled for a long time.

But I'd like to ask you about how that relates to sending the right signal to the acquisition workforce that their work is important.

And DCMA is what's known as a combat-support agency. They have a mission to be tasked by combatant commanders to go provide services.

How do you square your clear statement that having military leaders is important at the same time that you're taking a military billet out of DCMA as the deputy, so neither the top guy nor the second guy will be a military officer?

CARTER:

I'll be able to answer your specific question first, but then I'd like to enlarge the scale of it.

Just to be clear about the staffing, the GOFO staffing—the general-officer, flag-officer staffing at DCMA—Secretary Gates has made it very clear that none of the moves that he is making in association with the efficiency initiative is, and it's my responsibility to come to him and tell him when it's different, is supposed to get in the way of the re-strengthening of the acquisition workforce.

So I want to make this general point, so anything that you hear coming out of the efficiency initiative, and initially people thought this may affect the acquisition-workforce decisions.

HENKE:

Understand.

CARTER:

And the secretary's commitment is it won't. I only want to emphasize that in case anybody watching the hearing or hearing or reading the transcripts, I'm trying to get that word out because I was worried about exactly what you're reporting, which is the possibility of a misinterpretation.

The two-star officer role at DCMA, which is importantly associated with contingency contracting support . . .

HENKE:

It's there.

CARTER:

Yes. And that's not going to go away. That can't go away.

HENKE:

But it's on page 26 of the secretary's memo that was approved on . . .

CARTER:

I think that's the three-star position which has not been filled.

HENKE:

Well, it says deputy director DCMA in '08. That's a two-star. So it's the deputy of the agency. It's listed as vacant, and it's on the list of billets . . .

CARTER:

It goes back before my recollection.

Shay (Shay Assad, Director, Defense Procurement and Acquisition Policy), do you want to say something about the history of that?

ASSAD:

It turns out we had a choice of putting either a three-star or a two-star, we actually had the billet be flexible, but what we have agreed to do is that the three-star will no longer be a three-star billet, which is simply the identifier they have. But the two-star billet will remain.

So the senior executive will be the executive director under Dr. Carter's direction, but the two-star billet will remain. So we'll have two general officers at DCMA (Defense Contract Management Agency). So one-star and a two-star.

HENKE:

So what I understand, Dr. Carter—I'm a little confused on a number of simple facts of the matter. This document says you've removed the deputy director general-officer billet at DCMA. And I don't, how do we . . .

CARTER:

What document are you reading from?

HENKE:

Secretary's March 14th memo, track-four initiatives.

CARTER:

This is the . . .

HENKE:

Yes.

CARTER:

I'll need to come back to you and reconcile that particular reference.

HENKE:

OK.

CARTER:

But I'm pretty confident in what I told you.

HENKE:

Is it your intent to . . .

CARTER:

We're not going to change direction on the acquisition workforce.

HENKE:

Is it your intent to eventually have that agency led by a general officer, a military officer?

CARTER:

I haven't made a decision on that yet. We have a very capable director of that agency now who's not military, so I haven't made a decision on that yet. I would like . . .

HENKE:

What about . . .

CARTER:

I would like to say something more generally, though, about DCMA and where you started this, which is, contingency contracting is going to be a part of our contingency operations as far into the future as we can see.

So it has to start with the military leadership, and the commanders of those operations need to not only recognize that contingency contracting is part of the job, but also we have to give them the skills and the training and the support that allow them to discharge that responsibility well.

You have a couple of recommendations which touch on this in the interim report, but I'd just like to say that as part of our war plans, as part of our staffing plans, as part of our training plans, we are putting and building contingency contracting into them at all levels . . .

HENKE:

Right.

CARTER:

. . . commanders all the way down.

HENKE:

Dr. Carter, one of the recommendations in our report is recommendation number eight, and that is to establish a contingency contracting directorate on the Joint Chiefs of Staff, the JCS.

And our idea right now it's we have half of the force in theater, contractors roughly half the force.

CARTER:

Yes.

HENKE:

We've spent \$177 billion since '01 on contracts in theater, contracts and grants in theater. So our idea is let's establish on the Joint Chiefs of Staff and recognize it as a military mission that contingency contracting should not be subordinated to the J-4 and run by an 06 (grade level) but, rather, should be a separate entity on a joint staff.

Can you give us your views on that?

CARTER:

I don't want to, because that's really a joint staff. That's for Admiral Mullen to decide. I'll only tell you that I don't encounter on a daily basis of working problems there any difficulty with getting good leadership out of the joint staff on contingency.

HENKE:

So you view that as one . . .

CARTER:

It is one of the nine, as I said, really . . .

HENKE:

But I think your opinions on the organization of the joint staff are relevant, and I would not . . .

CARTER:

It may be able to be improved, but for whatever it's worth, my experience is I don't encounter organizational problems on the joint staff in contingency contracting. We have lots of problems. I named them: requirements, acquisition. You know, we have plenty of problems, but I have not encountered an organizational problem. That's not to say that your judgment isn't right, but I think you need to . . .

SHAYS:

Let me recognize Ms. Schinasi.

SCHINASI:

Thank you.

And thanks for being here this morning, Dr. Carter. I'm going to try and get some shorter questions and shorter answers maybe.

First one is, you talk about the aerostats that I think you are rightly proud of getting into theater quickly. My question is: who's going to operate those? Who will collect and analyze the information that's coming from that? Will that be a contractor responsibility?

CARTER:

It's a mixture of contractors and government people, as is the case with most of our ISRs (Intelligence, Surveillance, and Reconnaissance).

SCHINASI:

OK, thank you.

You talked about the balance and the need to get a balance between supporting the warfighter and being held accountable by the taxpayer, and I would agree with that. I guess the question is, where does that balance lie? So I want to ask you a little bit, most of the initiatives that you have put in place, and I think most of them we would certainly agree with and support, pretty common sense, and the problems have been around a long time, as you and I both know.

But they've been mostly about managing contractors. My question goes to having the contractors and the requirements to begin with and being able to manage a little bit what those requirements look like, recognizing the balance that's needed to support the warfighter.

You may be aware of an opinion piece that was in *The Washington Post* March 18th. It was written by an Army officer, and he goes through and talks about a lot of the services that this commission has been concerned with that really are not part of that mission-essential warfighter need, but have to do with water that was always warm. He's talking about being in Iraq and actually his argument is about combat pay, but I think it serves our purposes as well.

He's talking about the chow hall with the Caesar-salad bar, the sandwich bar, the ice-cream freezer, shrimp-and-steak Fridays. His room had a personal air conditioning unit, Internet connection. The base hosted multiple PXs, coffee shops, nightly dance parties. He could buy pillows, microwave televisions, or any video game. In short, he says, conditions were plush.

So my question to you is, do you have any formal authority to weigh in on the demand side of this equation we're talking about, to look at what the wants and needs are that are being specified by whoever it is that's specifying that and to be able to get in and control those costs? Do you have any formal authority to do that?

CARTER:

I do, and on top of that, I have a lot of informal authority and I'm actually not someone who is very respectful of the difference between acquisition and requirements. They belong together to set up two bureaucracies, one of which decides what we need and the other fulfills those needs, which is kind of the system we have. I don't think at the top, at the level of the acquisition executive, that I should pay attention to that distinction. Those two have to be together, so I have in fact, and I would assert, responsibility over requirements.

SCHINASI:

Where does that authority come from? It's not control of resources. The military departments control the resources.

CARTER:

Well, not exactly. The secretary of defense controls resources. And the secretary of defense's staff advises the secretary of defense on resources and he has the last word on resources and requirements and everything else.

SCHINASI:

I was referring to the Title X authority, which gives military departments the authority to . . .

CARTER:

Correct, and they execute that under the direction of the secretary of defense.

SCHINASI:

Yes, so as advisor to the secretary of defense, that would be your formal authority.

You recommend in your 23 initiatives that . . .

CARTER:

Well, I should say I'm also the department's acquisition executive. So under the law, I have direct authority, too.

SCHINASI:

So perhaps, and my next question is, you recommended that a program manager be set up for services in each of the military departments, and I think clearly you have heard us say that services need a lot more attention than they've gotten in the past.

Would that program manager be responsible for holding "should cost" reviews for services?

CARTER:

Yes, exactly. Well, or having those who are contracting for services conduct "should cost" reviews. Remember that services contracting is very widely distributed.

SCHINASI:

So I'm not really sure how that would work. That's why I'm asking you the question...

CARTER:

Well, the PEO (Program Executive Office), the lead manager for services that we're creating in each component, is responsible for setting best practices, policies, making sure that they are implemented. They do not do all of the services contracting. Services contracting is done pervasively in the military services and other components, and we want to make sure we touch every place that is contracting for services.

Contracting for services is a little bit different from contracting for weapons systems because our people who contract for services are mostly amateurs, because they're mostly doing something else as their principal responsibility, and services contracting is an ancillary duty.

SCHINASI:

So it's that part that you just mentioned, making sure policies are implemented, and that's always the key.

CARTER:

Yes, exactly.

SCHINASI:

And with respect to the policies coming out of your office as well, you know, it's making sure they're implemented.

One of the other things you talk about with your PM (Program Manager) for services is that they're going to collaborate with organizations that have the dollars. So again, I'm not sure on what the forcing function is here. If, you know, if you don't control the money, you have moral suasion, certainly, and you can write policies, but what is it that will actually force, you know, something like a "should cost" review in a way that diminishes some of the, one I think could argue, you know, excessive requirements on non-mission-essential items that we're seeing in both Iraq and Afghanistan?

What is the power to do that? Where is that power?

CARTER:

I think I'd answer your question in two ways with respect to what we're trying to do with services. The first is that we will and do have—we will require, and we can require, and services managers will require that those who are contracting for services use these best practices.

But the second thing I want to say is the point I was just making, which is to recognize that those who are acquiring services in the Department of Defense, many of them are trying to get something else done. And the services are what helps them get done their principal job. Their principal job is not to acquire services.

I don't want to turn them into services procurement experts. I want them to keep doing what they're doing.

SCHINASI:

And I would agree.

CARTER:

So I want to help them do the right thing. And so there's another aspect to this, which is giving people the assistance. You're asking about forcing. That's a good thing to do also on occasion, but helping is important as well. And you've got to recognize that these people are trying to do other things. And so you want to help them do the right thing with respect to services contracting.

Let me give you an example. One of the tenets of good tradecraft in the acquisition of services is to do market research, to know who's out there who could provide you with services. Well, these people are busy. They could use some help in market research. That's something that we may be able to do centrally that will help our distributed buyers of services. So that's a way in which we can help them get better value without turning them into market researchers.

SCHINASI:

Dr. Carter, my time is up, but I want to say I can't agree with you more that acquisition should be a core function of the department and not an ancillary administrative duty.

SHAYS:

And our concern is that it is right now ancillary.

Dr. Zakheim, you have the floor.

ZAKHEIM:

Thank you very much.

First of all, Secretary Carter, I want to add my voice to the rest of my colleagues. I think you've done a terrific job. I think you're sensitive to what we're concerned about. It's certainly not easy and I do appreciate the fact that you've also taken the time to get out to the theater, which is no small deal indeed.

I also want to thank Mr. Assad and Admiral Ginman and also actually Colonel Lewis. Execs rarely get mentioned, and he helped make this hearing happen. I want to thank him for it.

I have a question for you along the lines of what my colleague Mr. Henke raised. You mention in your testimony, and quite rightly so, the work of General Nichols. And when my co-chairman, Mr. Shays, and I were in Afghanistan, we saw her before she came home. But on page 26 of the very same memo that Mr. Gates issued, on the list of billets that are going to be eliminated, in fact I will quote you, "eliminate 102 general-officer flag-officer authorizations." Then it says, "eliminate 65 positions listed below within the next two years as incumbents complete their current tour." And there she is.

ZAKHEIM:

Now, you were just talking to Ms. Schinasi about implementation. What this tells me is that you may have the greatest intentions in the world, you and your staff, and having been there I know the frustrations, but getting this department to move—here you are testifying today, mentioning General Nichols, and here she is with her position being eliminated. I don't know that you can answer me now, but I sure hope you can look into it.

CARTER:

I can answer you right now. That's a mistake. That position's been renamed. So I think you're looking at JCC-I/A (Joint Contracting Command-Iraq/Afghanistan), which was . . .

ZAKHEIM:

Right.

CARTER:

. . . what the CENTCOM Contracting Command used to be called. And so the billet associated with the organization that used to be is being eliminated. The organization that is now, the CENTCOM Contracting Command, that job's not being eliminated. So this is just a clerical issue.

ZAKHEIM:

Well, but if that's the case, then you're short one general officer relative to what Mr. Ginman had promised.

CARTER:

We actually have two general officers in the CENTCOM Contracting Command now, which is . . .

ZAKHEIM:

No, no, no, my point is simply that you've got a list of 65 slots that are being eliminated. Everybody's under the impression that jobs are going to be eliminated. What you're telling me is that you eliminated a slot and renamed it to something else. So either the slot's eliminated or it's not eliminated.

Anyway, you can't have it both ways. And I don't think it's your fault, but I really think you need to look into that, because somebody's playing some kind of game somewhere. It just doesn't hang together.

Let me . . .

CARTER:

And let me just say, I'll get back to you on that. I think that's a mistake.

ZAKHEIM:

OK. Fair enough.

Let me ask you about one of our recommendations, which is to create an assistant secretary for contingency contracting. Now, I can understand you didn't want to comment about the creation of J-10 and a director of the J-10 office, but this is within OSD (Office of the Secretary of Defense), and presumably it would be within your shop.

We believe that this would be tremendously helpful because we want to see the same kind of position created across the government so you can have coordination. One of the things you did not mention in your testimony was coordination with other agencies, which we think is terribly important.

Could you comment on our recommendation and give us some thoughts about how you're working with other agencies on some of these matters?

CARTER:

Yeah.

First of all, that's incredibly important, to have good and effective working relationships with other agencies, particularly the State Department and AID. That is particularly important right now in Iraq as we manage the Iraq transition. And we do have very good relationships with both of those organizations.

And you've mentioned some names already, but the people who are leading that effort on our behalf are the two individuals whose names have already been mentioned who are sitting behind me, Alan Estevez, our assistant secretary for logistics and materiel readiness; my deputy, Frank Kendall, who's been working the Iraq transition.

So we have really excellent and dedicated people who know that this is for me and for Secretary Gates job-one for them. They come from two parts of our department, and I'm, be quite candid with you, not eager to change that because I need those two organizations involved in what we're doing. They come from those who were day-to-day involved in logistics and contingency contracting and they come from our contracting professionals.

It goes back to what I said in my opening remarks. There are two contexts in which contingency contracting, the subject of this commission, falls, from my point of view, as a managerial matter. One is our desire to fight wars in a more responsive way and the other is to deliver better buying power, better value to the taxpayer.

I don't want to disconnect contingency contracting from either of those. Right now I have them embedded in those two, or connected to those two mission areas. And that structurally, and having excellent people means an effective connection to me.

State Department and AID, internally, I won't comment on. I'll only say that they're working effectively with us on this, particularly the Iraq one, which is the pressing one at the moment.

ZAKHEIM:

I think that we're not exactly aligned on that issue, but I appreciate your answer.

In the minute or so that I have left . . .

CARTER:

That was one of the four where I said I understood your intent and the actual implementation, we did have a difference on.

ZAKHEIM:

And that's fine and I think the key, and again, I commend you for it, is you're actually focusing on implementation. I mean, all the best policies in the world will lead you nowhere if you don't implement them.

Let me ask you again about DCMA. You asked about the three-star and replacement by a civilian, but I know that DCMA asked for 69 additional slots in fiscal '11. Did they get them? And if not, why not? And what does that tell us about the importance of DCMA in the overall budget crunch?

CARTER:

Sixty-nine?

ZAKHEIM:

Yes, sir.

CARTER:

OK. This will be another one of these. I'm going to give you a general answer to the question, which is DCMA is being BRACed (Base Realignment and Closure) to Southern Virginia.

ZAKHEIM:

Lucky them.

CARTER:

And on the scale of disruption that that provides to the management of DCMA, the number 69 is small. That's my opening comment on that.

On the specific point of fact that you're referencing, this may be a little one like the JCC-I/A general officer where we're going to need to come back to you, but let me ask Shay if he wants to comment on the . . .

ASSAD:

Actually, the . . .

SHAYS:

Well, it's a little awkward to have you testify. We haven't sworn you in and we only have one mike.

CARTER:

We'd actually asked to have Shay up here also for this kind of question. I'll tell you what: We'll get back to you. We'll get back to you.

SHAYS:

And no offense to you . . .

Shay Assad. Thank you, sir. We just want to focus on Mr. Carter today.

ZAKHEIM:

If I can get my five seconds back very quickly—in one sense you're right, 69 is small. On the other hand, if people need about 70 folks and it makes a difference to contracting, it's a huge deal.

The other thing is you've just worried me even more. The last thing that we need right now in the middle of a war is for DCMA to be disrupted by BRAC.

Thank you.

CARTER:

May I say one good thing about DCMA's future, which is that they are included in the acquisition-workforce exception that I have now mentioned several times by the secretary. So we're giving them a lot of attention because of their importance.

We're also getting DCMA and DCAA (Defense Contract Audit Agency) aligned in terms of the data requirements that they place on contractors. So there's a lot going on with respect to . . .

SHAYS:

Dr. Carter, I want to honor our pledge to get you out of here, so I'm going to jump in for my . . .

CARTER:

OK.

SHAYS:

. . . for my time.

This isn't a court of law. In a court, you know, you have to know the answer to the question before you ask the question. So some of my questions I don't know what the answer is but I want your opinion.

CARTER:

Got it.

SHAYS:

The reason why we wanted you is we know you have two very capable people, many capable people to carry out what you want, but we want to know what's in your head. So I'm having two disappointments here that I want to give you a chance to respond to.

One disappointment was the hearing we had on the quadrennial review to understand why the hell, excuse me, but why the hell isn't service contracting, contingency contracting mentioned in what is the indication of what's important to the military?

And Kathleen Hicks, the deputy undersecretary for defense and strategy, plans, and forces, in the end her answer that stuck in my mind was: Well, we put in what Secretary Gates wanted. So the inference is he didn't want that in there. And we're not obviously going to have him come before us. You're it.

And your statement that you opened up kind of makes me feel the same way, because you focused more on things instead of services, and services is half, as you point out, the effort.

So I have this concern, and what I'd like to do is just have you explain to me the four that you don't like in the report, and thank you for complimenting the work of the report and the work of our executive director and so on. I appreciate that a lot.

But one is we suggested establish an office of contingency contracting at Defense, State, and U.S. agencies, and you said that's one that you would not be advocating. What are the other three that you would not be advocating?

CARTER:

The four where I understand your intent and agree with it, but would look at a different way of approaching implementation are your numbers 9, 21, 24, and 25.

And let me say something. You want to know what's in my head?

SHAYS:

Yes.

CARTER:

It sounds like the omission of services, the QDR (Quadrennial Defense Review) was an omission, that's in my head.

SHAYS:

Right.

CARTER:

It should have been in there.

Do you want to know what's in my head about services, ignoring services, what's in my head is I mentioned it about five times come and said it was half the spend and is the part of Better Buying Power that I think have the greatest promise, the greatest opportunity for better value.

SHAYS:

Would you speak to number 21, align past-performance assessments with contractor proposals? That's one that you're not inclined to want to support. And by the way, we appreciate that it's only four.

(LAUGHTER)

But we need to know it, because we need to know, one, whether we need to rethink it, which is legit, or whether we need to ask you to rethink it based on information we can provide you.

And the only way that dialogue can happen is this honest truth, you know, exchange.

So if you could speak to align the contract-performance assessment with the contract proposals.

CARTER:

Sure. Let me just sort of take it from the top for those who are . . .

SHAYS:

Any way you want it.

CARTER:

. . . who are listening to this.

Past performance is an important thing to take into account when considering awarding a contract. Did the person or the party that you're considering awarding a contract to do you well in the past?

It makes sense. You do that when you hire a contractor or somebody to mow your lawn, anything else you do. You do consider past performance. And the government does also.

And then the question that your recommendation hinges on in fact is how do we know what the past performance is, what data do we do have about the past performance of each of the contractors?

And where I wholeheartedly agree with you is, in saying, first of all, the past performance is not only relevant, but a very important criterion for source selection, and we don't have good enough data.

And so the principal burden to me is to learn how and get our people to collect and keep better past-performance data.

The point on which I'd ask you to be cautious has to do with the suggestion—well, it is—the difficulty arises, or a difficulty arises, when a contractor has no past performance as a government or DoD contractor. How do we handle that situation?

And I think it's important that we not do anything that erects a barrier to entry for a contractor who is not contracted with the government before.

They will not have a past-performance record as a government contractor.

SHAYS:

So your primary concern is, one, the data isn't as good as it needs to be on folks that are already working for the government.

And your second point is that if they haven't had experience working for the government, then they have no past performance.

CARTER:

Well, they do, but it won't be in our database, however comprehensive our database is.

And I don't want to make the absence of data in our database a barrier to entry to them.

And related to that is the point that if they are a contractor who has done the kind of work for governments that we want them to do, but it's been for non-U.S. governments, they also won't be in the non-U.S. base, but their past performance can be assessed, it can be measured and is relevant.

SHAYS:

Could you speak to the aligning past-performance assessment with—so we're talking about, and excuse me, I'd like you to speak about suspensions and debarments.

CARTER:

OK.

SHAYS:

This recommendation 24.

CARTER:

You bet. Also a very important topic and I'm grateful to you for raising it.

And you have two recommendations there with respect to suspensions and debarments. Let me make a couple of comments on them.

The first is I think I would agree with you that we need to take another look at the process. I think we have the regulations and the laws are fine. We need to take a look at the process by which we implement them.

So that part of the analysis underlying your recommendations 24 and 25 I think is spot on, and I accept it. We'll do.

I have two cautions. The first caution is this, Mr. Chairman. When we get to the point of considering suspension and debarment, I mean, that's way past the point where I want to be with these things. We have to get back to the front end, where prevention and detection of fraud. We need to get better at those.

How do you prevent fraud? You prevent fraud by making it impossible to put one over on you because you're all over contract performance. You're doing what a contract monitor ought to do, which is to make sure that the government isn't being defrauded and that we have a system to detect fraud where it occurs.

So my first caution is: my gaze is principally on prevention and detection and only secondarily on the proceedings after fraud has already occurred.

SHAYS:

Thank you. I'm sorry to interrupt you.

I'm going to go with Mr. Tiefer. We're going to do five minutes. And if I run out of time for myself, that'll be OK. So each of you will have five minutes.

TIEFER:

I'm going to try to go with shorter answers—shorter questions and hope for shorter answers.

I'd just make this observation about suspension and debarment. We came back from Afghanistan. They're starting a debarment there of the Watan security group, which is linked to Karzai. This is not some academic exercise. We've got to use this tool more.

Now, my first question—finish what I'd asked you before. There's a scandal because DoD IG has found \$600 million that it's questioning about Supreme Foodstuffs. DLA (Defense Logistics Agency) reports to an assistant secretary who reports to you. DLA is under you.

Will you be willing to have the matter gone over by the auditors at DCAA and if it's possible to make claw-back of money, make claw-back of money?

CARTER:

I certainly won't say no to claw-back of money under any circumstances. I can't tell you about the feasibility of it.

And we talked briefly earlier about this particular transaction. And as I said then, I'm happy to talk about the subject surrounding it in general, but not this specific transaction.

It is one that I'm aware of, one that deserves attention.

TIEFER:

Let me go on, my time is short.

Separate question: You are very, very good as to the problems with awards to the contracts that comes up, you say strong statements twice in a competition memo.

Well, in theater the number one, number two and number three biggest award-fee contracts, which are in the billions each, are—and by that I mean Afghanistan, are KBR—which used to have Afghanistan, and Dyn and Fluor, which now have Afghanistan.

It has been many years since we had an acquisition strategy. It was 2005 that they first said let's have an acquisition strategy to go from LOGCAP III, which was basically a sole source, it was a single award for decades, to competition.

And so my question is because this contract in some respects matters the most in Afghanistan: Are you willing to start the acquisition strategy for a successor to this dinosaur of LOGCAP IV?

And I say it's a dinosaur, because its problem is the one you are talking about, Dr. Carter. It's an award-fee contract. I think you're right.

Now, when you start acquisition strategy, do better.

CARTER:

Two comments on that. First, I don't agree with you that LOGCAP IV is a dinosaur. It may have some imperfections. It's one heck of a lot better than a LOGCAP III.

TIEFER:

No question.

CARTER:

And so ever upward. And, of course, we will change. There will be a LOGCAP V and so forth. And we look constantly to improve, including the award-fee provision. It was actually less in LOGCAP-type circumstances that we have seen the most ineffective use of award fee in the last decade.

TIEFER:

Let me ask you another question, because our concern is LOGCAP. You may be underestimating the scandal surrounding the LOGCAP contract.

Today, there's a scandal that we came back with, having found in Afghanistan, involving more of bad electrical problems like Iraq, but not so bad because that was KBR and this is DynCorp and there it wasn't intentional.

But nevertheless, there are thousands of electrical problems that they need to take care of, that they're not taking care of fast enough, and there's some question as to misreporting work that was as complete so they could get paid—I mean Dyn—complete so they get paid, but wasn't complete yet.

Now, my question to you is this. Suppose on this LOGCAP scandal it turns out that a piece of it is KBR's because, as you know because you were there; anyone who goes there knows this. It used to be KBR. It's been inherited with its problems by Dyn and Fluor. So they haven't yet looked at some claw-back from KBR for leaving behind as a sort of scorched-earth policy this bad work on electrical stuff. In this circumstance as well, would you be willing to have claw-back?

CARTER:

I'm sorry.

SHAYS:

He asked if in the end were you willing to have claw-back because we want to make sure you have a chance to respond . . .

CARTER:

I'm always willing to have claw-back.

SHAYS:

Mr. Henke?

HENKE:

Dr. Carter, you mentioned in your statement and discussion the acquisition-workforce growth initiative. I think I understand it pretty well. It's 20,000 over time, the first 10,000 through new hires using section 852 money—acquisition-workforce money. That's on track. It's actually well ahead of schedule and it's going to stay on schedule until you get to 10,000. Right?

CARTER:

Yes, absolutely.

HENKE:

The other half, through in-sourcing, is on a case-by-case basis. . .

CARTER:

Correct.

HENKE:

. . . subject to the discretion and the approval of the deputy secretary. Right?

CARTER:

Yes.

HENKE:

And your priorities in that grouping of 10,000—you've in-sourced 3,400. The department was very clear about we weren't realizing the kind of savings we had hoped, and you're saying going forward it will be for inherently governmental functions, you must in-source them.

CARTER:

Absolutely.

HENKE:

You have no choice, meeting critical needs, however that's defined, and in situations where you can demonstrate cost savings. So the second half of it is on a case-by-case basis, but the top of the pecking order there is inherently governmental functions. Is that correct?

CARTER:

Well, yes. Inherently governmental must be in-sourced by definition. That's what "inherently governmental" means. It shouldn't be done outside. However, there's a lot that is not inherently

governmental that—it's not that we couldn't do it through a contractor, but it's undesirable for a government to lack that capacity.

HENKE:

Right, exactly.

CARTER:

We want people in the government . . . who know what they're doing.

HENKE:

You could do it, but it's inadvisable to have it contracted out.

CARTER:

Correct.

HENKE:

In that very vein, I wanted to ask you your views on the issue of private security in a war zone. General Petraeus and others have established the COIN doctrine, counterinsurgency doctrine, as having three fundamental elements: security, number-one—security is the mission in a counterinsurgency; second, legitimate governance; and third, rule of law.

Can you give us some examples of where security, providing security in a war zone is not inherently governmental?

CARTER:

Let's take the case of static security, outer perimeter of a facility. Is this the kind of thing you're . . .

HENKE:

Your views.

CARTER:

Yes, I would say that that is not inherently governmental, to man a checkpoint at the outer perimeter of a facility, of not something . . .

HENKE:

A forward operating base?

CARTER:

The closer you get into the perimeter, the more expeditionary, and the more potential or necessity for offensive operations and integration with inherently military operations. That's the point at which you don't want to have contractors. So there's a spectrum there and you stop at a certain point in terms of what is appropriate for a private security contractor.

HENKE:

So you would equate providing security at the Department of Labor in D.C. to providing security—static security, fixed-point contractors—with providing security at a forward operating base or an embassy in a war zone?

CARTER:

No, of course I wouldn't equate those two. Why would I do that?

HENKE:

I think you just did. I asked for an example of security that is not inherently governmental, and you said static security.

CARTER:

But that wasn't at the Department of Labor. It was . . .

HENKE:

No, I'm talking about in a war zone. I'm just trying to understand your example.

CARTER:

Well, example—you're asking what's an example of an appropriate use of private security contracts in a theater of war, if I understood.

HENKE:

Precisely where security in a war zone is not inherently governmental, security in a war zone.

CARTER:

OK, well, same answer, I guess, which would be at a static security at an outer perimeter of a facility where the contractors are not required to participate in offensive operations, are not integrated with military operations, and have purely a static-security function.

HENKE:

So where they're not exposed to a threat from imminent danger or combat.

CARTER:

Well, I think if they have a security function worth paying for, they are exposed to some danger because that's the reason for their existence. I think the critical thing is that they're not authorized to take offensive action and participate integrally in military operations. That would be inherently governmental.

HENKE:

We visited a number of times the embassy in Kabul, and I have to wrap up in about 15 seconds. We've visited the embassy a number of times, not DoD, but State, obviously, guarded by contractors, and 30 feet away there is a blast radius from an IED, a vehicle-borne IED that went off. I would say we're exposing those people to combat situations. Would you care to comment real briefly?

SHAYS:

No, we need to move on because we have two other members who have five minutes and we're going to get them out.

So Ms. Schinasi?

SCHINASI:

Thank you.

Dr. Carter, in the Department of Defense's summary of performance and financial information, they're readiness-reporting on a number of goals. The first two strategic goals are to win our nation's wars, number one; and deter conflict and promote security, number two.

In both of those, and this in the report, I don't know if I said, but February 15th, 2011. In both of those, readiness to execute missions is a key indicator. And in 2010, several of those were 100 percent. So the combatant commanders were 100-percent ready to execute.

As you know, one of the recommendations that we made in our interim report was about how you measure that readiness. The military units have a very extensive legislatively required reporting system—training, funding, recruiting, and plan for remedial actions.

So my question is: Do you know if there is any contractor piece in these 100-percent readiness reports under the strategic goals one and two that have anything to do with contractors? We have not seen it. So I would appreciate knowing if there's something that we missed there.

CARTER:

I do. This is one of the nine recommendations that I said is outside of my purview, but that won't stop me from having something in my head, to quote Chairman Shays. It is an important part of readiness, to be ready to contract in association with a contingency. It is regarded as an element of readiness by those who do measure and report readiness. It doesn't happen to be me.

But they do. They should. And as I said earlier, having contingency contracting be part of the war plan and be an essential part of leadership training, those are both indispensable in today's environment. We're simply not going to go to war without contractors. We have to build that into what we call readiness, what we call training, what we call leadership, and what we call war planning.

SCHINASI:

So you said they do, and then you said they should. So just for the record, could you . . .

CARTER:

They do, and we can provide more detail.

SCHINASI:

Yes, I would appreciate that. Thank you.

And my second and last question goes to the memo of March 15th, 2011, that you signed out with your colleague Mr. Hale, then the comptroller. And in it, you talk about the defense-acquisition workforce-development fund and you point out that the strategy, the expectation is that the military departments provide funding for long-term sustainment of the in-sourced positions.

So that was a three-year fund, is my understanding, so the FY '13 budget is where you should start to see the military departments put that money in.

CARTER:

Begin to put that money in, yes.

SCHINASI:

I imagine you're starting to see the FY '13 budget, if you haven't already. Is that money there? If it's not there . . .

CARTER:

Yes, the money's all there.

Shay, you want to answer? Yes, it is.

SCHINASI:

It is all there? OK.

CARTER:

It absolutely is.

SCHINASI:

And you will protect that money?

CARTER:

Absolutely.

SCHINASI:

Because the military departments, as you know, are walking backwards a little bit on . . .

CARTER:

I don't think they're in any doubt about the department's intent.

SCHINASI:

So you will make sure that that money is there?

CARTER:

Absolutely.

SCHINASI:

OK. Thank you.

That's it.

ZAKHEIM:

Thank you. And I'll try to be quick so that my co-chairman can get one question in.

SHAYS:

No, no, take your five minutes.

ZAKHEIM:

OK.

You said, Secretary Carter, in one of your responses that, in terms of sole-source re-competes or extensions, there are times when it's too hard to change horses, which sounds an awful lot like too big to fail.

What are the criteria for determining whether you change horses or not, and how do you put those out, and how do you ensure that people who don't like changing horses say, well, it's just too hard to change them?

CARTER:

Well, the changing-horses metaphor has to do with balancing the value associated with re-competing with the potential for, if there is potential, and this needs to be evaluated and particularly weighed in a contingency circumstance with any possibility of interruption of service. So that's . . .

ZAKHEIM:

And that's my point. Have you . . . are you laying out guidelines for evaluation? Are you laying out criteria for making the choice?

Because if you don't lay them out, you know as well as I do nothing is going to happen.

CARTER:

Well, yes, I mean, you're absolutely right, Commissioner Zakheim. That's absolutely right. And the guideline is that the expectation is re-compete.

ZAKHEIM:

So they have . . .

CARTER:

And not re-competing is by exception, and you have to have a good reason.

ZAKHEIM:

OK.

CARTER:

But at the same time, I'm not going to pretend I don't see a good reason why, under certain circumstances, people might do that in association with a contingency.

ZAKHEIM:

I'd like to give you an example of why we've highlighted the importance of having somebody who focuses only on contingency contracting. On page 11 of your really excellent September 14th memo, you say that there needs to be a uniform taxonomy. And you list a number of things.

And I could see where certain contingency activities fit in reasonably well. Transportation is a good example. Private security isn't one of your big six. Training isn't one of your big six. But they're huge in contingencies.

How do you ensure that those also receive the same high-level focus when you didn't list them in your taxonomy?

CARTER:

Well, they're in there but in a way that's not very satisfactory and so we're going to need to change the taxonomy. That's one point I'd like to make about that.

And the other point I would like to make about taxonomy is this, which is you have to be careful when you look at the data and match it up with the taxonomy because most of our data is by contract. And so you have to put in a code for the entire contract. But a lot of contracts have several different kinds of services in them. I don't want to lose visibility over those different kinds of services, so we are still struggling with how we keep track of what we're doing in services.

ZAKHEIM:

But what I hear you saying is you will, in fact, highlight those two in particular when you rework this?

CARTER:

Yes.

ZAKHEIM:

OK. Thank you.

And, finally, my last question is Mr. Assad's memo, the follow-up, says that—and this goes back to competition again—after 30 days, the contracting officer shall re-advertise. Well, since the memo's been issued, has anything different happened?

CARTER:

I'll get back to you with our best information on that.

ZAKHEIM:

OK. Thank you.

CARTER:

It's a good question and we'll get you a good answer.

ZAKHEIM:

Mr. Co-chairman, you've got the rest.

SHAYS:

Thank you. Dr. Carter, I have no questions for you, just to say you've been a very cooperative witness. Your people have been wonderful to work with. You have excellent staff. You can trust Shay Assad. I'm sometimes called Shay as a last name since mine was Shays. But that . . .

And Admiral Ginman, we have—the admiral and I have a little dialogue about how much past performance is really weighing in. I think he feels pretty confident that you're using past performance more than we think you are.

And we'll sort out where we have our disagreements there. Our final report is due in July. Any input that you'd like to make, we would love it. Obviously, some of these recommendations come from your people. We didn't invent these. We just, kind of categorized them and put them in the ways that we thought made the most sense. So we appreciate the relation we have working with you. And you need to get out of here.

CARTER:

Likewise. And if I may just once again thank you for what you're doing, it's a very important mission. And I'm grateful and admiring of the work you're doing.

SHAYS:

Thank you for that. The hearing is adjourned.