

# Newsletter An Important Tool During Acquisition Renaissance



By The Hon. Clark G. Fiester

This is an exciting and challenging time to be an acquisition professional. All of us--program managers, engineers, contracting officers, functionals, and users alike--have a unique window of opportunity to redefine the way we do business. Although reforming our acquisition process has been talked about for years, it has never enjoyed such top-to-bottom support--the President, Congress, SECDEF, USD(A&T), and your Air Force Leadership.

Our success starts and ends with you. The old AFSC and AFLC were process improvement pioneers, and many of your process changes are being adopted across the DoD. Your actions today continue to have the Air Force leading reform. Today, the Pentagon is facilitating reform by removing barriers to change that have limited your efforts in the past.

To help the process along, we need to boost the level of communication--vertically between you and me, and horizontally among yourselves. That is precisely the reason that we have created this newsletter. It is a forum for you to share your thoughts and ideas; criticisms and complaints; success stories and lessons learned. It is my hope that this newsletter will be a vital source of information to make your job easier, more productive, and more efficient.

You have my personal commitment to support bold and innovative reforms that will help us deliver cost effective air, ground, and space systems to our warfighters. Working as "Team Air Force," I know we can forge a path of excellence and bring lasting reform to reality. *The Honorable Clark Fiester is the Assistant Secretary of the Air Force (Acquisition).*

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## Significant Oversight Cuts Possible With Reform Cooperative, Not Combative Staff Review Needed Says Panel

Ripe for reform, the DoD could save up to 50% of the cost of acquisition oversight and review, according to the report of a recently concluded task force investigating the process. The team, which issued 33 recommendations in its 184-page, two volume report, called for teamwork and cooperation between oversight staffs

and program managers; increased qualifications and tenure for program managers; and, a redesign of the milestone decision process. It also recommended continuous, realistic program trades and affordability assessments.

Secretary of Defense William J. Perry chartered the Oversight and Review Process Action

Team (PAT) last August to "reengineer the oversight and review process ... to make it more effective and efficient while maintaining an appropriate level of oversight."

The team's broad ranging report, released on 8 Dec 94, provides a blueprint for reducing the time and cost, and increasing the effective-

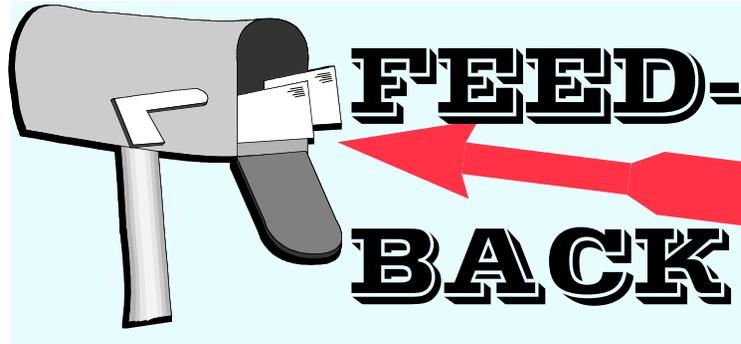
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# NewsBits: News and events from the world of Acquisition Reform

- The Commission on Roles and Missions (CORM), which has pitted the services against one another in a battle over air, land, sea, and space missions, is also exploring acquisition management. According to draft documentation, the CORM is considering three options: 1) leaving acquisition to the services, 2) consolidating functionals, such as contracting under DoD, and 3) creating a centralized DoD acquisition corps. . . .more to come.
- Vice President Gore recently kicked off Reinventing Government Phase II. As with the first National Performance Review, expect this to translate into another Defense Performance Review (DPR). The first DPR resulted in 60 recommendations designed to improve management and lower costs in DoD.
- Almost 25 years after the General Services Administration first said a major renovation was badly needed, the Pentagon is about to undergo a 12-year, \$1.4 billion facelift. As early as Oct 95, much of the Air Force Pentagon contingent will be relocating to an office building in nearby Rosslyn--they are scheduled to return in the year 2006.
- The Defense Acquisition Executive, Dr Paul Kaminski was scheduled to hear the final recommendations of the latest OSD Process Action Team (PAT) on 6 March. The Oversight and Review team is one of six DoD chartered PATs dealing with acquisition reform. Details on the Oversight and Review Team's report can be found in the article on Page 1. For a summary of all Acquisition Reform PATs, see the box on the right.



Dear AFAR,  
I work on the National Airspace System (NAS) at ESC. I was wondering if there was a waiver process for Cost and Pricing Data requirements. Can you help me out?

*Sure! In fact there is a "generic" waiver process for all Air Force and DoD policies, directives, and regulations. A 5 Aug 94 SAF/AQX memo to HQ AFMC, the PEOs and DACs outlined the process. If you need some help on your specific waiver, contact Maj Kim Hurd (hurdk@aqqo.hq.af.mil) or Capt Barry Graham (grahamb@aqqo.hq.af.mil) at SAF/AQXA DSN 697-6513.*

Dear AFAR,  
How can I get something published in News From AFAR?

*We'll publish any of your questions, comments, complaints, ideas, and lessons learned. Just send them via email, fax, paper, or cocktail napkin to the address to the right.*

News From AFAR is produced by SAF/AQX as an informal way of disseminating important acquisition reform related information. It is only useful if it meets your needs.  
If you would like to contribute material, submit questions, or you have comments on the Newsletter, please contact the editor:  
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Acquisition Reform Process Action Teams	
<u>OSD Sponsored PATs</u>	
EC/EDI	Completed
Military Specs and Stds	Completed
Oversight and Review	Final Report
Contract Administration	Final Report
Procurement	Final Report
Automated Acquisition Info	In Process
<u>Air Force Sponsored PATs</u>	
Acquisition/Modification	Completed
Acquisition Policy	In Process
Program Management Directives	In Process

## Defense Business Should Go To Proven Performers

By Terry Little, Program Manager, JDAM

The 1994 Federal Acquisition Streamlining Act designated JDAM as one of the DOD's pilot programs to try out commercial ways of doing business. Even though your local Circuit City is unlikely to have a ready stock of JDAMs (unless maybe you live in California), the Act declared that we could buy the weapon system just like it were a commercial product and, to a large extent, just like we were a commercial buyer instead of

the stodgy old US Government. In this and subsequent articles, I will talk about some of the things we are doing in JDAM with the aim of seeding and stimulating your thoughts about initiatives that could apply to programs you are working on.

When it became apparent what direction the legislation was going, we in the SPO spent considerable time scratching our heads trying to figure out what "being commercial" meant. To get a handle on this I did the typi-

cal Air Force SPO Director thing: I put together a "tiger team" and sent them out to visit some world class commercial companies. What we found was that there was no universal template that defined commercial acquisitions. Rather, "being commercial" meant that we should tailor how we bought the product to what the product was—a revolutionary concept in this day of "one-size-fits-all" Government acquisition strategies and oversight concepts.

This is not to say that we found no common elements among the companies we visited. We did. Perhaps the most salient common element was that every commercial company we visited used vendor past performance as the **dominant deciding factor** to decide who their vendors would be. Sev-

## JDAM - Joint Direct Attack Munition

**Description:** Acquisition Category ID program to develop and field bomb guidance kits. Transforms dumb bombs into guided weapons to provide an accurate, all-weather capability to Air Force and Navy warfighters.

**Program Status:** Currently in an 18 month Demonstration/Validation phase.

**Contractors:** Two contractors. Martin-Marietta and McDonnell Douglas.

**Next Program Milestone:** Downselect to a single contractor in Oct 95.

eral of the companies cited this factor as singularly responsible for the fact that they had very, very small staffs dedicated to overseeing their vendors—even though in some cases there was a tremendous amount of money involved—and very little formal vendor reporting.

After ruminating on this for a while, we surmised that there was no real reason why we couldn't do the same thing notwithstanding the fact that we were unaware of any Air Force competitive selection for a major system where

past performance had been the dominant selection criterion. Little did we know!

The first thing we found was that the vaunted Contractor Performance Assessment Reports (CPARs) were essentially worthless as a way of distinguishing among contractors. Certainly the CPARs had useful information, but not so useful that we could hope to use them as **the most important** input to the source selection. *See box at left.*

I can illustrate the sub-

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### Problems With CPARs

*Subjectivity - Differing opinions among government managers*

*Relevance - Good at widgets but not doo-dads*

*Timeliness - Old news is bad news*

### ... and a way of fixing it

*PRAG - Performance Risk Assessment Group*

*Plant trips - Go out and see the competitors*

*Interviews - Get the straight scoop from other government customers*

# Oversight And Review PAT Recommends Reforms

Continued from Page 1

ness of the oversight and review process. The team's major recommendations include:

- A reduction in the number of Defense Acquisition Board (DAB) program milestone reviews from five to three (need validation, program initiation, and production start). Other program decision points would be delegated to lower levels of authority.
- Elimination of most DAB documentation requirements.
- Reduction in the number of "pre-DAB" meetings with service and OSD staffs.
- More stringent qualifications and longer tenures for program managers. Program managers would be selected through a central selection board.
- Transition of requirements generation and affordability determinations to the warfighting CINCs.
- Establishment of a Joint Acquisition Executive and Joint Program Executive Officers for major joint programs.
- Continual presentation of cost, schedule, and performance trades to the user.
- Electronic reporting, informal oversight and management by exception.
- Increased qualifications and experience for staff auditors and inspectors.
- Central coordination of audits and inspections.
- Contractor self-governance--A

concept under which "trusted" contractors would be allowed to self-certify conformance to requirements.

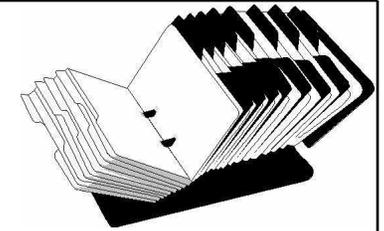
Currently, OSD and service staffs are reviewing the report. The panel's recommendations were recently briefed to Undersecretary of Defense (Acquisition and Technology) Dr Paul Kaminski. Kaminski is expected to appoint another team to implement the recommendations that he approves. Implementation of the PAT's recommendations might include revision of the DoD 5000 series, the Federal Acquisition Regulations, or changes in law.

The PAT, which was made up of 26 acquisition professionals from each of the services, OSD, and the acquisition field commands, met from late August to early December 1994. It is the third major OSD acquisition reform Process Action Team to be completed. The first, the Electronic Commerce/ Electronic Data Interchange PAT, reported out early last year. It recommended using the "information superhighway" for solicitations, proposals contract data deliveries, and contract payments.

The second OSD PAT dealt with Military Standards and Specifications. That PAT recommended major changes to the way the acquisition community uses unique military

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## Who's Who In Acquisition Reform



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## Oversight Panel Reports Out

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requirements, and encouraged the use of commercial standards and best practices.

The Oversight and Review PAT sought to cut down on the burden caused by oversight—the continuous review of program activities—and review—characterized by the Defense Acquisition Board (DAB) process. The DAB process recently has come under fire as being lengthy, expensive, and bureaucratic. For example, the DAB process for the F-22 EMD milestone took eighteen months, and involved hundreds of documents and briefings filling in excess of 10,000 pages. Many other programs have similar experiences.

The oversight program in DoD has been criticized for years for excessive inspection and audits by all levels. Critics charge that too many

DoD inspectors are in contractor plants, program offices are too large, and there are too many headquarter's staff positions.

The PAT seeks to limit the oversight and review by fostering a spirit of teamwork between program offices and staff agencies. They hope this spirit of teamwork will result in better decisions, and will limit the incentive of the staff to "find" problems.

The PAT believes more qualified and accountable program managers and staff officer will help develop a long-term view of program decisions as a way of cutting down on program variability.

Finally, the PAT believes that realistic and continual program trades and affordability assessments will prevent us from "gold plating" systems which must be scaled down when budget reality kicks in.

## DoD Pays Extra For Its Equipment Study Finds 18% "Cost Premium" in Buying System

A study, commissioned by Secretary of Defense, Dr William J. Perry, has found that DoD customers pay an average 18% more than their commercial counterparts for equivalent equipment. The study used credible, empirically-based estimates of the industry cost impact of DoD regulation and oversight. A few of the DoD customers reviewed paid as much as 25% more.

The study identified ten major contributors to these premiums. The ten culprits in order of contribution are:

1) Mil-Q-9858A Quality Program

### Requirements

- 2) Truth in Negotiations Act (TINA)
- 3) Cost /Schedule Control Systems (C/SCS)
- 4) Configuration Management Requirements
- 5) Contract Specific Requirements
- 6) DCAA/DCMAO Interface
- 7) Cost Accounting Standards
- 8) Material Management Accounting Systems (MMAS)
- 9) Engineering Drawings and
- 10) Government Property

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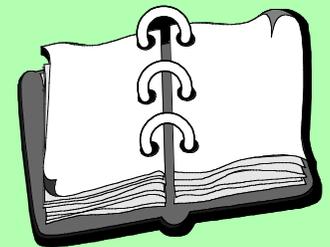
## **D**ATEBOOK: Upcoming Events From The World of Acquisition Reform

- The 10th Annual Conference on Government Contracting - "Reinventing Government Procurement," will be held in Alexandria VA on 16 - 17 Mar 95. Sponsored by Manufacturer's Alliance. Call Kathy Koval, (703) 841-9000 for details. Cost is \$450 members/\$500 non-members.

- DoD Reinvention Lab Conference with SecDef and USAF Chief scheduled to speak, will be held 28 - 29 Mar 95 in Washington DC. POC is Maj Steve Moss, DSN 223-2943, moss@osdpo.secdef.osd.mil.

- An Air Force Association Conference, with Lt Gen Richard Hawley, SAF/AQ, speaking, will be held in Colorado Springs, CO in late May. Stay tuned for more details.

- A Defense Systems Management College Acquisition Research Symposium dealing with Acquisition Reform will be held in Rockville MD on 28 -30 Jun 95. Call Joan Sable, DSN 655-2525 for details.



## Past Performance Key to Reform

Continued from Page 3

jectivity problem with a simple analogy. Suppose you and I are together on an airplane going from Point A to Point B. At the end of the trip, we independently rate the quality of the plane ride using a one to ten scale—awful to wonderful. I give the trip a nine and you give it a two. What can a third person conclude? Consider what would happen in the airplane analogy if we were to ask the pilot to evaluate the quality of the ride. Could we expect an objective evaluation? The answer is no.

So, what's a body to do? Here's what we did for JDAM. For the initial source selection, we put together a performance assessment group with members from the program office and Headquarters Defense Contract Management Command (not the local DPROs because of the bias problem). We sent

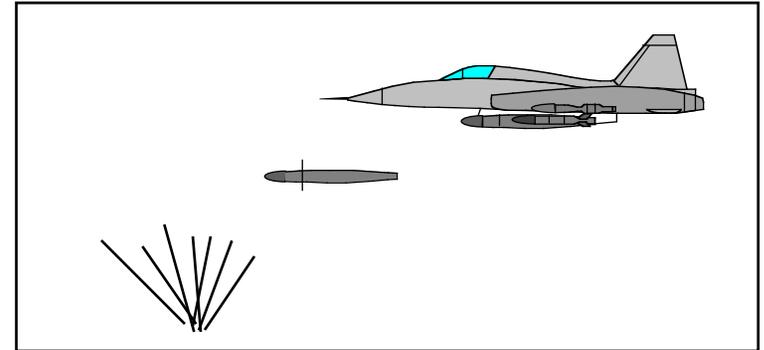
this group to every bidding prime as well as the prime's key subcontractors. Their purpose was to evaluate past performance in each of the source selection areas (technical, management, etc.) We then used the input from the group to do a performance risk assessment for each contractor for each area (low, medium, high). This assessment made up a third of each area evaluation.

This approach worked OK, but we were significantly limited by time and, in the end, the past performance played an important, but not as dominant a role in the selection as I would have liked. Had we to do it over again, we would have had the contractors give us a very short technical proposal and devoted most of the source selection team to assessing contractor past performance at the item level (e.g. software, logis-

tics, cost control, etc.) assessment vice reading paper proposals.

In the particular case of JDAM we do, in a sense, have the opportunity to have another run at elevating past performance. When we go from two contractors to one, we intend to use past performance as a dominant factor in the downselect decision. In fact, we will get no technical proposal for downselect, but will base much of our evaluation on how well the contractor team performed during the first 18 months (as measured against what the contractor said he was going to do).

This "test drive" acquisition strategy was the reason why we choose two contractors to begin with—we wanted to see how the contractor team worked on the most relevant of tasks—ours! We felt no need for two competitors just to reduce technical risk, get design competition or the other usual reasons. Rather,



we wanted two to mitigate against the risk that we chose the wrong one at the initial source selection.

I am not suggesting that everyone try to copy what JDAM did. That would be a mistake. However, I am personally convinced that meaningful acquisition streamlining will not happen until we have trust relationships with our contractors. In part that means cultural change within the Government acquisition workforce but, in larger part, it means doing a better job of picking contractors who are trustworthy.

The best way I know to do this is to elevate past performance to a dominant role in source selec-

tions. The recently completed OSD Process Action Team Report on Streamlining the Oversight and Review Process agrees. Making such an institutional change will not be easy. PMs, engineers, PCOs, lawyers and contractors will resist because using past performance so significantly is way outside the comfort zone.

Certainly, our moving in this direction implies spending as much time, energy and resources in figuring out how to measure past performance as we have spent on figuring out how to evaluate the promises in proposals. We can do that and, in the end, we must if we are really to have substantial reform.

# Study Examines “DoD Cost Premium:” Quality Standards, TINA, C/SCS, and Drawings Found To Be Major Cost Drivers

Continued from Page 5 Administration.

Outside of TINA, most of the culprits are DoD requirements not driven by law.

TASC/Coopers & Lybrand conducted the study from March to October 1994. They used activity-based costing to evaluate a sample of ten companies who have different degrees of DoD and commercial business. The companies were Allison Transmission, Beech Aircraft, Boeing Defense & Space Group, Rockwell Collins

CACD, Hughes Space & Communications Co, Motorola GSTG, Oshkosh Truck-Chassis Division, The Timken Company, Teledyne Ryan TCAE and Texas Instruments DSEG.

Activity-based costing (ABC) identifies the key activities performed by an organization and determines the costs of these activities through detailed interviews with appropriate company personnel. This method is not hindered by organization structures or terminology differences.

The actual cost driver database contained over 100 discrete cost areas. These were grouped into seven categories, in order of contribution: Quality Assurance, Accounting/Finance, Engineering, Contract/Purchasing, Material Management, Program Management and Other. Quality assurance as the primary cost driver (25% of all regulatory /compliance costs) was one of the surprising results of the study. Generally, it is believed that accounting/finance regulations

are the significant cost drivers. This is partially due to the organizational level that is involved with the compliance determination. Accounting and finance compliance is usually handled by the chief financial officer; whereas, quality assurance compliance is worked farther down in the organization - factory floor, engineering test lab, receiving dock, etc. But if you were to combine accounting/finance and contracting/purchasing which are often symbiotic in nature, they would account for 33% of all costs incurred.

Dr. Kaminski, Under Secretary of Defense for Acquisition and Technology, established a Senior Steering Group of OSD and Service personnel to develop a roadmap on how the Department will tackle these cost drivers. The initial plans were due 28 February 1995.

## Example: Notional Engineering Dept.

Traditional Accounting	Activity-Based Costing	
Salaries	\$1,350,000	Design/Develop Widgets \$330,000
Benefits	495,000	Resolve Mfg Problems 550,000
Travel Expenses	45,000	Conduct Field Failure Analysis 110,000
Facilities/Equip	220,000	Support Proposal Develop 110,000
Supplies	52,000	Support Govt Audits 440,000
Training	38,000	Perform Proj Mgmt Tasks 330,000
Tests	330,000	Monitor Development
<b>TOTAL</b>	<b>\$2,200,000</b>	<b>\$2,200,000</b>

## How To Get News From AFAR

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In addition to an email account, you will need the Adobe Acrobat reader (its free), and a PC (486 or better recommended, with MS Windows or OS/2), or a Macintosh.

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