

Answer. The fiscal year 1984 Economy and Efficiency savings is undergoing final review and will be available shortly. However, major changes produced by the Carlucci initiatives are as follows:

DSARC process.—Seven of the initiatives have resulted in a streamlining of the Defense System Acquisition Review Council (DSARC) process to more closely integrate it with the Defense Program Planning and Budgeting System (PPBS). As a consequence, there is better assurance that the impact of future costs are properly weighed when approval of weapon systems development or production is requested.

Preplanned product improvement (PPI).—Under this initiative we are making system changes in smaller, less risky steps in an evolutionary approach to higher performance. This approach has been implemented into both existing and new development programs, for example the 120mm gun for the M-1 Tank and the engine for the JVX vertical take-off aircraft program.

Multiyear contracting.—Significant progress has been made. Through economic lot purchases, avoidance of line stoppages, reduction of the usual annual proposal and negotiation process, and improved worker productivity, significant savings can be achieved.

Competition.—It is firm DoD policy to purchase required materials and services, including major weapon systems, on a competitive basis whenever possible. Just about all of our major programs have initial competition because the development contractor is selected through a competitive source selection process. After selection of a single prime production contractor, significant competitive procurement takes place at the subsystem and vendor levels.

Economic production rates.—Last year we reported \$2.3 billion savings from more efficient rates. This year we have proposed production rate changes which increase these savings.

Readiness and support.—We have established a separate internal budget report to insure that support funding for our major weapons system is funded adequately. This effort should result in improved sortie rates, lower support costs, less demanding manpower skills, and a lessening of logistic support forces in the field.

Effective budgeting.—The three initiatives addressed here (budget to most likely cost, budget for technological risk, budget for inflation) are being fully implemented. For example, the Services are making independent cost estimates on major programs. Where such costs are higher than projected by the program manager, the Service Secretary must explicitly explain his reasons for choosing the lesser estimate to the Secretary of Defense. Such efforts will help insure realistic cost projection in the outyears.

Others.—While less visible, other initiatives are being pursued. For example, a test program is underway with industry to stimulate capital investment; some 30 policy directives are being reworked to simplify demands on the Services and industry; and efforts are continuing to further reduce administrative costs.

CONTRACTOR PAST PERFORMANCE

Question. One of the original initiatives by your predecessor, Secretary Carlucci involved considering the past cost performance by the contractor before awarding future contracts. What has been done to implement this initiative?

In your statement you make reference to this initiative. How many contracts have been denied in the past 2 years on the basis of poor prior performance?

Answer. Giving emphasis to past performance in source selections must be done carefully to ensure that past performance is used as an indicator of what the offeror's future performance under a proposed contract will be. For this, examples of past performance (good or bad) must be recent and relevant to be a reasonable predictor. For instance, performance under a contract for an electronic system may or may not be relevant to procurement of a weapon system from another division of the company. Further, we have to be certain that a contractor's poor performance (say, in missing schedule milestones) was not due to government actions such as changes, late delivery of government-furnished property, and the like. In all instances, each contract action stands on its own and we can neither punish nor reward a contractor for what he did or didn't do under another contract by either awarding or withholding a new contract.

We are revising our source selection directive to emphasize contractor past performance, schedule realism, and credibility of cost estimates as source selection criteria. The revised directive is scheduled to be complete in December 1983.

I am not personally aware of any major contracts that have been denied in the past 2 years on the basis of poor prior performance.