



SAF/SB Media Summary

4—10 February 2011

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ARTICLE SUMMARIES

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SMALL BUSINESS

SBA Chief Signals 2012 Budget Will Eliminate Some Programs

Government Executive

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The headquarters received the award for exceptionally meritorious service for the period of Jan. 1, 2008, to Dec. 31, 2009. Headquarters Air Force Materiel Command has been awarded the Air Force Organizational Excellence Award, according to a special order from the Secretary of the Air Force dated Dec. 10, 2010. Highlights of the command's accomplishments during this period include reinvigorating the Air Force's nuclear enterprise through the strengthening of the Air Force Nuclear Weapons Center, establishing the Air Force Global Logistics Support Center as the cornerstone of logistics enterprise transformation and supply chain management, and contributing more than half of the \$19 billion invested in the Air Force's Small Business Programs in 2008 and 2009.



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SBA Launches Procurement Program for Women-Owned Small Firms

The Dallas Morning News

The U.S. Small Business Administration launched a program Friday to expand federal contracting opportunities for women-owned businesses. The Women's Procurement Program will let federal agencies set aside \$30 billion in contracts for the first time specifically for women-owned small businesses. It will also help the government meet its goal of directing 5 percent of federal contracting dollars to women-owned businesses. Women received 3.4 percent of federal contract dollars in 2009. Federal contracts can help businesses grow. Two-thirds of women whose firms do business with the federal government generate more than \$1 million in sales, according to American Express Open's government contracting survey.

SBIR/STTR

Air Force Contracts for New RF Transceiver

United Press International

The U.S. Air Force has contracted Camgian Microsystems Corp. of Mississippi to develop a new ultra-low power RF transceiver. The contract from the Air Force Research Laboratory is a Phase III Small Business Innovation Research vehicle. It carries a three-year term and is valued at \$9.2 million. This SBIR project will develop two revolutionary, ultra low-power Application Specific Integrated Circuits to provide significant power savings for a range of military electronic sensor systems, such as radars and infrared cameras.

Sigma Labs, Inc. Receives US Air Force Research Contract to Help Reduce Part Costs Through Additive Manufacturing for the Joint Strike Fighter

PRNewswire

Sigma Labs, Inc. has received a Phase II Small Business Innovation and Research (SBIR) Grant from the US Air Force Materials Research Laboratory to design and develop a monitoring and control system for use with electron beam additive manufacturing. Electron beam additive manufacturing is finding wide-spread use for making high-value added components for defense and commercial aerospace projects including the Joint Strike Fighter – JSF – which is a \$300B, multi-decade program led by Lockheed-Martin (aircraft) and Pratt & Whitney (engines).



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BUDGET & ACQUISITION

Pentagon Requesting \$7 Billion Less Than Forecast for Weapons

Bloomberg Businessweek

The U.S. Defense Department will request about \$113 billion for weapons in the fiscal year beginning Oct. 1, equaling this year's spending plan and \$7 billion less than was forecast last year, according to government officials. Among the major systems: money for the Air Force and Navy to buy 32 Lockheed Martin Corp. F-35 jets, software upgrades for its F-22 fighter and additional MC-130 transports for special operations, said the officials, who spoke on condition of anonymity because they weren't authorized to discuss budget figures before the budget is released on Feb. 14.

Budget Cuts Force DoD to Choose Manpower vs. Technology

Federal News Radio

In the age of austerity, the Pentagon faces a choice it did not have to face in the last decade: "The fundamentals of the choices come down to people or machinery," said Yochi Dreazen, senior national security correspondent for the National Journal, in an interview with the *DorobekINSIDER*. In the end, the choice boils down to the future of war itself, Dreazen wrote: "One school of thought holds that conflicts won't change much over time, and that the United States will likely find itself waging other troop-heavy counterinsurgencies, perhaps in Yemen or Pakistan. If so, the Pentagon would need to maintain-or even expand-the size of its ground-combat forces."

Budgeting for Space

Air Force Magazine

The Pentagon's Fiscal 2012 budget proposal—slated for release next week—will represent a "concrete manifestation" of the recently renewed US space priorities outlined in the first-of-its-kind National Security Space Strategy, said Deputy Defense Secretary Bill Lynn. Specifically, the Air Force has added more money to the Evolved Expendable Launch Vehicle program in the hopes of securing a more stable buy and ensuring "we have an industrial base that preserves our access to space," he said during a briefing following the strategy's release last week.

INDUSTRY

OMB Calls for 'Cultural Change' in Contracting Community

Federal Times

Dan Gordon, administrator for the Office of Federal Procurement Policy, said Friday he would consider disclosing more information about government and contractor interactions, but reiterated that the administration's so-called "myth busting" campaign will not alter regulations or statutes. "We don't believe we need statutory change or regulatory change, Gordon said in an interview with reporters. "What we really need is cultural change" in the federal contracting community.



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DoD Contracts Went to Excluded Vendors

Federal News Radio

The Pentagon obligated millions of dollars in payments to contractors that were on lists of "excluded parties" because of previous fraud, a report made public Wednesday said. The report, produced by the Defense Department's office of the undersecretary of defense for acquisition, technology and logistics, found that between 2007 and 2009, DoD did business with at least 16 vendors who were either suspended or debarred at the time the funds were obligated. Congress mandated the report in the 2010 Defense appropriations bill. The spending included nearly \$3.4 million to five vendors who were suspended and almost \$2 million to 11 debarred vendors. DoD's report explained that in some cases, contracting officers knowingly continued ordering from the excluded vendors "to ensure mission accomplishment and for safety and mission requirements." In others, however, Defense officials failed to check the vendors against the governmentwide Excluded Parties Listing System.

Pentagon Welcomes Mergers Except for Top Six Suppliers

Bloomberg Businessweek

The U.S. Defense Department welcomes mergers among U.S. defense companies provided they don't involve the top five or six suppliers acquiring each other, the Pentagon's top weapons buyer said. "We expect industry to make adjustments" to a slowdown in U.S. defense spending, Ashton Carter, undersecretary of defense for acquisition, technology and logistics, told Bloomberg Television yesterday. There will be consolidation and spinoffs, Carter said. "There are small businesses, there are parts suppliers which may grow in this time and that's good," Carter said. Those transactions "could be in the interest of economic efficiency" and the Pentagon would welcome them, he said. Small- and medium-sized companies are "centrally important in a healthy industrial base," he said in the speech, at the InterContinental New York Barclay hotel.

Administration Encourages Communication with Contractors

Government Executive

Federal acquisition officials need to interact with industry more while writing solicitations and negotiating contracts, the Obama administration's procurement chief said on Friday. For years, agency contracting officers have been afraid to meet with vendors for fear of sparking bid protests, causing delays, or committing potential ethical violations, said Dan Gordon, administrator of federal procurement policy at the Office of Management and Budget. But, the lack of interaction could be causing the government to pay higher prices, or to provide poorly defined contract requirements, he said. On Wednesday, Gordon's office released a 13-page memorandum that attempts to bust 10 widely held misconceptions about contractor communications.



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LEADERSHIP

General Gives Stinging Rebuke to Contractors

The Hill

The top brass at the Pentagon is signaling in no uncertain terms that the defense industry needs to clean up its act and accept that the government can no longer throw away money on ill-conceived military projects. Air Force Chief of Staff Gen. Norton Schwartz on Wednesday had some tough talk for defense contractors, saying firms must stop “blowing smoke” and over-promising about what they can deliver. The comments were the latest example of Pentagon officials speaking bluntly about the future of the U.S. defense sector, which they say must change rapidly to accommodate the nation’s new fiscal reality.

LEGISLATION

Coburn: DoD Must Follow the Money

Federal News Radio

Sen. Tom Coburn (R-Okla.) is urging the Defense Department to account for how its money is being spent before cutting department funds. Coburn said in a letter to military leaders Tuesday that until DoD can produce an auditable financial opinion, service leaders cannot “make informed decisions when it comes to identifying cost saving initiatives.” “I will continue to push for a budget-freeze of all base budget non-military personnel accounts at the Department of Defense until it complies with the law regarding auditable financial statements,” Coburn wrote in the letter. Coburn, who recently served on the National Commission on Fiscal Responsibility and Reform, said improvements in financial management would “yield savings and prevent cuts to military personnel and programs which could occur otherwise.”

Senator Pushes DCAA To Complete More Incurred Cost Audits

Project on Government Oversight

Senator Scott Brown (R-MA) prodded the Defense Contract Audit Agency (DCAA) to finish more incurred cost audits and decrease its backlog at the Senate Homeland Security and Government Affairs Subcommittee on Contract Oversight hearing on Tuesday. Incurred cost audits are used by a contracting officer before he or she closes out cost-reimbursement or other flexibly priced contracts to ensure the government is paying reasonable, allowable, and allocable costs. According to Shay Assad, a high-level DoD acquisition official, a huge backlog and untimely incurred cost audits are a bad thing because it gets harder to do the audit well. “An incurred cost review that is not completed in a reasonable period after the costs are incurred loses contemporaneous support—employees of the contractor and the Government leave, some records are lost or are placed in deep storage,” Assad said in written testimony in 2009.



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TANKER

Fate of Tankers May Come Next Week

Montgomery Advertiser

European Aeronautic Defence and Space Co. may know as early as next week if it will be the company building refueling tankers for the U.S. Air Force. But even in anticipating that it will win the \$35 billion contract that will bring 48,000 jobs to Alabama and other states, EADS is preparing for another fight from its competitor, Boeing Co. "If we win, we expect another Boeing protest," said Sam Adcock, vice president of governmental affairs for EADS North America. He spoke Tuesday at the Economic Development Association of Alabama conference in Montgomery. It has taken the government more than 10 years to award the contract to replace tankers built in the Eisenhower era. EADS won an original bid in 2008, but Boeing challenged it and forced another competition.



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Small Business

SBA Chief Signals 2012 Budget Will Eliminate Some Programs

By Robert Brodsky, Government Executive, February 9, 2011

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Last month, Sens. Mary Landrieu, D-La., chairwoman of the Small Business and Entrepreneurship Committee, and Olympia Snowe, R-Maine, the panel's ranking member, sent a letter to Mills and SBA Inspector General Peg Gustafson seeking recommendations for programs that could be "eliminated, or substantially reduced without undermining the SBA's ability to serve the needs of small business owners."

On Friday, Mills responded in a one-page letter in which she declined to provide details of any program cuts before the fiscal 2012 budget is submitted to Congress.

But, in a sign of what might be on the horizon, Mills hinted that the agency, which already has experienced years of flat or declining spending, could face even leaner times.

"With respect to delineating specific programs that we believe are redundant or duplicative, on Feb. 14 the president will release his fiscal 2012 budget proposal, which will identify SBA programs that can be further streamlined, or in some instances eliminated altogether," Mills wrote.

It is not clear which programs are on the chopping block. In the letter, Mills said she, or SBA senior program officials, would be available to discuss the cuts after the budget has been released.

"Over the past two years, the agency has made considerable progress in this area," Mills wrote. "Plans are in place to continue to use technology and other cost-saving approaches to continue to streamline activities and make the best use of the taxpayers' dollars."

The IG's office said it has not yet completed its response to the letter. The Senate committee is planning to hold a hearing this month on proposed SBA program cuts.

http://www.govexec.com/story_page.cfm?articleid=47065&oref=todaysnews



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After Delays, Women's Small Business Contracting Program Debuts

By Robert Brodsky, Government Executive, February 4, 2011

A long-awaited women's small business contracting program finally took effect on Friday, after more than a decade of delays, rewrites and contentious litigation.

Qualifying companies now can begin registering to participate in the program, which allows contracting officers for the first time to set aside awards for women-owned small businesses, through a new Small Business Administration Web page.

The program focuses on 83 industries in which the Obama administration determined women are underrepresented in the federal contracting marketplace. Program participants will be eligible for set-aside contracts of less than \$3 million and \$5 million for manufacturing as long as they submit a "fair and reasonable price" and at least two or more women-owned small businesses submit offers, SBA said.

The program also is expected to help agencies meet for the first time the statutory goal of awarding 5 percent of all contracting dollars to women-owned small businesses.

"Women-owned businesses are one of the fastest-growing sectors of the economy," said SBA Administrator Karen Mills. "As we continue to look to small businesses to grow, create jobs and lead America into the future, women-owned businesses will play a key role. That's why providing them with all the tools necessary to compete for and win federal contracts is so important. Federal contracts can provide women-owned small businesses with the oxygen they need to take their business to the next level."

SBA also provided guidance for companies interested in becoming an agency-approved third-party certifier for the program. Women-owned small businesses will be allowed to self-certify for the program, or be certified by a third party, such as an industry association. No third-party certifiers have been approved yet. Companies will be required to submit proof of eligibility to an online document repository that SBA will maintain.

The agency expects the contracting program to be fully executed during the next several months as it finalizes a change to the Federal Acquisition Regulation. During the ramp up period, SBA is encouraging small business owners to review the program requirements and to upload the required documentation to the repository.

Women-owned small businesses also must update their status in the Central Contractor Registration and the Online Representation and Certification Application to indicate to contracting officials that they are eligible to



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participate in the program. The General Services Administration is updating these online systems and is expected to complete the process in April.

In the coming months, SBA, in collaboration with the Office of Federal Procurement Policy, the Defense Acquisition University and the Federal Acquisition Institute, will be conducting a number of training and outreach events to ensure that contracting officers and industry officials are familiar with the program, Mills said.

The first set of contracts through the program is expected to be awarded by the fourth quarter of fiscal 2011 -- typically the busiest period for contract awards.

To be eligible for the program, a firm must be 51 percent owned, controlled and primarily managed by one or more women who are U.S. citizens. The firm also must qualify as "small," according to SBA size standards, in its primary industry.

SBA officials identified the 83 eligible industries based on a combination of the share of contracting dollars awarded to women-owned firms and the share of contracts awarded. This final determination was a departure from the previous rule by President George W. Bush's administration, which identified only four industries in which women-owned small businesses were underrepresented, based solely on the share of contracting dollars.

In 2000, President Clinton signed the Equity in Contracting for Women Act, allowing the government to reserve contracts for women-owned small businesses in industries where females historically were underrepresented.

The program sputtered, however, during the Bush administration. A 2004 Women's Chamber of Commerce lawsuit forced Bush officials to draft a proposal for beginning the program. But the 2008 plan set off a firestorm of complaints from lawmakers and women's advocates, who accused SBA of choosing the narrowest methodology for determining underrepresentation. The Obama administration scrapped the Bush administration's proposals in 2009 and drafted a new, comprehensive rule.

<http://www.govexec.com/dailyfed/0211/020411rb1.htm>



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AFMC Headquarters Receives Air Force Organizational Excellence Award

Air Force Print News Today, February 3, 2011

Headquarters Air Force Materiel Command has been awarded the Air Force Organizational Excellence Award, according to a special order from the Secretary of the Air Force dated Dec. 10, 2010.

The headquarters received the award for exceptionally meritorious service for the period of Jan. 1, 2008, to Dec. 31, 2009.

Highlights of the command's accomplishments during this period include reinvigorating the Air Force's nuclear enterprise through the strengthening of the Air Force Nuclear Weapons Center, establishing the Air Force Global Logistics Support Center as the cornerstone of logistics enterprise transformation and supply chain management, and contributing more than half of the \$19 billion invested in the Air Force's Small Business Programs in 2008 and 2009.

Said AFMC commander Gen. Donald Hoffman, "This award recognizes only a snapshot in time -- the exceptional work of our Airmen each and every day is a testament to [AFMC's] teamwork and warrior spirit. Congratulations to all!"

All assigned or attached personnel who served with a unit during the indicated period for the award are authorized the appropriate ribbon if they directly contributed to the mission and accomplishments of the unit.

According to the Air Force Personnel Center, the Air Force Organizational Excellence Award -- first authorized by the Secretary of the Air Force on Aug. 26, 1969 -- recognizes the achievements and accomplishments of U.S. Air Force organizations or activities. It is awarded to Air Force internal, unnumbered organizations that are entities within larger organizations.

<http://www.afmc.af.mil/news/story.asp?id=123241027>



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Women Hope SBA Rule Improves Business

By Danielle Douglas, The Washington Post, February 7, 2011

Despite winning federal contracts from the Bureau of Labor Statistics and State Department, Kathleen M. Benson, president of Office Remedies in Herndon, still struggles to obtain agency business for her research firm.

"If there are companies that are larger but still have the small business certification, they have a competitive advantage because they have more resources," she said.

In a highly competitive space dominated by large companies, women-owned small businesses like Benson's can have a hard time getting a foot in the door. As a remedy, the Small Business Administration implemented a new rule to set aside government contracts for women-owned small businesses in 83 industries.

Since it was introduced last October, dozens of organizations have held symposiums to parse through the program. With the guidelines released last Friday, there will be many more workshops in the coming weeks, including one hosted by the Fairfax County Economic Development Authority on Feb. 23.

The fervor surrounding the new program is palpable, especially since it took more than 15 years and a lawsuit to launch. Advocates see the program as a way for the federal government to finally meet its goal of awarding 5 percent of contracting dollars to women-owned small businesses, which it has never achieved.

"This is going to benefit a good percentage of women," said Ana Recio Harvey, the SBA's assistant administrator for women's business ownership.

Eligibility is contingent upon being 51 percent owned and controlled by women, having citizenship and meeting SBA size standards. Women-owned small businesses can upload documentation, such as tax returns or articles of incorporation, to self-certify or use an SBA-approved third party.

Companies must also update their status on two contracting systems that should be ready by April. Around the same time, the SBA hopes to have a companion rule, the Federal Acquisition Regulation, in place. Once that is completed, the agency anticipates the first awards will roll out in the fourth quarter.

"This opens doors, but it's up to contracting officers on the buying side and women business owners on the vendors' side to really use the program," said Judy Bradt, chief executive of the contract consulting firm Summit Insight.



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Having obtained certification as a small and disadvantaged business, Jennifer D. Collins, president of the Event Planning Group in Bethesda, considers herself well versed on the set-aside process. She is eager to take advantage of the new program, but questions what impact the shrinking federal budget will have.

"Agencies are working with less than they have before," she said. "There is always a discussion about how something is going to be competed; I just hope in that discussion there is going to be consideration for the program."

Some advocates have bristled at the size of the contracts, which are worth no more than \$3 million for services and \$5 million for manufacturing, while others take issue with the number of industries included in the program.

"There are still quite a few women-owned businesses that have been left out," said Margot Dorfman, chief executive of the U.S. Women's Chamber of Commerce. "Any opportunities that women have to access contracts is a good thing . . . but this [program] has a ways to go."

<http://www.washingtonpost.com/wp-dyn/content/article/2011/02/04/AR2011020406141.html>

SBA Launches Procurement Program for Women-Owned Small Firms

By Sheryl Jean, The Dallas Morning News, February 4, 2011

The U.S. Small Business Administration launched a program Friday to expand federal contracting opportunities for women-owned businesses.

The Women's Procurement Program will let federal agencies set aside \$30 billion in contracts for the first time specifically for women-owned small businesses.

It will also help the government meet its goal of directing 5 percent of federal contracting dollars to women-owned businesses. Women received 3.4 percent of federal contract dollars in 2009.

Federal contracts can help businesses grow. Two-thirds of women whose firms do business with the federal government generate more than \$1 million in sales, according to American Express Open's government contracting survey.

The 7.8 million women-owned firms nationwide accounted for 29 percent of private businesses in 2007, the latest data available from the U.S. Census Bureau.



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Texas had 610,162 women-owned businesses in 2007, 169,863 of them in the Dallas-Fort Worth area. Dallas ranked No. 6 among U.S. cities, with 33,390 women-owned businesses in 2007.

To participate in the Women's Procurement Program, a business must be small according to SBA industry size standards, at least 51 percent owned and controlled by one or more women and managed mainly by one or more women. The women must be U.S. citizens.

<http://www.dallasnews.com/business/20110204-sba-launches-procurement-program-for-women-owned-small-firms.ece>

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Air Force Contracts for New RF Transceiver

United Press International, February 4, 2011

The U.S. Air Force has contracted Camgian Microsystems Corp. of Mississippi to develop a new ultra-low power RF transceiver.

The contract from the Air Force Research Laboratory is a Phase III Small Business Innovation Research vehicle. It carries a three-year term and is valued at \$9.2 million.

This SBIR project will develop two revolutionary, ultra low-power Application Specific Integrated Circuits to provide significant power savings for a range of military electronic sensor systems, such as radars and infrared cameras.

The RF transceiver ASIC will integrate Camgian's low-power radar architecture with intellectual property from AFRL on radar-on-a-chip technology.

"The goal of this program is to radically improve the operational endurance of key ground and airborne ISR sensor assets while increasing both sensor performance and on-board digital signal processing capabilities," said Gary Butler, president and chief executive officer Camgian Microsystems.

"With this new chip set, we are aiming to drive down the size, weight, power and cost of the systems while providing an ultra-energy efficient sensor and signal processing platform."

http://www.upi.com/Business_News/Security-Industry/2011/02/04/Air-Force-contracts-for-new-RF-transceiver/UPI-32501296817318/



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Sigma Labs, Inc. Receives US Air Force Research Contract to Help Reduce Part Costs Through Additive Manufacturing for the Joint Strike Fighter

PRNewswire, February 8, 2011

Sigma Labs, Inc. (OTC Bulletin Board: SGLB) announced today it has received a Phase II Small Business Innovation and Research (SBIR) Grant from the US Air Force Materials Research Laboratory to design and develop a monitoring and control system for use with electron beam additive manufacturing. Electron beam additive manufacturing is finding wide-spread use for making high-value added components for defense and commercial aerospace projects including the Joint Strike Fighter – JSF – which is a \$300B, multi-decade program led by Lockheed-Martin (aircraft) and Pratt & Whitney (engines).

Richard Mah, CEO of Sigma Labs, Inc. describes the benefits of the process as follows: "Our patent-pending monitoring and control technology will enable our clients to create a quality-assured manufacturing process which will improve titanium's utilization ratio by a factor of 5 or more, thereby saving millions of dollars in materials costs per aircraft – for military and civilian aircraft alike."

<http://www.prnewswire.com/news-releases/sigma-labs-inc-receives-us-air-force-research-contract-to-help-reduce-part-costs-through-additive-manufacturing-for-the-joint-strike-fighter-11555289.html>

Budget & Acquisition

Pentagon Requesting \$7 Billion Less Than Forecast for Weapons

By Tony Capaccio, Bloomberg Businessweek, February 9, 2011

The U.S. Defense Department will request about \$113 billion for weapons in the fiscal year beginning Oct. 1, \$7 billion less than planned in its forecast last year, according to government officials.

In the budget, due for release Feb. 14, will be 32 Lockheed Martin Corp. F-35 jets for the Air Force and Navy, software upgrades for its F-22 fighter and additional MC-130 transports for special operations, said the officials, who spoke on condition of anonymity because they weren't authorized to discuss budget figures before the request is published.



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The budget also includes for two Virginia-class nuclear submarines made jointly by Northrop Grumman Corp. and General Dynamics Corp., four Littoral Combat Ships made by Lockheed and General Dynamics-led teams, and \$1 billion in advance funding for the Northrop-built CVN-78 aircraft carrier, the officials said.

The budget adds about \$1.4 billion to buy more Boeing Co. Army AH-64 Apache helicopters, drones from other companies and more Family of Medium Tactical Vehicles made by Oshkosh Corp.

Still, the weapons request is \$7 billion less than the \$120.3 billion in base budget procurement the Pentagon had forecast last year for fiscal 2012. The reductions were part of an overall \$13 billion in fiscal 2012 cuts the Office of Management and Budget imposed on the Pentagon for deficit reduction.

“What this says is that the increase in procurement spending the Pentagon had projected will not materialize,” said Todd Harrison, a defense budget analyst for the non-partisan Center for Strategic and Budgetary Assessments.

“It’s a steep reduction -- about 8.5 percent in real terms -- from what they were previously predicting,” Harrison said.

Taking ‘Toll’

Additional delays on the F-35 program “and pressure in Congress to reduce government spending are all taking their toll on procurement accounts,” Harrison said.

U.S. spending on weapons through 2016 was supposed to grow faster than the overall defense budget, which will have annual increases of only about 1 percent above inflation.

“Our goal would be to get forces and modernization to grow by 2 or 3 percent,” said Pentagon Comptroller Robert Hale in a Bloomberg interview in July 2010, while saying that “it’s not a given.”

Gates’s Cuts

Hale’s remarks were made months before Defense Secretary Robert Gates agreed to cut \$78 billion through 2016 for deficit-reduction purposes and reduced the planned fiscal 2012 F-35 purchase by 13 aircraft to 32 and shift \$4.6 billion into extended development.

The base procurement budget increased 7.7 percent to \$112.9 billion this year from \$104.8 billion approved in fiscal 2010, according to the non-partisan Congressional Research Service.



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The Pentagon Feb. 14 will release a \$553 billion base budget plus a request for about \$117 billion to cover the wars in Afghanistan and Iraq.

The request also includes \$15 billion in procurement dollars contained in the war-spending request, bringing the entire weapons-purchase request to \$128 billion, down from a combined \$137.5 billion requested this fiscal year and \$135.8 billion in fiscal 2010, according to Pentagon figures.

Separately, the Pentagon will request about \$75.7 billion for research and development, \$4.7 billion below the \$80.4 billion Congress is considering for this year.

<http://www.businessweek.com/news/2011-02-10/pentagon-weapons-request-to-be-7-billion-less-than-forecast.html>

Budget Cuts Force DoD to Choose Manpower vs. Technology

By Yochi Dreazen, Federal News Radio, February 3, 2011

In the age of austerity, the Pentagon faces a choice it did not have to face in the last decade: "The fundamentals of the choices come down to people or machinery," said Yochi Dreazen, senior national security correspondent for the National Journal, in an interview with the DorobekINSIDER.

In the end, the choice boils down to the future of war itself, Dreazen wrote:

"One school of thought holds that conflicts won't change much over time, and that the United States will likely find itself waging other troop-heavy counterinsurgencies, perhaps in Yemen or Pakistan. If so, the Pentagon would need to maintain-or even expand-the size of its ground-combat forces.

The other school of thought posits that U.S. forces may be headed for a more conventional campaign against the rapidly modernizing Chinese military. If the two superpowers came into conflict over Taiwan, for instance, ground-combat power would be irrelevant; victory would come down to which nation could field more advanced jets, ships, and other high-tech weaponry."

Dreazen told the DorobekINSIDER that these trade-off decisions - people vs. machinery - were always part of DoD budget choices prior to Sept. 11, 2001. But since the 9/11 attacks, the DoD could continue spending in both areas as the budget more than doubled in the next ten years.

Dreazen said DoD's best-case scenario is budget growth will stop in the next two years. The worst-case scenario -- which Dreazen said is more likely - is that defense spending will be cut.

SAF/SB internal document—not for public release.



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Defense Secretary Robert Gates said the Pentagon would save \$78 billion over the next five years by reducing the rate of growth in each of its next two budgets and avoiding hikes in fiscal 2015 and 2016.

Some of the program cuts will be obvious - like the vertical take-off Osprey aircraft that takes off like a helicopter and flies like a plane. The aircraft is "exceptionally cool," said Dreazen, who has been in one. However, it is also "very expensive, hard to maintain and crashes a lot."

He said F-22 fighter planes and some marine vehicles could be cut as well.

However, Dreazen added, "Cuts at the margin" won't be enough to make a dent in cost-savings.

"You're talking about very, very big cuts coming that are far larger than what Gates said he wants and far larger I think than we as a country thought might come as these wars wind down," Dreazen said.

Dreazen said he has heard some analysis that DoD needs to cut "tens of thousands" of troops, even as many as 275,000.

Some military personnel will also see what Gates calls "modest" increases to premiums for the military's health care system, TRICARE. The increase would apply to working-age military retirees. TRICARE premiums have not increased in the past 15 years. Dreazen said currently a family of four in the health care system pays only \$495 per year, several times more than private sector health care premiums.

Long considered immune to cuts, defense spending is the subject of debate not only between the political parties but now within the Republican Party too. Dreazen describes two types of GOP lawmakers: One will cut anything before cutting defense, and the other says, "Everything is on the table."

At the same time, legislators face the reality that "defense contractors are enormously powerful on Capitol Hill," Dreazen said.

Anticipating budget cuts, defense contractors are "preemptively firing people," Dreazen said. Contractors are also "reselling" older, cheaper weapons that have been improved and expanding their business to overseas markets, he said.

<http://www.federalnewsradio.com/index.php?nid=150&sid=2258510>



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Budgeting for Space

Air Force Magazine, February 9, 2011

The Pentagon's Fiscal 2012 budget proposal—slated for release next week—will represent a "concrete manifestation" of the recently renewed US space priorities outlined in the first-of-its-kind National Security Space Strategy, said Deputy Defense Secretary Bill Lynn. Specifically, the Air Force has added more money to the Evolved Expendable Launch Vehicle program in the hopes of securing a more stable buy and ensuring "we have an industrial base that preserves our access to space," he said during a briefing following the strategy's release last week. The Defense Department also will roll out its new approach to space acquisition with the budget request. Dubbed evolutionary acquisition for space efficiency, or EASE, it consists of three elements: block buys, fixed-price contracts, and a stable, sustainable engineering line "so that you can introduce technology refresh on a regular pace," said Lynn. NSSS focuses on protecting the military's existing capabilities, reducing space clutter, and building partnerships with allied nations. ([Lynn-Schulte transcript](#)) (For more on NSSS, see [Space Strategy Encourages New Thinking](#))

<http://www.airforce-magazine.com/DRArchive/Pages/2011/February%202011/February%2009%202011/BudgetingforSpace.aspx>

[Industry](#)

OMB Calls for 'Cultural Change' in Contracting Community

By Nicole Johnson, Federal Times, February 4, 2011

Dan Gordon, administrator for the Office of Federal Procurement Policy, said Friday he would consider disclosing more information about government and contractor interactions, but reiterated that the administration's so-called "myth busting" campaign will not alter regulations or statutes.

"We don't believe we need statutory change or regulatory change, Gordon said in an interview with reporters. "What we really need is cultural change" in the federal contracting community.

It could be months before a cultural shift occurs, but Gordon expects increased awareness about proper communication with industry will result in fewer bid protests and more success stories, especially for high-risk and large information technology projects.



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Gordon said the number of bid protests dropped the first quarter of this fiscal year and at least 99 percent of government's procurements are never protested.

He called on agencies to make the right business decisions and "not be paralyzed by the fear of a protest." For years, his concern has been that contracting staff work to make a process protest proof.

"In my opinion, that's not a good use of our time" because "you will never make a procurement protest proof," he said.

A 13-page memo, directed to senior procurement executives and chief information and acquisition officers, stressed the importance of early, frequent and constructive engagement with industry.

If agencies take on Gordon's mentality, that should also mean more debriefings after a contract award.

<http://blogs.federaltimes.com/federal-times-blog/category/procurement/>

DoD Contracts Went to Excluded Vendors

By Jared Serbu, Federal News Radio, January 2, 2011

The Pentagon obligated millions of dollars in payments to contractors that were on lists of "excluded parties" because of previous fraud, a report made public Wednesday said.

The report, produced by the Defense Department's office of the undersecretary of defense for acquisition, technology and logistics, found that between 2007 and 2009, DoD did business with at least 16 vendors who were either suspended or debarred at the time the funds were obligated. Congress mandated the report in the 2010 Defense appropriations bill.

The spending included nearly \$3.4 million to five vendors who were suspended and almost \$2 million to 11 debarred vendors.

DoD's report explained that in some cases, contracting officers knowingly continued ordering from the excluded vendors "to ensure mission accomplishment and for safety and mission requirements." In others, however, Defense officials failed to check the vendors against the governmentwide Excluded Parties Listing System.

"The Federal Acquisition Regulation was misinterpreted and/or training was inadequate with regard to EPLS - an issue subsequently addressed by commanders," the report stated.



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The report found that DoD and the justice system have adequate remedies to pursue and prosecute contractor wrongdoing, but said the review that led up to the report revealed the need for new guidance on EPLS within the DoD contracting community.

The report stated that the director of Defense Procurement and Acquisition Policy's new guidance also will include instructions for using the new Federal Awardee Performance and Integrity Information System (FAPIIS).

Sen. Bernie Sanders (I-Vt.), who inserted language into the 2010 Defense spending bill mandating the report, made the information public. He seized on the report's broader revelation that DoD had continued contracting with companies who had been subject to criminal or civil fraud judgments at some point.

The report found that DoD spent \$345 million on payments to vendors that had been criminally convicted during the three-year period, \$4.9 billion to vendors with civil judgments against them during that time and nearly \$46 million to contractors that had reached out-of-court settlements related to fraud.

"With the country running a \$14 trillion national debt, my goal is to provide as much transparency as possible about what is happening with taxpayer money," Sanders said in a statement. "The sad truth is that virtually all of the major defense contractors in this country for years have been engaged in systemic fraudulent behavior, while receiving hundreds of billions of dollars of taxpayer money."

The government in recent years has been aggressive in combating fraud. The Small Business Administration suspended GTSI for small business contracting violations.

The Environmental Protection Agency suspended IBM in 2008 as well for alleged procurement integrity violations.

DoD said its Panel on Contracting Integrity would examine the new report and make further recommendations to Defense leadership based on their review.

<http://www.federalnewsradio.com/index.php?nid=35&sid=2257407>

Pentagon Welcomes Mergers Except for Top Six Suppliers

By Peter Cook, Anthony Capaccio and Gopal Ratnam, Bloomberg Businessweek, February 9, 2011

The U.S. Defense Department welcomes mergers among U.S. defense companies provided they don't involve the top five or six suppliers acquiring each other, the Pentagon's top weapons buyer said.



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“We expect industry to make adjustments” to a slowdown in U.S. defense spending, Ashton Carter, undersecretary of defense for acquisition, technology and logistics, told Bloomberg Television yesterday.

Still, the Pentagon will not approve transactions that lead to consolidation of the major defense contractors such as Lockheed Martin Corp., Boeing Co., Raytheon Co., Northrop Grumman Corp., or General Dynamics Corp., Carter said in an interview prior to a speech today in New York.

The growth of the base U.S. defense budget through 2016 is forecast to average no more than the rate of inflation as Defense Secretary Robert Gates works to trim costs. Overall defense spending, including war expenses, has risen 72 percent between 2000 and 2008.

Gates has targeted \$78 billion in cuts through 2016 for federal deficit reduction and another \$100 billion in efficiencies savings, two-thirds of which will be shifted to weapons accounts, Carter said.

‘Economic Efficiency’

As a result, there will be consolidation and spinoffs, Carter said.

“There are small businesses, there are parts suppliers which may grow in this time and that’s good,” Carter said. Those transactions “could be in the interest of economic efficiency” and the Pentagon would welcome them, he said.

Small- and medium-sized companies are “centrally important in a healthy industrial base,” he said in the speech, at the InterContinental New York Barclay hotel

“Perhaps two-thirds to three-fourths of every dollar we award at the prime level is spent for subcontracting goods and services at the so-called lower tier of the industry,” Carter said. “Their health and performance are critical to us.”

The current structure of the U.S. defense industry was shaped in 1993 when then-Defense Secretary Les Aspin told company executives the Pentagon could not sustain several suppliers in each sector and encouraged them to merge in order to better utilize capacity.

The Defense Department today is “down to about five or six very large prime contractors who bid on many, many of our jobs and, in the interest of competition, we are not interested in seeing further consolidation and reduction in that number,” Carter said in the interview. “But with that exception just about everything else is on the table.”

‘Not Desperate’



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Chief executive officers of the top two U.S. defense companies have said they don't foresee consolidations similar to the 1990s.

Lockheed, the world's largest defense contractor, is under no pressure to make up for a projected slowdown in U.S. military spending through acquisitions, Chief Executive Officer Robert Stevens said in a November interview.

"We are ambitious and we will continue to look" for acquisitions "but we are not desperate," Stevens said in an interview with Bloomberg News in Washington.

Boeing Co., the No. 2 defense contractor, doesn't see large acquisitions, Dennis Muilenburg, chief executive officer of Boeing's defense unit, said in a December interview.

Chicago-based Boeing's 2010 defense sales of \$31.9 billion are second to Bethesda, Maryland-based Lockheed Martin, which reported revenue of \$45.8 billion.

Northrop Shipbuilding

The Pentagon asks for "transparency" in all mergers and spinoffs to ensure that "the spun-out entity is going to continue to serve the department in the long-term way," Carter said.

Northrop Grumman, which is looking to spin off its shipbuilding business, is talking with the U.S. Navy to ensure the standalone unit has sufficient financial backing, two people familiar with the talks said in December. Los Angeles-based Northrop is the Navy's largest shipbuilder.

In addition to Carter's speech, the Pentagon has launched a review of defense suppliers that "will go sector-by-sector, and tier-by-tier, to assemble a long-term picture" of what policies will help the department fulfill its requirements, Deputy Defense Secretary William Lynn told an industry group Jan. 30.

'Pretty Good Pace'

"This detailed review will inform our budget decisions, our acquisition decisions, and our industrial policy," Lynn said. "It will also help us determine what stake the department has in mergers, acquisitions, and industry consolidation."

Aerospace and defense industry acquisitions are "growing at a pretty good pace," said Stuart McCutchan, editor of Defense Mergers and Acquisitions, an online publication based in South Riding, Virginia. He said he expects 2011 "to be a big year."



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Defense companies of all sizes completed 255 transactions totaling about \$24 billion last year, the most since 2007, when the industry completed 362 deals valued at \$43.4 billion, according to data compiled by McCutchan.

The high point was deals valued at \$65.9 billion in 1999 as the industry responded to the Clinton administration's direction that major consolidation was necessary as post-Cold War defense budgets dropped.

"My guess is that Mr. Carter is trying to get in front of any prospective surge in consolidation activity," McCutchan said. "What the Pentagon fears most is financial instability caused by imprudent activity" that leaves less corporate money for expenditures on research and development and equipment, he said.

'What We Welcome'

Carter, in a telephone interview today after the speech, said "this is a policy discussion of what it is we welcome and don't welcome. We would like to be part of a dialogue that shapes the kind of change industry undergoes, not as part of a regulatory process."

"That's the reason to raise it now, before there are a whole lot of these transactions and we are reacting to them one by one," he said.

"We will deal with them case-by-case as they come along, but what's important is that, as people contemplate such transactions, they have some understanding of what the department outlook is," Carter said.

Carter today reiterated that companies must be transparent in their dealings so the Pentagon will "understand the full implications of a proposed transaction will require us to look into the whole financial details of it."

"We are working well with Northrop Grumman in that regard," he said of the shipyard discussions.

<http://www.businessweek.com/news/2011-02-09/pentagon-welcomes-mergers-except-for-top-six-suppliers.html>

Administration Encourages Communication with Contractors

By Robert Brodsky, Government Executive, February 4, 2011

Federal acquisition officials need to interact with industry more while writing solicitations and negotiating contracts, the Obama administration's procurement chief said on Friday.

SAF/SB internal document—not for public release.



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For years, agency contracting officers have been afraid to meet with vendors for fear of sparking bid protests, causing delays, or committing potential ethical violations, said Dan Gordon, administrator of federal procurement policy at the Office of Management and Budget. But, the lack of interaction could be causing the government to pay higher prices, or to provide poorly defined contract requirements, he said.

On Wednesday, Gordon's office released a 13-page memorandum that attempts to bust 10 widely held misconceptions about contractor communications.

"For much too long, the emphasis has been on the [contracting] 'don'ts,' " Gordon said during an afternoon conference call with reporters. "This is an effort to highlight to 'dos.' "

For example, the memo dispels the notion that communication with a bidder could result in a competing firm filing a protest. Gordon said there is no way to make a contract "protest-proof" and such efforts are not only a poor use of contracting officials' time, but also could also deprive the government of potentially useful information.

The memo was the result of months of meetings with procurement officials, industry leaders, agency contract attorneys and ethics officials, Gordon said. The document, which does not require statutory or regulatory changes, can be adjusted as time goes on, he said. Additional outreach with government and industry officials is expected in the coming months.

Although there will be no concrete way for determining the initiative's success, Gordon said he hopes contracting officials use the enhanced communication to develop more reasoned statements of work and contract solicitations.

"If we can prevent one procurement from going off the rails," he said, "it will be worth it."

<http://www.govexec.com/dailyfed/0211/020411rb2.htm>

Leadership

General Gives Stinging Rebuke to Contractors

By John T. Bennett, The Hill, February 9, 2011

The top brass at the Pentagon is signaling in no uncertain terms that the defense industry needs to clean up its act and accept that the government can no longer throw away money on ill-conceived military projects.



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Air Force Chief of Staff Gen. Norton Schwartz on Wednesday had some tough talk for defense contractors, saying firms must stop “blowing smoke” and over-promising about what they can deliver.

“Don’t blow smoke up my ass” about what a military platform can do and when it will be ready, Schwartz told a tense and silent ballroom filled with defense industry executives. “There’s no time for it. There’s no patience for it. OK?”

The comments were the latest example of Pentagon officials speaking bluntly about the future of the U.S. defense sector, which they say must change rapidly to accommodate the nation’s new fiscal reality.

“If industry makes a commitment, you will have to deliver,” Schwartz said. “There will be less tolerance ... for not delivering.”

Officials say the future of the defense sector will be considerably different from the flush days after 9/11, when companies were handed what amounted to a blank check as the country fought two wars and took on terrorism.

Now, budgets are shrinking in Washington, and this time even the military isn’t immune. There is general agreement among Democrats and Republicans that defense cuts must be “on the table” as the country looks to pare back the spiraling deficit, though differences remain over how large those reductions should be.

Defense Secretary Robert Gates has already announced that the service will reduce its spending by \$78 billion over the next five years, and the service’s austerity drive is likely to accelerate in the years ahead.

Schwartz, who is rumored to be on the short list for the next Joint Chiefs chairman, said the budget crunch means the Pentagon will have “no patience” for exaggerated weapons-sales pitches.

“Cost-control will be an issue in everything we do,” from weapon programs to healthcare, the air chief said.

Contractors often focus their bids for Pentagon work on platforms and subsystems that cannot realistically be developed, tested and delivered on the proposed budget and schedule. The results typically are program delays and cost overruns that force the military to buy fewer models or cancel programs altogether.

A defense industry insider said it was notable that the blunt warnings about cost overruns came from Schwartz.

“Gen. Schwartz is not a harsh person, so the tough talk clearly is aimed at sending a message,” said Loren Thompson of the Lexington Institute. “The message is that the easy times are over for contractors, and companies that don’t perform will be punished.”



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Richard Aboulafia of the Teal Group said Schwartz is “understandably mindful of the last big defense downturn, in the early 1990s, [when] underestimating program costs was a frequently used way of getting ambitious new starts [into the budget] ‘under the wire’ as spending fell.”

In recent weeks, Pentagon leaders have pulled fewer punches about the changes that are needed to navigate choppy budgetary waters, employing frank rhetoric in an attempt to prepare industry, Congress and their own subordinates for life on a leaner budget.

The picture these officials are sketching is one of “hard times” that will require military services to rein in their combat hardware appetites and contractors to stop promising a dollar’s worth of technology on a dime-sized budget. And the message for both the services and industry is clear: The days of pursuing overpriced vehicles and outdated aircraft are over.

During the George W. Bush administration, Pentagon officials largely tolerated the services’ expensive pursuit of gold-plated weapons. At the time, there was an ever-deepening well of defense dollars to throw at technical problems and what has come to be known in defense circles as “exquisite” platforms.

But senior Pentagon brass say those days have come to an end, and stress that the industry needs to promise less and deliver more.

About 12 hours before Schwartz’s blistering message, Adm. Michael Mullen, the Joint Chiefs chairman, delivered a similar the same wake-up call to his own defense industry audience.

The next few years will bring “hard times in terms of resources,” Mullen said, and though the military is “built to run through walls,” smaller military budget levels will mean that “leaders will have to start deciding how to prioritize.”

Mullen said even special-operations forces — which perform the toughest missions in the most dangerous environments — would not be “immune” to the austerity drive.

Thompson and Aboulafia pointed out that the military shares the blame for weapons programs failures during the post-9/11 era. Aboulafia said the Pentagon was “along for the ride” during the spending spree.

Schwartz conceded Wednesday that the problems can’t be blamed solely on industry mistakes.

The Pentagon also on Wednesday sent signals about how the defense industry might look to consolidate to reflect leaner times.



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Pentagon acquisition chief Ashton Carter said U.S. defense officials will not oppose defense contractor mergers as military spending comes down unless such moves involve the six biggest firms.

During an interview with Bloomberg Television, Carter said DoD officials are “far from being discouraging to [merger and acquisition] activity — we’re actually quite welcome to that because we expect industry to make adjustments to new times.”

But the Pentagon will not stand aside and endorse every proposal, Carter said — DoD will not support any plan for consolidation among Boeing, General Dynamics, L3 Communications, Lockheed Martin, Northrop Grumman and Raytheon.

“But with that exception, basically everything else is on the table,” he said.

Schwartz said smaller budgets mean the military will likely have to “scale back our ambitions” for new platforms. That means selecting technology that requires less development time and funding.

“Lower risk is the better strategy for this time,” said Schwartz. One example is a new bomber aircraft program the service soon will start — to keep costs down, the specs for that airframe will be less complex than initially planned.

But “I think it will make it easier for industry to deliver,” Schwartz said.

Schwartz said improving weapons program performance means both industry and the Pentagon will have to change.

“I’m ensuring the Air Force is doing its part,” he told The Hill. “Industry has to do better.”

<http://thehill.com/homenews/administration/143159-general-gives-stinging-rebuke-to-contractors>

Legislation

Coburn: DoD Must Follow the Money

By John Buckner, Federal News Radio, February 2, 2011

Sen. Tom Coburn (R-Okla.) is urging the Defense Department to account for how its money is being spent before cutting department funds.



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Coburn said in a letter to military leaders Tuesday that until DoD can produce an auditable financial opinion, service leaders cannot "make informed decisions when it comes to identifying cost saving initiatives."

"I will continue to push for a budget-freeze of all base budget non-military personnel accounts at the Department of Defense until it complies with the law regarding auditable financial statements," Coburn wrote in the letter.

Coburn, who recently served on the National Commission on Fiscal Responsibility and Reform, said improvements in financial management would "yield savings and prevent cuts to military personnel and programs which could occur otherwise."

This is the second time issues of wasteful spending and financial mismanagement in DoD have been the focus of lawmakers in working to reduce the national debt.

Last September, Sen. Chuck Grassley (R-Iowa) also addressed this issue saying, "If you don't follow the money, how are you going to know if it's wasted?"

Both senators are concerned with the history of Government Accountability Office's annual reports which have shown auditors have not been able to form an opinion of the DoD for the last 14 years.

In his letter, Coburn said Congress has proposed "reductions in defense acquisition and investment accounts as well as reforms to operation and maintenance, health care and personnel policies."

As a precautionary measure to these cuts, Coburn asked the chiefs of staff to "carefully consider the potential savings that could accrue from improvement in the Department of Defense's financial management."

"Your [chiefs of staff's] active engagement on this financial improvement and audit readiness - not just tepid and temporary endorsement - is critical to its success and for resource savings," Coburn said.

<http://www.federalnewsradio.com/?sid=2256973&nid=35>

Senator Pushes DCAA To Complete More Incurred Cost Audits

By Nick Schwellenbach, Project on Government Oversight, February 3, 2011

Senator Scott Brown (R-MA) prodded the Defense Contract Audit Agency (DCAA) to finish more incurred cost audits and decrease its backlog at the Senate Homeland Security and Government Affairs Subcommittee on



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Contract Oversight hearing on Tuesday. Incurred cost audits are used by a contracting officer before he or she closes out cost-reimbursement or other flexibly priced contracts to ensure the government is paying reasonable, allowable, and allocable costs.

“The current system is not working the way it was intended and this is evidenced by the backlog in audits that prevents contracts from being closed on in a timely manner,” Brown said. “This delay in closing out contracts increases cost to contractors and to the government.”

DCAA Director Patrick Fitzgerald said the backlog of incurred cost audits has quadrupled over the last ten years. Fitzgerald, however, said he did not know the actual amount of the backlog at the hearing—a bit shocking considering how significant the problem is.

As Brown pressed the issue, asking why the backlog has grown despite the addition of 500 new DCAA auditors, Chairwoman Claire McCaskill (D-MO) jumped in to Fitzgerald’s defense (find the exchange further below, along with transcripts for the first and second panels).

If DCAA was conducting two to four times as many incurred cost audits in years prior to FY 2010, then the slowdown to only \$34 billion in incurred cost audits in FY 2010 means the backlog is getting bigger at a faster clip. Why? Because DoD contracting hasn’t slowed down, whereas DCAA has put the brakes on doing audits. In FY 2010, the DoD alone awarded \$104 billion in cost-reimbursement contracts, and \$162 billion was awarded government-wide, according to USAspending.gov.

According to Shay Assad, a high-level DoD acquisition official, a huge backlog and untimely incurred cost audits are a bad thing because it gets harder to do the audit well. “An incurred cost review that is not completed in a reasonable period after the costs are incurred loses contemporaneous support—employees of the contractor and the Government leave, some records are lost or are placed in deep storage,” Assad said in written testimony in 2009 (see page 45 of the 101 of this House Armed Services Committee hearing transcript).

Despite its name, DCAA is the primary contract auditor for the entire government, as McCaskill’s subcommittee made clear in a fact sheet released Tuesday. At the Department of Energy (DOE), DOE Director of Management Ingrid Kolb said DCAA’s growing timeliness problems have led to problems with contract close-outs. The problems are so bad, she said, that DOE is turning to private firms to do the audits instead, even though private firms cost significantly more on an hourly basis than DCAA auditors.

“Over the past few years, as DCAA has experienced challenges with an increasing workload and fewer resources, which have caused some concern for the Department of Energy, our ability to obtain cost-incurred audits in a timely manner has diminished,” Kolb said. “In some instances at some procurement sites this has caused a backlog of closeouts for our contracts.”



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Both Kolb and Fitzgerald said threshold increases are being considered to focus away auditing from contracts with smaller dollar figures. With a stroke of the pen, the backlog might be reduced by a significant percentage. The problem is this means more taxpayer dollars will go out the door faster with less scrutiny. There will be even less assurance that taxpayers are not getting ripped off.

But to go back to Brown's earlier points, why is the backlog getting worse as DCAA expands its workforce?

It's a good question. Clearly DCAA has been reeling from two very critical Government Accountability Office reports and two Senate hearings that slammed the DCAA for emphasizing quantity over quality. But has the pendulum swung too far the other way? Any DCAA folks out there want to chime in? Please do.

Here's the exchange between DCAA Director Patrick Fitzgerald and Senators Brown and McCaskill:

MR. FITZGERALD: Well, Senator Brown, to be very upfront with you, our cost-incurred audits, which are the audits that we do at the end of the contract and many times they're needed to do to close out the contract, that workload -- that backlog has quadrupled over the last 10 years. So, again, that's why we're using a --

SEN. BROWN: Quadrupled from what to what just in rough numbers so everyone knows? Approximately. You don't need an exact number. I mean, has it come from like one to, you know four?

MR. FITZGERALD: No, no. It's been -- it's a significant backlog that we have to work. I could give you the --

SEN. BROWN: The reason I -- the reason I'm kind of zeroing in on this particular area because, you know, we have a lot of Massachusetts companies that deal in this type of work and not only are they waiting for (cause of it ?) it's costing them real money -- real dollars. So in addition to the -- you know, the health care bill and the taxes they're paying and the regulations that they're dealing with and now they have audits. So it's like, what's next? You know, they need closure and they need certainty and they need closure, and is there a way -- is there something that we can provide you or is there -- is there -- is there something that we can -- that you need that we're not giving you to get these things done? They've been going on, some of them, for years.

MR. FITZGERALD: Senator, we have to get after that backlog. Hiring 500 new auditors over the -- over the last two years will be helpful in that and I would add -- not to mitigate that at all but we do work closely with the contracting officers to make sure that their billing rates are appropriate so that there's no overages or shortages so that the contractors get the money that they need to be paid as we monitor the billing throughout the contract before we do a final cost- incurred audit.

SEN. BROWN: You know --

MR. FITZGERALD: We work closely to try to make sure that's a minimum amount.



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SEN. BROWN: Sure. You know, it's interesting. You're saying you're hiring 500 new auditors. Can you believe it, folks? We're doing 500 new auditors in addition to the thousands of other new auditors in various agencies, and I mean, at what point do we actually just like hire new workers like new construction folks, new -- you know, just a regular, you know, private sector employee? The fact that we're hiring 500 new auditors just smacks to me as saying wow, something's broken somewhere. We -- there's a disconnect somewhere. So we're hiring 500 new auditors to deal with a backlog that's been quadrupled -- quadrupled, sorry -- after, you know, a period of time. Some of these audits have gone on for years. So I guess at what point do we -- do we say my gosh, there's -- something's broken. We're -- are we auditing the proper folks that need to be audited -- the entities that need to be audited? Where's the breakdown? It's just -- it's not kind of working for me really.

MR. FITZGERALD: Senator, just to try to put it a little in perspective, you know, the DOD procurement budget just exploded from 2000 to 2010. DCAA's workload was flat throughout that period. In the early 90s, the Defense Contract Audit Agency was about 7,000 folks. So steadily went down and then stayed flat. We're working to get -- to both adjust to workload requirements and build the workforce capacity to get a good balance there so that we can effectively provide a quality product which is, in my opinion, a timely product -- is a quality product.

SEN. BROWN: Any --

SEN. : Is there a next round?

SEN. MCCASKILL: Well, and I wanted to point out that Senator Brown was not yet a senator when all hell broke loose at DCAA. To say that Mr. Fitzgerald had a challenge is an understatement. Then it was determined that DCAA was not meeting Yellow Book standards for government auditing. There was some real management challenges. Not that there aren't -- and I want to say this on the record -- thousands of wonderful auditors at DCAA. I don't mean to disparage the wonderful people that work at DCAA because literally we wouldn't have known about the problems if somebody at DCAA hadn't come forward. But they had some real management issues and Mr. Fitzgerald was drafted to take over an agency which had -- traditionally only had people move up in the organization to head the organization. I think it may have been -- I don't know, was it the first time, Mr. Fitzgerald, that somebody came from outside the organization to head it?

MR. FITZGERALD: Yes. Yes, Senator.

SEN. MCCASKILL: Yeah. So they never had anybody come from outside in a management capacity. So I don't mean to -- I'm usually not the one making -- and I don't mean to sound like I'm making excuses but I know the challenges that he faced and while I don't think they're there yet they have made significant progress in, I think, turning around the management capacity at DCAA since his arrival. So for what's that worth --



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SEN. BROWN: May I just make a note on that?

SEN. MCCASKILL: Sure.

SEN. BROWN: And listen, I don't disagree and I'm aware. I've obviously done my homework and aware of your challenges. I just want to make sure that we're auditing the right entities and that we're not wasting our money and that the audits that are -- you know, that we're participating in, you know, it affects real people, real jobs, real companies, not only in my state but in yours and, you know, that's why I asked is there something that we can do to --

SEN. MCCASKILL: Right.

<http://pogoblog.typepad.com/pogo/2011/02/senator-pushes-dcaa-to-complete-more-incurred-cost-audits.html>

[Tanker](#)

Fate of Tankers May Come Next Week

By Mary Sell, Montgomery Advertiser, February 9, 2011

European Aeronautic Defence and Space Co. may know as early as next week if it will be the company building refueling tankers for the U.S. Air Force.

But even in anticipating that it will win the \$35 billion contract that will bring 48,000 jobs to Alabama and other states, EADS is preparing for another fight from its competitor, Boeing Co.

"If we win, we expect another Boeing protest," said Sam Adcock, vice president of governmental affairs for EADS North America. He spoke Tuesday at the Economic Development Association of Alabama conference in Montgomery.

It has taken the government more than 10 years to award the contract to replace tankers built in the Eisenhower era. EADS won an original bid in 2008, but Boeing challenged it and forced another competition.

"This fight is not about anything other than politics," Adcock said "It ought to be about picking the right airplane."

And EADS has the right plane, he said.



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"(The Pentagon is) going to pick the most modern, most efficient and best-priced airplane," Adcock said. "So, if they (take the contract back again), it is about something else."

Final bids are due Friday.

Adcock, speaking to more than 200 economic developers from around the state, thanked local, state and national officials for their support in the decade-long battle for the tankers.

Last week, U.S. Sen. Richard Shelby, R-Tuscaloosa, told a group in Montgomery that the government needs to pick EADS, a decision "that is best for the warfighter and the taxpayer."

Adcock said Boeing and its supporters have campaigned that choosing Boeing is the more patriotic choice because the company is based in the U.S.

If it won the contract, Boeing's jobs would go largely to Washington state and Kansas.

According to EADS' website, its KC-45 production will take place at a new aircraft center to be built at Mobile's Brookley Industrial Complex, creating more than 1,500 direct jobs and thousands more in the greater Gulf Coast area. Nationwide, KC-45 production will create or support 48,000 American jobs across a supplier team of more than 200 companies.

Adcock said that in addition to building the Air Force tankers, about 15 to 18 a year, the company would move its commercial freighter production to Mobile, adding even more jobs.

"It will be bigger than anything anyone can imagine," he said.

Robert Ingram, president of the Baldwin County Economic Development Alliance, said the contract in neighboring Mobile County would have a dramatic impact on his county alone.

"We have five or six aerospace companies in Baldwin County that could expand," he said.

Adcock said that of the 372 requirements the U.S. government wants met on the tankers, EADS has already met 95 percent of them for a tanker it builds for the Australian Royal Air Force.

"We have performed all this work and we know what our price is," Adcock said about why EADS is confident about its bid. "(Boeing doesn't) have an airplane yet flying."

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