Thank you Chairman Grothman, Ranking Member Garcia, and distinguished members of the Subcommittee on National Security, the Border, and Foreign Affairs, for inviting me to testify on the important matter of wasteful spending and inefficiencies at the Department of Defense. My name is Dylan Hedtler-Gaudette, and I am the Director of Government Affairs at the Project On Government Oversight (POGO). We are an independent, nonpartisan watchdog group focused on promoting a more accountable, transparent, and effective federal government that also respects and safeguards constitutional principles.

POGO was founded in 1981, though we had a different name at the time: the Project on Military Procurement. Back then, a group of former Department of Defense officials, disturbed by what they had seen in the internal workings of the Pentagon vis-à-vis the way acquisition and procurement decisions were being made, decided to blow the whistle and expose to the public what was really happening with taxpayer dollars in the context of the defense budget. That is how the American people first became aware of scandalous spending at the Pentagon, such as the $436 hammers and $7,600 coffee makers that have become emblematic of government waste.1 And that is how my organization began.

Over the intervening decades, across Republican and Democratic presidential administrations and Congresses controlled by both parties or divided between them, we have continued to work toward bringing more accountability, transparency, and sanity to the Pentagon, particularly with regard to how the Department of Defense’s budget is determined, apportioned, and executed. Of equal import — and of equal emphasis for us — has been Congress’s role as the appropriator of the taxpayer dollars that fund the Pentagon budget, and the indispensable role Congress and its relevant committees serve in conducting oversight and enacting rational defense policy through the legislative process. In other words, the problems around waste and inefficiency at the Pentagon are longstanding, complex, and multivariate, with equally complex and multivariate solutions — as well as plenty of blame to go around.

In a perpetually challenging geopolitical environment where “great power” competition has ramped up recently, the need for a strong, rational, and responsible national security policy undergirded by a well-equipped and sufficiently resourced military and diplomatic apparatus is clear. Equally clear is the need for the federal government — in this case, the Pentagon and

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Congress — to be careful and good stewards of the hard-earned, precious tax dollars provided by the American people. These two imperatives should be viewed as the twin mandates of Congress and the Pentagon when it comes to national security and defense. Neither of the two can be sacrificed at the altar of the other.

Unfortunately, as the data show, it has been the profits, power, and interests of the influential defense industry and its lobbyists and boosters (inside and outside of government) that have been the primary winners in this context, not military service members, not our national security policy, and most certainly not the everyday American taxpayer.

My testimony today will focus on ways to strengthen and improve accountability and transparency in the acquisition and procurement systems at the Defense Department. These reforms will serve as a mechanism through which to make progress toward larger and more systemic goals: ensuring that we are spending wisely on defense (not just more), reducing waste and inefficiencies, avoiding costly and damaging boondoggles, and balancing priorities and factoring in essential calculations such as trade-offs and opportunity costs.

None of the below recommendations is, in and of itself, a panacea that will solve all of the acquisition and procurement problems at the Pentagon. Even if all of these proposed remedies were adopted, there would still be a significant amount of time and effort required to realize the cost savings and policy realignments necessary for the transformation we need. That said, these interventions would, without doubt, make substantial progress toward the larger goal of a strong and effective military at a significantly lower cost, and I urge Congress and the Biden administration to work together on actualizing these reforms.

Recommendations:

• Repeal the unfunded priorities list (UPL) statutory mandate. The requirements for military branches and combatant commands to create and submit unfunded priorities lists to Congress fundamentally undercuts the normal budget decision and justification process at the Pentagon. This end-run, second bite at the budgetary apple leads to unnecessary and non-strategic spending and bloated toplines. Bad budget process leads to bad budget outcomes, including bad acquisition and procurement decisions.

• Reform the Truth in Negotiations Act (TINA) to strengthen requirements around the provision of critical cost and price information. The Truth in Negotiations Act was originally enacted in 1962 to guard against pernicious federal contractor practices, such as price gouging and dishonesty in negotiation proceedings, by requiring contractors to provide certified and current cost and pricing data. Since then, there have been numerous successful efforts to weaken the law by lowering or altogether removing

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4 Truth in Negotiations Act, Pub. Law 87-653 76 stat. 528, 259 (1962), https://www.congress.gov/87/statute/STATUTE-76/STATUTE-76-Pg528.pdf; The Truth in Negotiations Act is now called the Truthful Cost or Pricing Data Act but is still better known by its historical name and acronym. 10 U.S.C. § 3701 et seq.; 41 U.S.C. 3501 et seq.
thresholds that trigger information submission rules. These loopholes strip Pentagon contracting officials of the data they need to bargain effectively and secure fair and reasonable contract terms that protect taxpayer dollars. Restoring and improving upstream prudential mechanisms like those in TINA will help prevent downstream cost crises.

- Strengthen accountability and transparency provisions in the commercial items acquisition system. Commercial items, or spare parts, are a critical area of the acquisition and procurement arena for the Pentagon. The definition of “commercial item” is too vague and permissive and, as a result, contractors are able to get their products categorized as commercial when they are not. This status exempts contracts from a slew of otherwise-required transparency and oversight mechanisms, leading to waste, fraud, and abuse.

- Enact legislation that requires a successful Defense Department audit and imposes penalties for failure to complete one. An audit is not the end-all-be-all in terms of fiscal responsibility and budgetary best practices, but it is a necessary element of a broader reform effort. The fact that the Pentagon has failed audits for successive years is emblematic of deeper, systemic financial pain points. Finally passing an audit could be the catalyst that gets the Department back on solid and sustainable financial footing while spotlighting key acquisition and procurement problems.

- Congress should statutorily require enhancements to the full rate production (FRP) process and criteria under the Adaptive Acquisition Framework. When clearly unfit programs like the F-35 are being approved for full rate production, it should be manifestly obvious that there are deep, systemic flaws in that decision-making matrix. Some combination of Congress and the Pentagon itself should review the intersection of the FRP process and the Adaptive Acquisition Framework, and reform it to avoid needlessly continuing failed programs and wasting taxpayer money.

- Congress should more frequently and more assertively conduct oversight of Pentagon spending and programming. While acquisition and procurement problems plague the Pentagon itself, Congress has a vital role to play in monitoring how defense spending and policy are being implemented on the ground. In our view, Congress has not fulfilled this role sufficiently over the years. It is time to begin more regularly asking hard questions and making hard choices through congressional oversight activities.

- Congress should use the “power of the purse” to operationalize necessary changes. In addition to conducting rigorous, real-time oversight, Congress has a potent tool at its disposal: funding. This tool should be used more effectively and more often to compel cooperation and change behavior when it comes to the Pentagon’s acquisition and procurement decision-making and execution, especially when major acquisitions and

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platforms fail to meet deadlines, exceed cost parameters, and generally over-promise and under-deliver.

**When a Priority Isn’t a Priority**

When Congress enacted a statutory mandate in the FY2017 National Defense Authorization Act (NDAA) that requires certain components of the Pentagon to submit unfunded priorities lists (UPLs) to Congress each year, many stakeholders, including POGO, were puzzled and opposed the mandate. The first question that any reasonable observer might ask is: If something wasn’t included in the Pentagon’s budget request to Congress, is it really a priority?

The answer is no.

Unfunded priorities lists are simply wish lists of things that would be nice to have in an environment of infinite resources.

The internal budget drafting and justification process at the Pentagon, while imperfect, is at least comprehensive and rigorous in terms of integrating long-term cost projections, analyses of impacts and returns on investment, and relationship to key national security strategy objectives. By way of contrast, when creating unfunded priorities lists, the military branches and combatant commands are required to do none of that analysis and provide none of that justification. As a result, UPLs are better described as wish lists that allow component parts of the Pentagon to circumvent civilian leadership — and their decisions on priorities.

Given the nonsensical potential for waste that accompanies unfunded priorities lists, it is no surprise that getting rid of the mandate to submit them has garnered bipartisan support in both chambers of Congress. Beyond congressional support, a broad and bipartisan swath of civil society and advocacy groups have also consistently called for the UPL mandate to go. If congressional and public opposition were not convincing enough, the Pentagon itself has

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10 Letter from Civil Society Coalition to House Committee on Armed Services Chairman Mike Rogers and Ranking Member Adam Smith, and Senate Committee on Armed Services Chairman Jack Reed and Ranking Member Roger Wicker, about unfunded priorities lists, June 12, 2023, https://www.pogo.org/policy-letters/coalition-urges-congress-to-get-rid-of-pentagon-wish-lists.
expressed opposition to UPLs.\textsuperscript{11} It’s time for Congress to act — by bringing up existing bipartisan legislation or new legislation — and end the fiscally disruptive UPL mandate.

**Necessary Information is Necessary for Informed Decisions**

It should go without saying that any entity looking to acquire or procure a good or service would both want and need certain information in order to determine whether obtaining that good or service makes financial sense. To be more precise, cost and price information is essential in determining whether a good or service on offer is a fair or reasonable deal. The Department of Defense is exactly such an entity and, as such, it should have access to as much cost and price information as possible before it chooses to use taxpayer dollars to acquire or procure anything, from a complex multi-mission jet fighter to a simple hammer.

Enter the Truth in Negotiations Act (TINA), first enacted in 1962.\textsuperscript{12} TINA was conceived as a mechanism to ensure that contractors would provide necessary cost and price information to government contracting officers in order for those officers to negotiate the most fair and reasonable contract terms possible. TINA also originally required mandatory refunds in the instance of contractor violations of the law, such as inaccurate cost and price data or over-charges (usually referred to as “defective pricing”). Unfortunately, in recent decades, under the dubious auspices of so-called “acquisition reform,” TINA has been weakened and rendered far less effective in achieving the intent of its drafters: protecting taxpayer dollars and the military from unscrupulous federal contractors seeking maximum profits with minimum oversight.\textsuperscript{13}

As recently as 2018, TINA’s award dollar threshold above which contractors would be required to report certified cost and price data to the Department was increased, depending on the contract type, from $500,000 to $750,000 or to $2,000,000, exempting a larger percentage of contracts from this most basic of due diligence requirements.\textsuperscript{14} In short, aside from padding the profits of defense contractors and making it harder for the Pentagon to negotiate fair and reasonable contract terms, this additional watering down of TINA served little discernible purpose. Since then, POGO has been calling on Congress to restore the TINA reporting threshold back to the pre-2018 level, and we continue to urge Congress to do so now.


\textsuperscript{12} Truth in Negotiations Act, Pub. Law 87-653 [see note 4].


Beyond restoring reporting thresholds, Congress should consider enhancing TINA through stronger penalties for violations and tighter restrictions on exemptions to cost and price data reporting rules, with a particular eye on sole-source contracts.\textsuperscript{15}

**When “Commercial” Isn’t Commercial**

As far back as 2005, and as recently as 2022, we have testified before Congress on the issues with the commercial item contracting arena, calling for essential reforms to the commercial item acquisition and procurement system in order to prevent price gouging on the part of defense contractors.\textsuperscript{16} A little over a decade ago, the Defense Department itself urged Congress to add clarity and specificity to the definition of what constitutes a “commercial” product, a reform POGO enthusiastically agreed with.\textsuperscript{17}

The commercial item ecosystem is itself a manifestation of the principles of “acquisition reform.” The logic of the commercial item space is that contractors providing important but smaller products (often referred to colloquially as “spare parts”), which the Pentagon often needs in large quantities and along rapid timelines, should be able to enjoy less stringent reporting, disclosure, and other oversight rules. The reason is that such goods are often the same ones that any consumer can purchase on the open market and, as such, Pentagon contracting and procurement offices can assess the fairness and reasonableness of prices charged with relatively basic market research.

To continue with the archetypical hammer as an example: Pentagon contracting officer Smith can gauge whether Company X is charging a fair price for hammers — which may rise and fall based on market demand or other factors — by simply perusing the websites of a few major hammer producers or hardware stores. In this stylized example, requiring certified cost and price data (see the section on TINA above) for commercial products may be unnecessary and could lead to unjustifiable delays.

The problem is, most “commercial items” aren’t as widely available as hammers, and the definition of “commercial item” is too ambiguous and weak to act as an effective vetting mechanism on the front end. As a result, contractors will seek to get products categorized as


“commercial” so they can change prices at will, without any requirements to provide the receipts to justify such fluctuations. There is also the dubious “prior determination” loophole that allows, in essence, for a forever commercial status for a given product. Apparently, once commercial, always commercial — even if the product in question is not actually sold commercially and isn’t available on the open market. So long as someone at some time in a Pentagon contracting capacity determined a product or service to be “commercial,” that decision can form the basis of the decision to keep that product or service coasting in the commercial acquisition system.

It’s also important to note an additional problem introduced by the “hammer” example: It suggests these contracts are relatively inexpensive. But any contract consummated under the “commercial items” framework — no matter the dollar value — is not required to provide certified cost and price data to Defense Department contracting officers when requested. This lack of accountability has, unsurprisingly, led to price gouging and other kinds of exploitation over the decades.

Given the real instances of and potential for price gouging and over-charging for commercial items at the taxpayer’s expense, Congress should reform this area of acquisition and procurement immediately. More specifically, the definition of “commercial item” should be clarified and strengthened, and reporting thresholds mirroring TINA should be created within the commercial item arena.

Of Audits and Acquisitions
In 2023, the Pentagon failed its sixth consecutive audit, but it has become almost routine to lament another year and another failed audit by the Pentagon. This stunning case study in financial mismanagement should not become so routine as to be allowed to persist any longer. Adding fiscal insult to budgetary injury, it’s worth noting that roughly two thirds of Pentagon components (63%) cannot properly account for their share of the Department’s $4 trillion in assets. If one were to look for a single, glaring embodiment of waste and inefficiencies at the Pentagon, failing this many audits and having this little grasp on how precious resources are managed would be it. After all, it is challenging to the point of virtually impossible to get a handle on waste and inefficiencies if you do not know where your assets are at a given moment.

Fortunately, some members of Congress have taken note. There are bipartisan bills in both the House and Senate that would legally require the Pentagon to successfully pass an audit — and

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impose penalties for continued failure to do so.\textsuperscript{23} Still others have sought to leverage emergent technologies, such as artificial intelligence, to assist the Pentagon in successfully completing the audit task.\textsuperscript{24}

The takeaway here is that if the Pentagon cannot, at minimum, pass a financial audit and adequately account for its massive portfolio of assets, there is little hope that it can meaningfully reduce the scale and scope of the waste and inefficiencies that contribute to sluggish acquisition and procurement outcomes, as well as mismanagement of resources. Congress clearly must step in and force the issue by enacting an audit mandate with teeth that bite.

**Conclusion**

As this testimony nears its conclusion, it is worth pausing to highlight a representative sample of current poorly performing platforms, some of which likely provided the impetus for this hearing.

- The Sentinel intercontinental ballistic missile (ICBM) program: This nearly $141 billion program has seen its cost soar 81\% over its program cycle, all the while enjoying Pentagon support and continued reassurances, despite all evidence to the contrary.\textsuperscript{25} If this kind of cost overrun and general program mismanagement wouldn’t cause both Congress and the Pentagon to pump the brakes, it is hard to discern what would.

- The Constellation frigate program: Earlier this year, the U.S. Navy announced a series of significant delays in key shipbuilding efforts, chief among them the Constellation frigate. Constellation ships were originally scheduled to be delivered in 2026, but now are not expected to be delivered until 2029, a delay that the Government Accountability Office (GAO) found to be caused by beginning construction on the program before having a finalized design in place.\textsuperscript{26} Agreeing to a contract for a critical program like the Constellation without first having a design for that program seems like, at best, acquisition and procurement malpractice. This disconnect in broader Pentagon practice and process has led to widespread problems for the Navy in terms of shipbuilding writ large.\textsuperscript{27}

- The F-35 Lightning II fighter program: Perhaps the single most egregious poster child for waste and inefficiencies as well as dramatic flaws in acquisition and procurement practice


at the Pentagon, the F-35 has been perpetually and persistently over-budget, delayed, and poor in its performance in operational testing environments, all the while demonstrating relatively paltry availability rates.\(^{28}\) Given this less than optimal track record, and given that the program is nearly a quarter century and $2 trillion into its life cycle, the recent Pentagon decision to approve the program for full rate production is even more baffling.\(^{29}\) If a platform that costs this much and performs this poorly relative to the promises made at its outset cannot be reined in, it is hard to fathom what kind of failure would trigger reassessment in future platforms. At minimum, extrapolating from this ill-advised full rate production decision on the F-35, there should be more stringent standards established for when a given acquisition platform will and will not be approved for full rate production.\(^{30}\)

While the above are just three major platforms, they tell an important story: The Pentagon still does not have the systems and processes in place to both obtain what troops on the ground need and to do so while being efficient and responsible with precious taxpayer money. The list could certainly be longer, and it will continue to grow if the Defense Department does not undergo a fundamental reformation of how it does business, a task it cannot do alone. Congress and industry will also need to change and do their part to cut down on waste and inefficiencies.

This hearing and my testimony are oriented toward a simple goal: Bring more accountability and transparency to the Pentagon with regard to how it spends money and sets priorities. The reforms and suggestions I have provided above would represent a significant down payment toward actualizing this goal. As I noted above, the Pentagon cannot do this on its own. Congress makes laws and sets policies while also allocating dollars. It will take a concerted, cooperative effort between the Defense Department and Congress to bring about the reforms and changes needed to get the Pentagon on track.

It is also crucial to keep in frame the fact that the defense industry bears its share of the blame for waste and inefficiencies at the Pentagon as well. Price gouging, bilking, mismanagement of development and execution activities, and influence-peddling have all helped distort the process and produced suboptimal outcomes, for the Defense Department itself and for the taxpayer broadly. Without accompanying reforms to deter malfeasance and unscrupulousness on the part of defense contractors, no amount of accountability and acquisition reforms will achieve sufficient results.

