

The A-12 Cost Overrun ¹

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This paper is adapted from my term paper for the Politics, Policy-Making and Public Administration course in the Key Executive program in the American University School of Public Affairs, where I earned my Master of Public Administration in 1991. I chose the cost overrun on the Navy's A-12 Avenger II carrier-based stealth bomber as my subject, as it was a current topic of interest. I was the Department of Defense's senior analyst for contract performance management.

INTRODUCTION

When the Department of Defense Inspector General (DoDIG) reported that Mr. John Betti, the Under Secretary of Defense (Acquisition) (USD(A)) had erred in managing the A-12 cost overrun, Betti's fate was sealed. His resignation, accepted by the Secretary of Defense on December 12, 1990, came just two days after the DoDIG testified before the House Armed Services Committee on the A-12 matter. This paper examines the proximate cause of Betti's resignation – the seemingly sudden revelation that the Navy's A-12 Advanced Tactical Aircraft program was in serious cost and schedule difficulty – and the role played by my supervisor, a career Senior Executive Service member. Quotes and data are from the A-12 Administrative Inquiry, approved by the Secretary of the Navy on November 29, 1990.

Betti's position was not enviable from the beginning. He was rumored to have been about the thirtieth person offered the USD(A) "acquisition czar" position, all earlier candidates having declined. With his resignation effective at the end of 1990, he served only seventeen months following his confirmation. Ironically, my supervisor and I considered Betti to be the most effective appointee to have served as USD(A).

My office played a central role in the A-12 revelation. We were responsible for DoD policy and procedures governing adequacy of contractor cost and schedule management control systems. We also routinely reviewed data from those systems on large contracts and provided our assessments of cost at completion to senior managers. However, in the A-12 case, routine oversight was denied because the program was highly classified. To

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understand how this issue evolved, it is important to review briefly DoD policy for contract cost and schedule management.

COST AND SCHEDULE OVERSIGHT

Contract cost and schedule policy in DoD has remained essentially unchanged since 1967. When large contracts involve substantial cost risk, contractors must demonstrate that their earned value management control systems meet minimum acceptable standards. This technique – not a how-to system but rather evaluation by the government of contractors’ existing systems against reasonable guidelines – enjoys broad support from industry. It ensures that contractor and government managers have reliable performance data to manage contracts, estimate costs at completion and revise cost and schedule plans as needed. By itself, the technique cannot prevent overruns. Managers must use the data effectively. That they do not always do so is evident in recurring overruns on Defense programs, often revealed when it is too late to react.

Such recurring surprises led in the mid-1970s to my office’s other major responsibility, independent data analysis. It began collecting summarized contractor cost performance data from the military departments, made independent assessments and reported to senior management, frequently spotting problems before they were identified (or revealed) by the departments. However, from the 1960s until September 1989, the office was in the DoD Comptroller’s office. While that assured independence from program advocates in the various acquisition organizations, it distanced the analyses from key program decision-makers. As a result, the analyses were not always acted on effectively.

That changed after the President’s Blue Ribbon Commission on Defense Management (informally known as the Packard Commission) report was accepted in 1986. The commission analyzed Defense acquisition and made several recommendations, including creation of the USD(A) position and consolidation under it of all acquisition-related functions. Our main concern about this transfer was that we would lose our independence, but that proved not to be a problem. On the contrary, we found upon our move that where we previously had to push our information to Acquisition through Comptroller managers, the new Acquisition leaders now demanded it. It was emphasized at monthly acquisition oversight meetings. Any briefers who didn’t understand it found themselves on the spot. Our advice on how to analyze and present contract information became a hot commodity throughout DoD.

This major shift in emphasis was championed by Betti and his principal deputy, Mr. Don Yockey. Yockey's background included experience with our cost management discipline. He became the new USD(A) upon Betti's resignation, and his support naturally earned us many converts.

THE MANAGEMENT ENVIRONMENT

My office, Cost Management, was headed by a career Senior Executive Service member. Mr. Gary Christle had been in the organization since 1975 and became its head in 1980. I began working for him in 1982. This longevity, coupled with our success in identifying cost problems early, contributed to our credibility when top Acquisition management rediscovered cost control.

Christle reported to Dr. John Christie, Director for Acquisition Policy and Program Integration, who reported to Yockey. Christie's position previously was filled by a careerist and changed to political when the incumbent retired early in the Bush Administration. Christie's prior experience included civil service in a related organization in the Pentagon. Through observation and discussion with others who knew our work, he became Christle's strongest supporter. When the A-12 incident began in 1989, we enjoyed unprecedented levels of management support and widespread confidence in our analytical abilities.

THE MAJOR AIRCRAFT REVIEW

Dramatic changes in Eastern Europe led to significant reductions in the potential threat to our country from the Warsaw Pact nations. In response, DoD reevaluated its weapons acquisition plans. In December 1989, the Secretary of Defense directed that all major aircraft in early stages of development or production be reviewed: the Air Force C-17 transport, B-2 stealth bomber, and advanced fighter in addition to the Navy A-12.

Yockey wanted cost and schedule status to be considered for each program. He arranged for our office to gain access to A-12 data on March 26, 1990, and one of my fellow analysts was "read in" that same day. He promptly reported to Christle that the A-12 contract was a disaster and that Christle should personally review the data. He received the necessary security briefings, confirmed the analysis, and reported to Christie and Yockey immediately that costs would exceed the contract ceiling by at least one billion dollars. (All costs above ceiling would be the contractors' responsibility.) The Navy and its contractors, McDonnell Douglas and General Dynamics, had previously projected that costs would remain under the

ceiling. Those rosy projections were made despite Betti's request that Navy and contractor managers identify any "storm clouds on the horizon," those things that might not yet be problems but that caused them to lose sleep.

When our office's analysis produced such a startling number, Yockey acted immediately on it. Christle was sent to brief the Navy's A-12 program manager and other acquisition officials, who found his presentation "compelling" but noted his recent access to A-12 data and lack of detailed program knowledge. The presentation was repeated to other DoD staff offices and found to be consistent with earlier concerns regarding program cost risk. Betti was briefed on the billion-dollar problem on April 4.

Betti's first impulse was to call the chief executive officers of the two contractors to get their reaction, but he was counseled by Christle, Christie and Yockey to wait because sensitive contract changes were being negotiated. Betti agreed and directed Yockey to proceed with the contract discussions to "bring the [cost] issue to a head." On April 5, Christie mentioned the billion-dollar overrun estimate during a briefing to the Secretary of Defense. Betti later told the investigation team the estimate was not discussed in detail since it was new and did not appear to be consistent with the Navy estimates. However, after more briefings, memos, and discussions, Betti called the executives on April 13, receiving assurance from General Dynamics that cost could exceed ceiling, but by only \$100-300 million, an amount that could be absorbed. McDonnell Douglas disagreed, maintaining cost would remain within the ceiling.

On April 17, Betti informed the Secretary of Defense that of the four major aircraft programs, only the A-12 had a cost risk and a tight schedule, with no specific problem identified. The Secretary announced his decision to continue the A-12 program on April 26 and did not identify any impediments to completing the effort within the scope of the current contract.

Just a month later, the program derailed. The contractor team suddenly acknowledged that the program would slip a year, that the contract would overrun ceiling by an amount which the team could not absorb, and that certain contract performance specifications could not be met.

THE INVESTIGATION

The startling revelation embarrassed the Secretary; one can only speculate as to the nature of his conversations with Navy and DoD acquisition officials. The Secretary of the Navy

convened an administrative inquiry “... to determine the reasons for the variance between the cost and schedule of the A-12 program as briefed by [Navy] representatives during the [Major Aircraft Review], and the cost and schedule status as it became known in early June...”

Betti named Christle and two other OUSD(A) members to the investigation team. Headed by a lawyer, the team spent several weeks interviewing under oath all those involved, from the contractors through the government contract administrators and auditors to the A-12 program office. No supporting offices were overlooked, nor were top DoD officials spared.

The findings were devastating. Cost and schedule control systems at both contractors’ plants were excellent, analysts correctly perceived the trends and reported accordingly, but nobody in management relied on the reports. In fact, one admiral suppressed the adverse cost information to avoid distracting a senior Navy official from a desired outcome – approval to proceed further with the program!

The investigation team concluded that Betti’s actions were appropriate. It found he had expressed serious concern to the responsible officials, thereby heightening the reliance placed on the program manager’s position and the contractors’ representations. The team recommended the program manager and other Navy officials be disciplined. Acting on the recommendations, the Secretary of the Navy forced one admiral into retirement and reassigned another. The program manager was reassigned but was kept on the promotion list for admiral because the Secretary believed his “... deficiencies in judgment identified in the report were isolated, and that his immediate superiors failed him in their responsibility to maintain a broader perspective than one focused solely on the perceived interests of the program.”

POLITICAL FALLOUT

During the A-12 investigation, Representative Andy Ireland (R-Florida) met with the Deputy DoDIG to request that the DoDIG investigate the A-12 matter. The DoDIG deferred to the Navy investigation, focusing instead on the information flow within the Office of the Secretary of Defense (OSD).

As the process unfolded, news articles suggested that the Department would scapegoat low-level military managers while letting higher-ups in OSD (Betti and others) escape unscathed. It seems likely that the Navy’s investigation findings were being leaked before the report was accepted by the Secretary of the Navy. In any event, the DoDIG concluded that

Betti "... erred when he did not reconcile adverse A-12 cost projections made by his staff with more favorable projections being promoted by the Navy and the A-12 contractors. The adverse cost information was brought to Mr. Betti's attention on April 4, 1990, approximately three weeks before [the Secretary of Defense] reported favorably to Congress on the A-12 program in April 1990."

An unnamed Pentagon official, quoted in the Washington Post on December 13, 1990, said the DoDIG had "shot [Betti] through the heart," leading to his prompt resignation. As the criticism mounted, we became concerned that Betti might be a casualty. Still, the DoDIG's conclusion came as an unwelcome surprise that contradicted our own view of events. We were dismayed that the person who had done more than any predecessor to elevate cost to equal consideration with technical performance had fallen victim to those efforts.

Christle's first impulse was to refute the DoDIG report, but Christie dissuaded him for two reasons. First, the thing was done. There was no way anyone could change the outcome without causing further damage, and it was not clear how Betti was perceived at top management levels. In fact, there had been earlier indications that the Deputy Secretary of Defense was not pleased with Betti's performance. Second, Betti candidly told the DoDIG that because he considered Christle's figures to be out of line with existing data, he did not raise them as a "red flag" or "showstopper" issue during briefings to the Secretary of Defense. Betti chose to rely on the assurances that he had invited from the Navy and the contractors because he regarded Christle as "very knowledgeable" but "a new kid on the block" with respect to A-12 data.

THE CAREER EXECUTIVE'S ROLE

Christle was at the center of the A-12 issue from the beginning. As events unfolded, he often reflected on them with me after hours in the Pentagon. I recognize in the final report many of the things we discussed and feel I can assess confidently the role he played. Beyond that, I knew better than he how management viewed his role. I was assigned without his knowledge to write nominations for two high-level awards, including a Distinguished Executive Presidential Rank Award. Betti signed those nominations, emphasizing Christle's accomplishments in providing top managers with cost information necessary to make timely program decisions.

Christle's role was a model of neutral competence. After more than eight years working together, I discerned no personal agenda, no ambition beyond what he had achieved – to be

a credible voice for prudent cost and schedule management. He knew that in Defense programs cost may be secondary for technical or political reasons but believed that it must be weighed evenly. To my knowledge, he never went out of channels.

The advice for career executives in an article authored by my professor seemed particularly apropos – to provide political appointees with one’s best professional advice, and to recognize that it may not be acted on as one may wish. Betti was provided every chance to act on the A-12 information, and Christie brought it up in the Secretary of Defense’s presence. The remarkable rapport between Christie and Christle, supported by Yockey, leads me to conclude that everything possible was done by career and lower-level political executives to protect the boss. Any failure was his.

THE BROADER ENVIRONMENT

With its enormous budget and many programs, Defense has long been a prime political target. Different programs at other times have provided a rich lore, with different heroes and villains. A. Ernest “Ernie” Fitzgerald made his name as a whistleblower on the C-5 airlifter many years ago, using the same type of data we use today. Chuck Spinney made the March 7, 1983, cover of Time magazine as a “Pentagon Maverick” on cost issues. Our office generated its share of media reports, but we managed to keep our names out of them. It was a source of pride for Christle that we had never been the source of a leak – inadvertent or otherwise – despite the wealth of information under our purview.

The attention showered on Christle after the A-12 report was issued made him very uncomfortable. He was pleased that cost control was once again fashionable and welcomed the opportunity to make lasting changes but disliked the personal focus. Monikers hung on him included the humorous – “Pentagon Chicken Little” (Defense Week), “The Lone Analyst” (House Armed Services Committee hearing), “Whistleblower” (HASC staffer, in jest); the complimentary – “The Unnamed Hero” (Rep. Ireland speech); and the ignorant – “DoD Budget Analyst” (Defense Daily).

Christle’s experience and this rush of attention increased his usual caution. He refused to discuss the A-12 matter with the press. When a Los Angeles Times reporter called, his response was his customary “No comment – call public affairs.” Yet when the article was printed, the reporter had located a copy of our assessment and an unnamed Pentagon official who was willing to discuss it. Christle told me he valued our reputation more than the opportunity to provide a statement to the press. I was not convinced that philosophy should

be all or none. When as in the A-12 case one is clearly on the right side of an issue, I believe it could be useful to talk with selected members of the press, chosen based on demonstrated accuracy and fairness.

News reporters of course are looking for information that agencies don't want released because it might be received unfavorably. Career executives like Christle must be sensitive to the political environment. However, he had developed a large stock of credibility and respect over the years. With his political superior's approval, he would have been well-placed to move things along on the agenda by working more effectively with the media and other outside parties.

MAKING LASTING CHANGES

Where Christle did have considerable discretion was in overseeing implementation of the Navy team recommendations. As the principal cost analysis expert, he drafted those parts of the report. Because we had been involved for so long in cost and schedule policy and implementation with the military departments, we knew where some of the weaknesses were. The A-12 report confirmed them and identified more. The episode thus provided a means to move our concerns to the top of the management agenda, holding out the prospect of lasting change. The important recommendations for cost control were:

- Develop positive incentives for program managers to display realistically the full range of cost, schedule and technical risk in development programs.
- Develop a pool of the best functional experts from OSD and the military departments to conduct special program reviews as the USD(A) deems necessary.
- Resolve any shortfalls in oversight due to security requirements.
- Require detailed planning of contract cost oversight as a condition for program milestone approval.
- Establish strong focal points for oversight of cost performance measurement in the military departments.
- Direct that the Defense Systems Management College (now Defense Acquisition University) develop a case study of lessons learned from the report.

The recommendations kept us busy. With Yockey confirmed as USD(A), cost management continued to be emphasized. Top-level managers throughout DoD became familiar with contractor cost performance data and techniques for analyzing it, especially the graphs we popularized.

The A-12 matter, and the admirable role played by the career executive who precipitated it, demonstrated that public servants can make a difference. Risk-taking (telling the boss news that can hurt him) can be encouraged and indeed rewarded. Longevity in a job does not necessarily mean stagnation. Doing what one can during periods when leaders are not supportive can enhance one's credibility when the environment inevitably changes. Christle and I would remain in the same roles until my retirement in 1999. We worked together with industry and government counterparts to develop resources at the program level because it was too late when we discovered problems at our level – our successes represented management failure.

The A-12 was a dramatic example of mismanagement, but not the only one. However, from the early 1980s to late 1990s DoD's overall cost growth rate improved significantly. The A-12 problem was discovered before the airplane ever flew, so that further cost overruns were avoided. It sparked an era of remarkable cooperation between government and industry during which we worked together to improve cost and schedule performance management. It worked – the aggregate overrun in April 2000 was just 5.5% on the 115 largest DoD contracts (\$3.0 Billion on \$84.8 Billion of contracts at 60% complete).

POSTSCRIPT

The Secretary of Defense directed the Navy on December 14, 1990, to “show cause why the Department should not terminate the A-12 program and pursue other alternatives,” an unprecedented action in my experience. The contracting officer terminated the contract for default on January 7, 1991 – five days after I submitted this term paper. The contractors sued for relief in the Court of Federal Claims, initiating litigation that would last for more than two decades. Because the program was not assigned to me in OSD, the Department of Justice/Navy litigation team engaged me as an independent expert witness, a role that continued after I retired from public service.

My analysis showed the contractors were failing to make progress and the estimated overrun was much worse than was previously known. My testimony in the fifth trial on May 14, 2001, presented the cost and schedule performance status for the first time. The judge described the testimony as “... very persuasive and effective...” and “... goes to the heart of this issue and does it in a very effective way.” He reversed his previous rulings and found for the government. Final settlement was not reached until 2014, following appeals that eventually reached the Supreme Court and resulted in a negotiated settlement.

About the Author



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Wayne Abba is an independent consultant in program and project management, specializing in Earned Value Management. For 17 years before retiring in 1999, he was the senior program analyst for contract performance management in the Office of the Under Secretary of Defense (Acquisition & Technology). He is a volunteer expert advisor to the US Government Accountability Office team that published the “Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs,” and “Schedule Assessment Guide: Best Practices for Project Schedules.” He is (twice) Past President, College of Performance Management.

Wayne serves on the board of the Graduate School Japan, a nonprofit organization that provides training and consulting services to Japan government ministries, including planning for management of the Fukushima nuclear plant decommissioning. His voluntary work with the US National Science Foundation includes membership on several project review panels ranging from conceptual through final design reviews and advising on policies and procedures for managing mid-scale projects.

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