

**TESTIMONY OF
Mr. Mark N. Klett
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Distinguished members of the Senate Budget Committee, it is an honor for me to speak to you regarding the impacts of sequestration on national security/economy from the perspective of a veteran owned small business

I am a small business owner, and a disabled veteran who proudly served my country in the U.S. Navy for over 20 Years as a Surface Warfare Officer – I dedicated my life to national security when I was 18 years old and enrolled in the U.S. Naval Academy.

After serving my Country, I transitioned into the Defense Contracting industry. After working for three large Defense Contractors – I found that my entrepreneurial passion could only be satisfied by going out on my own. With the unwavering support of my family, I established Klett Consulting Group in August of 2002. Since then my company has created over 50 jobs, purchased an office building in my hometown, and expanded into federal, state and municipal marketplaces.

Klett Consulting Group has grown into a multi faceted Professional Services Firm with a specialization in Department of Defense System Engineering & Cybersecurity. We provide government-industry teams with technical solutions, program management, and operational expertise. As a small business, we have written the Open Architecture Implementation Strategy for the US Navy, led the Enterprise Architecture and Information Assurance efforts for the next generation aircraft carrier - CVN-78, and was a significant contributor to the Presidential Executive Order on Cybersecurity this past February. We deliver these projects with an efficient team of professionals who understand the government’s missions and requirements.

As a Service Disabled Veteran Small Business owner, approximately 60% of my workforce is veterans. This presence of veterans is consistent with the geographic area in which I represent – South East Virginia, Hampton Roads. With the presence of the Norfolk Naval Station, Joint Chiefs of Staff, Oceana Air Station, NASA Langley, and a collection of the world’s largest ship yards; it makes sense that Hampton Roads has the highest veteran density in the country and thus is significantly more susceptible to the effects of sequestration.

Thankfully, these Veterans served a country where the government didn't just say “tough luck.”

Sequestration creates inefficiencies and delays

In a time in which efficiencies need to be created, Sequestration introduces inefficiencies and delays that are making a bad situation worse for companies of all sizes – large, mid and small businesses. 2012 and 2013 have been the most difficult business years in my 11 year existence. Instead of focusing on fulfilling the work requirements necessary for critical national security and warfighter resources, I have been forced into an increased amount of paperwork and waiting periods for contract and purchase order awards. Because of the perpetual continuing resolutions and lack of decisions, Contracting Officers lack the proper foundation or backbone of their program – A BUDGET and acquisition authority. Without the proper budget authority contained in the appropriations bills the contracting officers and Program Officials cannot obligate any new work to be performed. Because of this uncertainty in budgets, Programs can not plan to execute to meet missions efficiently, even if they have the resources to do so. Many programs have adopted the model of “Incremental Funding” as a way of life during this uncertainty. This means instead of going through the contractual approval process once every year we are going through it every 30 – 60 days. This has often led to gaps in workforce which means gaps in capabilities. Contractors are left with no access to work while incremental funds can be released 2-4 weeks later. The government’s inability to execute timely contracts for what is needed in critical areas leads to overall waste of funds and the government is getting less products in the end.

Our small business has seen gaps of two weeks to one month on contracts due to this inefficient funding methods – and this is very manpower intensive on both the government and industry side. This practice costs a lot of time and dollars just to get critical work done.

Example 1: According to VADM Myers (Deputy CNO N8), the Continuing Resolution and sequestration will lead to inefficiencies caused by loss of learning; productivity losses; cost increases driven by lengthening schedules; he added that increased burdens on military personnel and lower morale – all translates to reduced readiness.

Example 2: Devastating effects have already been caused in the ship building industry. The uncertainty of the looming sequestration has caused a civilian-hiring freeze at Shipyards which have already caused non-recoverable impacts to the shipyards’ ability to execute many assigned workloads and nuclear submarine availabilities while threatening to impact Docking Planned Incremental Availabilities for the USS Eisenhower (CVN 69) and the USS John C. Stennis (CVN 74).

Deputy Secretary of Defense Ashton B. Carter, said it best – “Right now, for example, we are in the absurd position that it is only lawful to build the ships we already built last year!”

Sequestration creates competitive disadvantage for small businesses

It is often said small businesses are the backbone of the economy and it is true. Many of my business peers have had their backs broken. Sequestration creates a competitive disadvantage for small businesses. Due to the aforementioned delays and gaps in work, I have had to put nearly 30% of my work force on the bench or overhead for as little as two weeks and as long as two months this year. With no approved budget, or appropriations bill - no government agency, prime contractor or subcontractor can plan beyond a few months. No one can plan beyond 30 September 2013. The impact will be even greater on subcontractors, who lack the capital structure to withstand uncertainty. 60 to 70 percent of defense dollars are subcontracted, and many of the subcontractors are small businesses like myself.

As a small business owner – and an American citizen – I ask Congress to work together for the good of the country to help sustain jobs by giving us a combined budget that results in the expeditious passing of appropriations bills that can be executed. This is a complicated process that needs to be done for the benefit of all our citizens to ensure our National Security and our place in the Global Economy.

Veterans are out of work

In my company alone, I currently, have an Air Force Veteran, and Navy Veteran and a Marine Corps Veteran who are out of work because of Congress' indecision. In the last 3 months all three of those vets were on long term contracts that were not executed, or have been told to hold off until year end. These vets are Subject Matter Experts in their field performing critical support for the warfighters. There is an entire work force of military vets out of work, on the verge of losing work or have been furloughed. I receive a Stack of resumes every week of military vets looking for work. Back in February, a large shipyard in Norfolk, VA sent warning letters to 1,600 of its workers, advising that layoffs were a possibility, amid concerns over sequestration defense-cuts.

Thankfully, they live in a country where the government didn't just say "tough luck."

According the economist Stephen Fuller of George Mason University, sequestration could cause a total of 2.14 million jobs lost (both directly and indirectly caused by sequestration), resulting in a 1.5 point increase in the unemployment rate.

As DoD draws down its forces and spending – we need to develop a strategy to be ready to fight and win the next war not the last one. A big part of that preparation is having a ready agile Force that is equipped to meet our nation's strategic security requirements and our trained veterans can fill much of those strategic niches with small business capabilities. My Company like many others has created a strategic capability for our national security – but must fight everyday to keep it alive due to the government processes in place that serve no competitive or compliant purpose – just delays the award and increases the price of doing business. A PLAN – A CONGRESSIONAL BUDGET – and ASSOCIATED APPROPRIATIONS BILLS are required to get our talented veterans work force working and all our

American force moving forward. Only 0.03% (\$1.4B) of our budget is committed to the Small Business Administration – I certainly think we can do better for the engine of our economy – small businesses.

Conclusion

Thank you for the opportunity to share a view from the trenches of how small veteran businesses are affected by sequestration. Sequestration is affecting the economy evidenced by increased inefficiencies which is affecting national security. We are less secure now than we were a year ago. The cuts are tough on everyone, but the larger problem is the uncertainty caused by not having a budget plan. No one, government, military nor industry can plan and move out without knowing where the government wants to put its resources.

Recommendation – Relationships are critical to success in the business world – in running this great country of ours, Congress has been entrusted with putting a budget and appropriations together each year to ensure that the our country meets and honors all our commitments to our citizens to ensure their security and our economic strength in the global economy. I plead with all of you here in the senate to commit to all Americans to work for the best interests of our Country and work to foster a working relationship with all members of Congress to put both an executable budget and appropriations bills together so that sequestration can be avoided at all cost and our National Security and Economic Stability of all Americans can be safe. We do not need a government of inaction that just says tough luck to our hard working citizens.

Leon Panetta said it best - letting the sequester go into effect would be "shameful and irresponsible," and it would "damage the readiness" of the U.S.