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DEPARTMENT OF DEFENSE FISCAL YEAR 2010 BUDGET

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

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DEPARTMENT OF DEFENSE FISCAL YEAR 2010 BUDGET

WEDNESDAY, MARCH 18, 2009

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:10 a.m. in room 210, Cannon House Office Building, Hon. John Spratt [chairman of the committee] presiding.

Present: Representatives Spratt, Schwartz, Kaptur, Doggett, Blumenauer, Boyd, Tsongas, Etheridge, Yarmuth, DeLauro, Edwards, Scott, Langevin, Larsen, Bishop, Connolly, Schrader, Ryan, Hensarling, Diaz-Balart, Jordan, Lummis, Aderholt, and Harper.

Chairman SPRATT. I call the hearing this morning to order and first apologize to our witnesses for the fact that we are late, but we just came from a meeting with the Speaker and had to leave it early. I welcome everybody here today and thank you for your participation.

The purpose of this hearing is to gain a better understanding of the Department of Defense budget and to review the factors that are responsible for cost growth in defense programs, particularly cost overruns in major weapon systems. The Obama administration has inherited a defense plan that is considered by many to be difficult to sustain over time, a weapons acquisition process that is badly flawed if not broken altogether.

Over the last 8 years, funding for national defense has more than doubled, reaching nearly $700 billion for 2008. And if unchanged, defense plans could cost even more, tens of billions more per year than the Bush administration has budgeted in its so-called FYDP, or Future Years Defense Plan, according to CBO.

Military personnel and O&M costs, which account for about two-thirds of DOD's budget, have increased steadily at a rate above inflation. After adjusting for inflation, the cost of an average military service member is roughly 45 percent more than the average cost 10 years ago. O&M funding for active duty service members has steadily increased by 2.5 percentage points above inflation each year going back to the 1950s. War costs have increased, not decreased, but increased every year since 2001, peaking at $186 billion in 2008.

Cost growth of major weapon systems has worsened over the last 8 years. According to the GAO, the cost of major weapon systems on DOD's books as of 2007 increased nearly $300 billion above their baseline estimates. After years of large annual increases in the defense budget and runaway cost growth in major weapons sys-

tems, the President has put forward a more sustainable budget that tracks with inflation and calls for sweeping acquisition reform at DOD.

For overseas contingency operations, the budget includes $130 billion for 2010 and placeholder estimates of $50 billion per year thereafter throughout a 10-year budget window. This marks the first time that the budget includes both a full year estimate for overseas operations for the budget year and placeholders for future costs. So it provides a more realistic look at the likely costs and their effect on the budget's bottom-line over time.

In the midst of these challenging times, it is important to mention the importance of our strong economy to our national security. Our economy indeed is the first instrument of national security. Getting the economy moving forward again and putting our budget back on a sustainable course is absolutely vital to ensuring the country's future ability to provide for a strong national defense.

As we face these challenges, we must now more than ever gain the best value for every dollar we spend, including dollars spent at the Department of Defense.

Today we have two panels. On the first panel, the Honorable Robert Hale, Under Secretary of Defense (Comptroller). On the second panel, Mr. Michael Sullivan, Director of Acquisition and Sourcing Management at the Government Accountability Office. Mr. Sullivan will give us testimony on the work GAO has performed on a number of areas at the Department of Defense.

Again, I welcome our witnesses. I appreciate your participation. But before we turn the floor over to you, I wanted to recognize the ranking member for any statement he cares to make. Mr. Ryan.

Mr. RYAN. Thank you very much, Chairman Spratt. I would also like to welcome our witnesses, Mr. Hale and Mr. Sullivan. Mr. Hale, you have had a long and distinguished career working with the defense budget both at CBO and as the Comptroller of the Air Force, and I look forward to your testimony. I have enjoyed your work over the years.

The Defense Department is our largest discretionary expenditure, and it has seen robust growth over the last decade. This growth is understandable, and in my opinion justified by the fact that we were attacked on September 11th.

If you could bring up Chart 1, please.

But I am concerned that the President's budget uses the fiscal year 2008 levels, the year of the surge and the most expensive year of the war, as this chart shows, the red bar graph, to create the illusion of savings. It does this by inflating its baseline to assume the surge level of spending continues every year for the next decade and then claims $1.5 trillion in savings by not funding DOD at surge levels for the duration of this budget.

The Chairman of the Joint Chiefs, Admiral Mullen, has clearly stated that he had no plans of spending at surge levels over the next decade. And, Mr. Hale, as DOD's chief numbers cruncher, your assumptions on this matter are also of great interest to this committee.

As the President's budget provides no detail below the topline, it is difficult to understand its plans for DOD over the next decade. But the one thing we do know is that the budget assumes an aver-

age annual growth rate of national defense of 2.4 percent. This compares to an average annual growth rate of nondefense discretionary spending of 3.3 percent.

Now I can appreciate an attempt at fiscal restraint in the President's budget, but I find it incredibly troubling that defense spending is seemingly the only place in which this effort was made.

Providing for our Nation's defense is the primary responsibility of the Federal Government, and the President's budget raises the question of whether defense will be provided sufficient resources, and that is the debate we are going to have throughout the year.

That said, I don't mean to imply that there is not a great deal of work to do to improve efficiency at DOD. To the contrary, the Defense Department's financial management systems, while improving, are still nowhere near where they need to be to assure the American taxpayer that their money is being well spent. You have an acquisition process that is an abject failure at procuring weapons systems on time and on budget.

I will note that I was encouraged that the President's budget calls for acquisition reform as a priority, but the devil is in the details, and Congress is also the source of the problem through its intervention in the DOD procurement process as well.

The bottom line is that we need to make absolutely certain that we provide the necessary resources for the defense of our Nation, in particular for the men and women in uniform in Afghanistan and in Iraq, who are in harm's way. I look forward to your testimony, Mr. Hale.

Thank you, Chairman.

Chairman SPRATT. Thank you, Mr. Ryan. Before turning to Mr. Hale, let me acknowledge that the timing of this hearing is just a bit unusual because we don't anticipate getting the detailed budget from the Department until April. Right now we have only an outline that gives us some topline numbers and some broad policy objectives. And for that reason we understand that you may be limited in the level of detail you can provide us at this point in time. We do hope that you can help us get a better understanding and overview of the President's budget at your level and the challenges that we all face in getting more bang for the buck out of the defense budget.

Mr. DOGGETT. Mr. Chairman, on that point, is it correct that this is not unique to the Obama administration, that every time there has been a transition from one administration to another, the outline comes first because they have only been in office for a few weeks and don't have time to provide a full budget at the time that a President would usually do?

Mr. HALE. That is correct.

Chairman SPRATT. The gentleman is absolutely correct. Mr. Ryan agrees with me. It takes a certain amount of time to compile all of this information in a presentable form, and it takes at least until April if not later to get that done.

Two housekeeping details. First of all, I ask unanimous consent that all members be allowed to submit an opening statement for the record at this point. Without objection, so ordered.

And secondly, to our witnesses, both witnesses, you may submit and we will copy your statement in its entirety so that you can summarize it as you see fit.

With that said, Mr. Hale, the floor is yours, we thank you again for coming, and we look forward to your testimony.

STATEMENT OF THE HON. ROBERT F. HALE, UNDER SECRETARY OF DEFENSE (COMPTROLLER), U.S. DEPARTMENT OF DEFENSE

Mr. HALE. Well, thank you, Mr. Chairman and members of the committee. I appreciate the opportunity to be here to talk about the fiscal year 2010 defense topline request. I have submitted a statement for the record. I will summarize it for you.

As announced on February 26th, the President's topline budget request will include $663.7 billion of discretionary budget authority for DOD in fiscal year 2010. That includes $533.7 billion for our base program that funds ongoing defense programming and $130 billion for what we were terming overseas contingency operations in Iraq and Afghanistan.

Let me go first to the base budget request. The $533.7 billion topline for the base budget reflects an increase of more than $20 billion, or about 4 percent, above what the Congress enacted for fiscal year 2009 and provides us about 2 percent real growth. We are now conducting a budget review to craft a detailed request that will meet the Department's needs. We want this budget review to do more than simply accommodate this new topline.

Secretary Gates views the budget review as an opportunity first to seek efficiencies in the Department's operations, including improvements in contracting and acquisition, to reassess weapons programs, especially those that are experiencing execution problems, and to continue reshaping the Department of Defense to focus more on a regular and unconventional war while maintaining a balance of programs that offer capabilities in conventional warfare.

Now, some decisions have already been made. The budget will support increases in the size of the Army and the Marine Corps. It will provide strong support for service members and their families, including a 2.9 percent pay raise for military personnel. It will fund improvements to facilities and for the base realignment and closure, improve medical care for the wounded, and it will incorporate some items previously funded through emergency supplementals such as medical services, family support initiatives, and end strength increases.

Other decisions, though, will involve tough choices because even though the budget is growing, funds are migrating from these supplementals into the base and there are some growth—we call them fact of life changes that tend to occur, such as health care that we need to accommodate. Secretary Gates has said that he intends to wait until this review process is done before making any of these tough decisions. So as the chairman indicated, I won't be able to provide the committee with any details today about those decisions.

Let me turn now to funds for the overseas contingency operations, OCO, Washington's, I think, newest acronym. That is funds

for wars in Iraq and Afghanistan. DOD's highest priority is to provide everything our troops in the field need to succeed, including resources.

As I mentioned, the fiscal year 2010 budget request includes $130 billion for overseas contingency operations. This funding will support the drawdown of forces in Iraq and the buildup of forces in Afghanistan. It reflects the President's recent announcements in both of those theaters. The number is consistent with, as I said, policies about the drawdown announced by the President. And our submission will reflect some tighter guidelines about what qualifies for funding in wartime budgets. This request for $130 billion includes all the monies we expect to require in fiscal year 2010. Our goal is not to seek additional supplemental funding in fiscal year 2010.

That said, we recognize that things may change. Wartime operations could change, strategy could change in ways that would require additional resources. And in that case, we would submit a supplemental funding request to ensure full support of our troops.

Also, I would point out that the President said that he would submit a supplemental budget request of $75.5 billion to cover remaining war costs for fiscal year 2009. We are working with OMB to prepare that request as I speak, and I hope it will be submitted very soon to the Congress. We ask that Congress act on it before the Memorial Day recess in order to avoid funding shortages that hamper our operations and adversely affect our troops.

And lastly, I want to mention DOD received $7.4 billion of funds in the American Recovery and Reinvestment Act, better known as the Stimulus Act. These funds will pay for increases in military construction, facilities sustainment, restoration and modernization, housing assistance and some other uses. We are grateful for this funding, and we hope to spend the money quickly on projects that meet critical DOD needs. At the direction of the President, we will also seek a very high level of transparency and accountability for this spending.

Mr. Chairman, that concludes my opening statement. I thank you again for the opportunity to appear, and I look forward to working with you and all the members of the committee and Members of Congress to support our men and women in the Department of Defense, and I now welcome your questions.

[The prepared statement of Robert F. Hale follows:]

PREPARED STATEMENT OF HON. ROBERT F. HALE, UNDER SECRETARY OF DEFENSE (COMPTROLLER), U.S. DEPARTMENT OF DEFENSE

Thank you Mr. Chairman. I appreciate the opportunity to represent the Department of Defense (DoD) this morning regarding the topline of the President's fiscal year (FY) 2010 budget request.

The Committee's hearing is an important part of the budget process. It helps to ensure that the process is open and transparent. As President Obama has said, "Those of us who manage the public's dollars will be held accountable to spend wisely, reform bad habits, and do our best in the light of day." Accountability and transparency are hallmarks of the President's budgetary policy and are especially important during this period of economic crisis.

PRESIDENT'S FY 2010 BUDGET REQUEST

As announced on February 26, the President's topline budget request to Congress will include $663.7 billion for DoD in FY 2010.

I recognize that this Committee marks up a figure for the National Defense budget function (Function 050). However, we in DoD do not have visibility at this time into the budgets of the Department of Energy or some of the other agencies that also have funding in the National Defense function. So I will focus on the DoD budget (also known as Subfunction 051) during the remainder of my testimony today.

The $663.7 billion in the DoD topline includes $533.7 billion of discretionary budget authority in the base budget that funds ongoing Defense programs. It also includes $130 billion for overseas contingency operations—that is, the wars in Iraq and Afghanistan.

FY 2010 BASE BUDGET

The $533.7 billion topline for the base budget reflects an increase of more than $20 billion or about 4 percent over the $513.3 billion appropriated by Congress for the FY 2009 Defense base budget. The base budget request represents real growth of approximately 2 percent, which is below the average real growth of about 4 percent during the 2001-2009 period.

Secretary Gates has said that he is pleased with this topline figure, which will enable us to meet our essential defense requirements.

WHAT THE BASE BUDGET WILL BUY

Armed with this topline figure, we are now engaged in a budget review to craft a detailed FY 2010 Defense budget that best meets the Department's needs. We want this budget review to do more than adjust the FY 2010 Defense program to accommodate the new topline. It also provides DoD's senior leaders with the opportunity to:

- Seek efficiencies within the DoD program;
- Reassess all weapons programs, especially those that have experienced execution problems; and, most importantly,
- Continue reshaping the Defense program to focus more on unconventional warfare, while maintaining a balance of programs that provide conventional capability.

In a few cases, we have already made decisions about the programs that will be included within our base budget for FY 2010:

- The budget supports increases in the size of the Army and Marine Corps to meet warfighting requirements while increasing time spent at home station.
- We will use our funding to ensure strong support of our military people and their families, including improved medical treatment for wounded Service Members.
- Our budget will include a 2.9 percent pay raise for men and women in uniform.
- The budget will provide funds for improvements to facilities and for the implementation of Base Realignment and Closure recommendations.
- The base budget for FY 2010 will also incorporate some budgetary items that were previously funded through emergency supplementals, including certain medical services, family support initiatives, security assistance to foreign governments, and enhancements to ISR (Intelligence, Surveillance, and Reconnaissance) capabilities. Consistent with the President's goal of transparency, we are striving to ensure that the base budget incorporates all permanent programs and those that apply to the entire force.

We also recognize the need to improve business practices, especially those that are related to acquisition. While detailed plans have not yet been formulated, we must find ways to reduce cost growth, minimize scheduling delays, and improve performance in our weapons acquisition process—while still meeting key warfighter needs. In addition, as the President has said, we need to improve government contracting. Such initiatives are especially important because of the economic crisis that the country is facing.

TOUGH CHOICES

Even though there is some real growth in the FY 2010 defense budget request, we know that we must still make a number of tough choices. Choices will be necessary because shifts from supplemental to base funding will consume funding and because the topline must accommodate some growing programs such as health care.

These difficult decisions have not yet been announced, and so I cannot comment on their status. Secretary Gates has said that he intends to wait until the end of our review process before making any decisions. In his words, "putting together a budget package this large, complex and interrelated requires a coherent and holistic process—a process that would be undermined if decisions about particular programs are made piecemeal or before the assessment is complete."

We expect that the President will send the detailed DoD budget, along with budgets for the rest of government, to the Congress sometime in April.

In the interest of long-term budget transparency, the President's budget not only shows figures for FY 2010 but also includes base budget estimates for the next decade. Those figures anticipate zero real growth in the Defense budget. However, we believe that budget decisions beyond FY 2010 should await completion of the Quadrennial Defense Review (QDR) that is just getting underway. After the QDR is completed, it is possible that DoD will propose some adjustments.

FY 2010 COSTS FOR OVERSEAS CONTINGENCY OPERATIONS

DoD's highest priority is to provide troops in the field everything they need to be successful, including adequate resources.

The FY 2010 budget request includes a request for $130 billion of funding for overseas contingency operations—that is, funds for the wars in Afghanistan and Iraq. This funding request will support the drawdown of forces in Iraq, including costs of getting troops home, and the buildup of forces in Afghanistan, including costs to operate in this austere and challenging security environment. The estimate is consistent with the decisions about troop levels recently announced by the President including the drawdown of 35,000 to 50,000 troops in Iraq by August 2010.

This request for war funds includes all the monies we expect to require in FY 2010. Our goal is not to seek additional supplemental funding for FY 2010.

However, there may be significant unforeseen developments or changes in wartime strategy or tactics that cannot be addressed with existing resources. In that case, we would submit a supplemental funding request in FY 2010 to ensure full resource support for our troops.

The use of supplemental funding for Defense operations has grown over time. The President wants to reverse that trend and move more of our predictable costs into the base budget, and we are seeking to make that change in this budget. The transition to narrower and stricter criteria governing what expenses can be counted as a cost of war is difficult. We inside the Department are experiencing that difficulty now as we build these two budget requests using more stringent rules. As we work toward putting all predictable costs into the base budget, we will need to work with this Committee and others in the Congress to enforce these changed rules.

Consistent with the goal of long-term budget transparency, the President's requested topline projects funding of $50 billion per year for overseas contingency operations costs beyond FY 2010. These projections do not represent a policy projection based on an exact force structure or operating tempo in those two operations. We cannot predict these key factors with certainty this far in advance. Therefore the figures are placeholders that may change depending on events.

REMAINING FY 2009 WAR COSTS

In his February 26 budget overview, the President said he would submit a supplemental budget request of $75.5 billion to cover remaining war costs for fiscal year 2009.

I want to thank the Congress for providing the much needed "bridge funding" of $66 billion last year. The troops in the field saw immediate benefit from that funding. The second funding request would provide the remaining funds necessary in FY 2009 for the wars in Iraq and Afghanistan and will likewise benefit the troops in the field.

This funding request is also consistent with the decisions recently announced by the President about the buildup in Afghanistan and the drawdown in Iraq.

Working with OMB, we are preparing the FY 2009 supplemental and hope to submit it soon. In order to avoid funding problems and to maintain continuity of operations for the troops, we hope that Congress will enact this remaining supplemental prior to the Memorial Day recess.

AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

DoD received $7.4 billion of funds in the ARRA, better known as the Recovery Act. DoD funds include:

- $4.2 billion for facilities sustainability, restoration, and modernization;
- $2.2 billion for hospitals, child care centers, and other military construction needs;[1]
- $555 million for housing aid to certain DoD employees who must move;
- $300 million for research on energy efficiency technologies; and

[1] This is largely limited to troop (including wounded warrior transition) and family housing.

• $120 million for the Energy Conservation Investment Program.[2]

We are grateful for these funds. We hope to spend the money quickly on projects that meet critical DoD needs. We also recognize the President's strong commitment to accountability for these funds. I pledge to the Committee that we are committed to transparency and accountability for the stimulus funds provided to the Department.

CLOSING

Again, I want to thank the Committee for the opportunity to testify about the Department's topline budget. We are satisfied that the FY 2010 funds and other funds provided to the Department will allow us to meet the essential needs of the troops and their families and to continue efforts to reshape the force for unconventional war while maintaining a balance of conventional capability.

We also pledge that the FY 2010 budget will reflect hard choices that the Department of Defense will make to stay within the President's topline while maximizing our defense capability. Making such choices is especially important during this period of economic crisis.

Along with other DoD leaders, I look forward to working with Members of Congress to explain those hard choices and to gain support for them.

Mr. Chairman, that concludes my opening statement. I welcome the Committee's questions.

Chairman SPRATT. Thank you very much, Mr. Hale. I understand that one factor that is driving some cost growth is the fact that several years ago we decided to increase the level of ground troops, the end strength of ground troops, both in the Marine Corps and in the Army, by 92,000, and we had a time frame estimated for how long it would take to fill that requirement. It appears now that partially due to the economy apparently that requirement is going to be filled 2 or 3 years ahead of what was originally anticipated. How does that affect your budget?

Mr. HALE. Well, it increases budget needs. On the other hand, it provides us more capability at a time when we can make good use of it, and both the Army and Marine Corps are close to the goals right now. For fiscal year 2009, we will need to work some reprogramming actions to handle the budgetary needs and we are working to address them in the fiscal year 2010 request. So, yes, it will add funding requirements, but it does also add some capability. As I said, we will make good use of it.

Chairman SPRATT. Rule of thumb, what is the anticipated cost of an additional division?

Mr. HALE. I don't know about a division. Crudely at $100,000 a troop, plus some O&M costs——

Chairman SPRATT. $80,000 per accession?

Mr. HALE. That is probably about right. I was looking at an average troop, not just an accession. Say around 100,000. And then there is an O&M, or operation and maintenance, tail that goes with that. So we are talking a sizeable amount of money, given that the Army and Marine Corps have gotten there so quickly.

Chairman SPRATT. Could you give us a rough analysis of a savings of what 92,000 additional ground troops will cost?

Mr. HALE. Could I do that for the record or do you want me to try the math right now?

Chairman SPRATT. I will take it back of the envelope right now and then you can refine it for the record.

[2] This is provided in the MilCon Defense-Wide account, but is being treated as a separate program.

Mr. HALE. John, help me out here. I am adding the zeros. Maybe around a billion dollars. Is that right? Say again? I got a wrong zero. That is not a good start. About $10 billion.

Chairman SPRATT. About $10 billion for 92,000 troops.

While deficits have increased to record levels, the cost of the DOD have grown above inflation almost across the board. Military personnel costs have grown 45 percent above inflation over the last 10 years; O&M costs have consistently increased at 2.5 percentage points above inflation. Going way back to the 1950s, apparently this has been a steady trend.

Can you give the committee a summary of the causes of these cost pressures and why the basics are going up so much, not just the high power, high performance weapons systems, but the basic manning and equipping of our Armed Forces?

Mr. HALE. Well, let me take a shot at that. And I will separate the two accounts because they are quite different. The military personnel growth, especially in the last 10 years or so, reflects part of what you just mentioned, a growth in numbers of personnel, particularly in the Army and the Marine Corps. We have also added recruiting and retention bonuses to maintain an all-volunteer force in the midst of fighting 2 wars. And the employment—we base pay raises on the employment cost index, which often typically exceeds the rate of inflation.

If we look toward the future in terms of military personnel, I agree we need to shine a spotlight on what is going on. The costs are up sharply. We also need to recognize that we have got to pay these men and women who are serving our country so well. I don't have an easy set of answers, but I can tell you I am mindful of the cost growth and concerned about it.

Maybe I can be a bit more helpful in the operation and maintenance account. I often call it the "all other" account in the Department of Defense. It is very diverse. It includes civilian pay. It includes small spare parts. It includes fuel. It includes headquarters costs, a wide variety of types of spending. So you won't be surprised to hear me say that there is not one cause of why O&M has gone up. And you are right, even adjusted crudely for force structure it has been going up for the last decade, several decades.

Part of it is aging weapons that push up all of our maintenance costs and our overall operating costs. We have done a fair amount of outsourcing in the last 10 years, and some of the costs of contractor personnel have been more than what we were paying for federal workers. Health care costs have been an important cause of growth in O&M. As with every company, I think, in the United States, the Department of Defense has seen health care costs rise significantly faster than the rate of inflation.

As we look toward the future of O&M, I think there are several initiatives suggested by my words. We need to look at health care costs. It is a tough one, but hopefully the overall plans of the administration for health care reform will help slow the growth in costs and we would benefit from that, and we may also need to look at other factors like cost sharing among our retirees and other factors that influence health care cost growth.

And we also need to look carefully at how many contractors we are using and whether there are cost effective ways that we could bring back in house some more contractor personnel.

All of those factors are being considered in the budget review. No decisions have been made, as I indicated in my statement, but there are factors we are going to have to look at in this budget review and in future ones.

Chairman SPRATT. Weapons systems have been notorious at the Department of Defense for attaining cost, schedule and performance requirements. This administration has indicated that it is going to make sweeping reform of our procurement system—our R&D, as well as procurement system.

Could you give us some idea of what the administration has in mind for procurement reform? I know that you are only recent on the job and this has only begun to be putting this together. But in broad outlines, what do you have in mind with respect to procurement reform?

Mr. HALE. Let me try to answer that. I add here that we have only been recently on the job. It is not my primary area of responsibility. But I think if you are going to get at cost growth in weapons, you need to go back to the early parts of a weapon's life, because once it gets certainly into production you have determined most of the costs. And early in that weapon's life, you need to make those hard cost and performance tradeoffs. And they are difficult to do because I think we are looking to ensure against future conflicts and we are often looking at a weapon system that will be in the inventory for 20 or 30 years. So you are looking over a very long time. But I think those are key, cost and performance tradeoffs and schedule, but particularly cost and performance. As we get further into a weapon's life—and here I would have more control as the Comptroller, we need to try to achieve stability in the production rates. Again, hard to do. Budgets change and force structure changes only slowly. So we historically have looked to the investment accounts to accommodate budget changes. But we need to do that in a way that doesn't adversely affect economic order quantities.

I know that is not a definite answer and the administration doesn't have a definite plan yet. We are hoping, perhaps even today, to see the formal nomination of our Under Secretary for Acquisition, Technology and Logistics, Mr. Carter. Once he is confirmed, I think that will be one of his high priorities, working with other senior leaders.

Chairman SPRATT. Does PA&E report to you?

Mr. HALE. No.

Chairman SPRATT. In the past, was that not the case?

Mr. HALE. It has been that way and it has not. It depends on when you look. In the 1990s, they did report to the Comptroller. That was changed in the early part of the previous administration and now our Director reports to the Secretary, but we work very closely together. We worked hand in hand during the ongoing budget review, meet quite regularly. So I think there is good coordination.

Chairman SPRATT. Mr. Hale, thank you very much, good luck to you and we look forward to working with you. Mr. Ryan.

Mr. RYAN. Thank you, Chairman.

Mr. Hale, let me ask you about your 2009 supplemental request. Number one, when do you expect to send it to the Hill? And will it have funds to send an additional 17,000 troops to Afghanistan? And how much is going to be included for that purpose, if so?

Mr. HALE. I hope it gets to the Hill next week. We are working closely with the Office of Management and Budget—I called them this morning and I don't have a firm timetable, but I certainly hope it does. And as I said in my statement, we hope that the Congress will be able to enact it by Memorial Day. The fiscal year 2009 supplemental will include funds to cover the President's announced changes in both Iraq and Afghanistan, to include those extra troops.

I can't give you offhand an indication of the dollar figure associated with the 17,000. If I could provide that for the record.

Mr. RYAN. Okay. Firewalls, we used to have them; we don't now. If Congress does not fully fund your fiscal year 2010 request for the war—and I do want to compliment the administration for putting the funding of the war into the budget. That is something that we think is good budgeting. And the baseline is another issue. But that is something that we in our substitute budgets the last few years did. So we are pleased to see that. But here is my question. If we are putting this in the budget and Congress uses that money to fund other needs, other domestic programs, will you then give us another supplemental on top of it?

Mr. HALE. Well, Mr. Ryan, first, we are trying to discipline ourselves and it is hard at times. We hope that Congress will follow suit and appropriate these funds.

Mr. RYAN. I wanted to——

Mr. HALE. The Secretary has said, I certainly agree, that our highest priority is to provide our troops in the field everything they need to succeed, including resources. So if we need funds that we don't have to support them, yes, we will come back and ask for those. I hope we don't have to. Our goal is to avoid that.

Mr. RYAN. That is our concern here on this side of the aisle, because we do not have firewalls; that if we just pass a budget resolution that includes theoretically the 2010 war spending, that money gets plowed into something else, then we are really not budgeting for the war. You are going to end up giving us a supplemental. So that is something we are going to be very mindful of as the year continues.

Last March, your Inspector General reported that Congress included 2,656 earmarks in the 2007 DOD appropriations act conference report totaling $12 billion. The Comptroller of the Air Force stated in response to that report, "when higher priority requirements are cut from the President's budget to source earmarks, the primary goals and missions of the DOD are not being optimally resourced." The results are, in some cases, a force less capable than the one submitted by the President. Both parties do this. I am not suggesting that one party has cornered the market on virtue on this.

But my question is, do you agree with this assessment of earmarks and how do you think they affect the Department's ability to perform its primary mission?

Mr. HALE. Well, I am going to copy the words of the President on this, although you are speaking in connection with a nondefense omnibus bill that recently passed, that there were too many earmarks and he wants fewer and is looking toward a statement of principles on earmarks. By the same token, I am mindful of the prerogatives of the Congress, constitutional prerogatives of the Congress, to appropriate money. So I think I would like to leave it at that in terms of we will certainly follow the direction of the President with regard to his statement of principles and we will keep in mind Article I, Section 8 of the Constitution with regards to the prerogatives of the Congress.

Mr. RYAN. A fair point. I wish we could get to some kind of rating system so we could judge these things on their merits based upon the needs of DOD.

Last question. We have talked about shovel ready projects pretty much all year long. And the stimulus bill, the whole notion of that was to shovel ready project spending out the door. This didn't occur with DOD. Are there shovel ready projects that the Department has identified that keep production lines open and preserve domestic jobs in your estimation? And if so, give us a sense of how much and what kind.

Mr. HALE. Well, of that $7.4 billion, about $4 billion of it was for facility sustainment, restoration and modernization, And there we will come closest to shovel ready projects.

Mr. RYAN. That is brick and mortar on bases?

Mr. HALE. Yes. It is fixing roofs; it is adding air conditioning systems, buildings and facilities. It still will take us a few weeks. I mean, I hope we will—we were given 60 days after signing the bill to get the sustainment facilities—sustainment, restoration and modernization up here. I think we will beat that. We have identified most of the projects now and a number of them will get started in the April time frame, May. Military construction takes longer because we have got to plan it and we don't want to do it without. After all transparency and accountability was one of the goals here, too.

Mr. RYAN. What about outside the MILCON purview?

Mr. HALE. Well, there were several categories of spending. The two biggest ones by far, facilities sustainment restoration and modernization, and MILCON.

Mr. RYAN. I am not asking what was in the stimulus. I am saying are there others——

Mr. HALE. Yes, there are. There was some money for housing assistance, essentially allowing us to pay troops and in some cases civilians if they lose money because of a move they had to make. That one we are working on. Regulations. And I can't give you a firm date. And there was alternative energy.

Mr. RYAN. So there is none outside of the stimulus package that—is that what you are saying? There are no shovel ready projects——

Mr. HALE. Well, in our fiscal year 2009 budget, we are going forward with a variety of projects there. I mean, certainly some of our investment programs and many of our sustainment projects are shovel ready. They were planned before. But they are ongoing now.

I mean, we are bending metal and hiring people as I speak. I don't know if I answered your question.

Mr. RYAN. Not really. It is okay.

Mr. HALE. Well, I tried.

Mr. RYAN. Yeah, I am not trying to be combative here. I guess the question is, some of us believe because this is the primary responsibility of the Federal Government and if we are going to go down the path of sort of a Keynesian stimulus with shovel ready projects, are there some opportunities that were missed such as in the area of procurement, areas that we need to procure anyway, that we didn't, that we could have? That is the question.

Mr. HALE. You know, in general, procurement, if it is new, if it is starting from today or when that bill was signed, isn't going to be shovel ready. There may be some small ones. I will go back to my statement. The way we can help quickly—and I think Congress gave us money to do it and we are trying to do it—are these facilities, repair and maintenance kinds of project. Those, I think, are our best shot and we are pushing as fast as we can, consistent with doing a good job and making sure that we get benefit for the taxpayer out of these dollars.

Mr. RYAN. All right. Thank you.

Chairman SPRATT. Mr. Doggett.

Mr. DOGGETT. Thank you. And thank you very much for your testimony. I know you are very new to the Pentagon. And I think your comment just now, that the Pentagon is trying to discipline itself under new leadership is a very new approach at the Pentagon, one that is long overdue.

We have had a shovel ready approach to the Pentagon in the past from Congress. We shoveled out hundreds of billions of dollars as quickly as President Bush asked for it time and time again. When his Office of Management and Budget initially did a ratings system on fiscal management at Federal agencies, the Pentagon got an F. It kept getting an F until they stopped rating it. And I don't think that the taxpayers have been getting their money's worth.

I am also encouraged that while not brand new to the Pentagon, Secretary Gates has been telling all who would listen that American taxpayers cannot continue to pay for an unlimited Pentagon budget just because Members of Congress are fearful that they will be attacked as weak on security if they don't approve every mismanaged dollar that goes there. And I hope that despite the many political pressures that come from the Congress and the lobbying teams for every major weapons system that are usually larger than the number of Members in Congress, that he and you will stick to that approach of making the tough decisions and seeing whether some of these Cold War weapon systems really serve any purpose in assuring our national security.

And I applaud you in the tough job that you have ahead. But you will find at least a few allies here in Congress who want to apply the same fiscal standards to the Pentagon that apply to the rest of the government and have not applied there in the past.

I want to ask you about one specific project. And again, I am not asking you for your policy advice because I have strong feelings about this, but on the dollars. And that is the question of missile defense. As it relates to other major weapons systems, how does

the missile defense money compare to other major weapons systems going forward there?

Mr. HALE. Do you mean looking forward to our future plans or——

Mr. DOGGETT. I am not asking you what those future plans might be. Let us just look at this past year about how does the missile defense——

Mr. HALE. I think around $9 billion, if my memory serves me right——

Mr. DOGGETT. How does it compare with other major——

Mr. HALE. Missile Defense Agency. A substantial amount of funding. And of course it incorporates a wide variety of projects, as you are well aware.

Mr. DOGGETT. It is one of the largest weapon systems programs there is.

Mr. HALE. I can tell you that it, along with all other major weapons, but certainly missile defense, is being looked at carefully with regard to whether we want to make some of those difficult choices in that area.

Mr. DOGGETT. And I understand you are not here to say what the result would be. I will tell you my feeling is that missile defense has relied much more heavily in the last 8 years on ideology than on science. And it has, as the General Accountability Office report of this Monday pointed out in more diplomatic and delicate terms, often taken the approach of "build it and it will work". An unusual approach, but one that GAO I think documented again, as so many others have this week, that this is happening. But the amount of fiscal mismanagement in that program that is documented there is the type of thing that taxpayers don't get to see. It is not only money that is poorly spent, but just reading from the report that came out on Monday and asking you for your reaction, an indication that the Missile Defense Agency has not yet established baselines for total cost or unit costs. For the sixth year, the GAO has not been able to assess Missile Defense Agency's actual cost against a baseline. But what they were able to calculate was a 2 to $3 billion cost overrun. And in one case, the cost increased by approximately five times the original value. At the same time, they note overall testing achieved less than was planned. And they criticized the fact of what I call the "build it and it will work" approach.

How do you tackle something that has had so much money poured on it, so many years of mismanagement, which appears to be continuing right through this week? I know you will be assessing whether this is a—or Secretary Gates and others at the Pentagon—whether there is a wise use of any taxpayer dollars. But how do you assure, if we are going to pour so much money into it, that those dollars are being spent more effectively than they are being spent?

Mr. HALE. That is a good question and a hard one. I think that the basic notion of instilling discipline in the Pentagon needs to extend to MDA. We need baselines. That is a standard way of assessing how well we are doing both in terms of cost and schedule.

I have looked at the GAO report. I understand we haven't done as well as we should have there. That is a first step. I think there

also needs to be a review of each of the many programs that are embedded under that overall rubric of missile defense, to decide whether—the priority they should have. Let me put it that way. And there may be—the Secretary has said that he is going to be willing, if he thinks it is the right thing to do, to terminate some programs. There is areas, missile defense and others, where it may be appropriate to consider just that.

I think that both the process, establishing baselines, and a careful review is a good first step toward meeting your goal, and it is ours, to having a more disciplined program.

Mr. DOGGETT. Thank you.

Chairman SPRATT. Mr. Aderholt.

Mr. ADERHOLT. Thank you, Mr. Chairman. Thank you for being here today, and I appreciate your testimony before the committee.

Just to follow up a little bit from my colleague from Texas—and I think he makes some good points about baseline and careful consideration of the budget of MDA. Of course the President's budget did state that the military must vigilantly anticipate and meet threats from asymmetrical and nonconventional attacks. And certainly, as you know, the current MDA Director, General O'Reilly, has followed up on a lot of the great work that General Obering did by revamping the testing process to meet these current needs. And certainly baseline and careful study is needed. But I know we will not see the final budget number until April 20th. But as you know, the rumors are out there that the Missile Defense Agency could be cut by $12 to $10 billion. And looking at the budget outline from the administration overall, there is not a lot across-the-board cuts of 15 percent or more like we are seeing here. And, of course, I think to many Americans, the developments in Iran and North Korea indicate that there is very much a large concern and it may not be the time to cut back on missile defense. We need both protection as a protection that is a deterrent.

I know the final numbers are not out and you alluded to this a little bit ago, but just if you could talk a little bit about if there is any truth to the rumor that those type of major cuts will be implemented in what the DOD is looking at?

Mr. HALE. Let me repeat Secretary Gates' words, that anything you read right now about specific cuts is wrong because he hasn't made the decisions. I think that is honestly true. He is certainly in the midst of the review, but I don't believe he has made any final decisions, including those on missile defense.

And I think the previous question and yours capture the difficulty in defense. It is an insurance policy. It is weighing risks against costs. There is no simple formula. But I can assure you these same sort of arguments, although in a good deal more detail, are played out as the assessments are made of all of these programs, including MDA. And when you see the budget, then we will be able to go through the specifics and indicate the decisions the Secretary and the President have made on programs like this. I am sorry I can't be more helpful—I can be. I am being quite difficult. I can't be more definite. But as I said earlier, I think if I were to give you details, I could just go straight on home because I wouldn't be very welcome back in the Pentagon. And he is anxious,

the Secretary, that it be packaged together, he be able to see it and announce it as a package when the budget goes forward.

Mr. ADERHOLT. Thank you, Mr. Chairman. That is all I have.

Chairman SPRATT. Mr. Blumenauer.

Mr. BLUMENAUER. Thank you. Thank you, Mr. Chairman.

Mr. Hale, I don't envy you your job. You are inheriting a military that is strained. You have a broken acquisition system. You mentioned a moment ago the problems with outsourcing. We have a huge number of private contractors, which actually outnumber our soldiers in Iraq and have, I think, since the outset. But notwithstanding all of these moving pieces, we appreciate the direction that is being undertaken and the candor with which you and the administration have outlined some of the challenges in trying to have a more honest budgeting.

I have two specific areas that I would like to explore that may not be the most important, but I would like for the record for you to go back and provide for the committee some information about the cost, the extraordinary cost of outsourcing, so much of that military tail that you referenced, that not only is more expensive on a per person basis than our own soldiers or civilian personnel, but because it hasn't, we are finding out, been adequately supervised, they didn't have the oversight built up to be able to administer the contracts, we find that performance has been shoddy far too often. And if you could help us detail some of that so we understand the challenges that are being faced in terms of the extra cost and the problems associated with it, I would deeply appreciate it.

My two questions refer in part to the hard work that Chairman Edwards, who has had the MILCON Subcommittee and working with the quality of life of our troops—one of the areas that I have been deeply concerned with for years is the situation with unexploded ordnance, military toxins that are all across the country, thousands of locations, every State in the Union. And Congress and I think the Pentagon has not put a priority on cleaning up after itself. It is not just that it has resulted in the death of civilians over the years. Toxic cleanups, even up at American University—I think we are on the third round of cleanup from the chemical weapons testing and manufacturing that we had during World War I. For a while they had to close down the child care center there. But this is something that goes across the country, and it rears its head when we are talking about closing out military bases. I think the people in Sacramento are going to wait until 2077 to clean up after a base that was closed in the first round of base closings. I mean, this is outrageous. And it is one of the reasons why I think you are getting resistance to people who—because you need a larger training footprint and people are saying no, you are not a good neighbor, you leave shells out there that explode when we have got wildfires. We have subdivisions that won't actually have fire protection because people won't come because of the danger of unexploded ordnance.

And I will get to a question here in a moment. But I want to set the stage, because this has serious consequences for military readiness. And if you would put a priority on technology that can accelerate the cleanup, not only will it make money for the Pentagon over the years, because ultimately you are going to be responsible

for cleaning up, but it will develop technology that will save our troops in the field from improvised explosive devices, for instance.

Now, can you help me understand how we work with you to get an appropriate priority attached so that we protect our troops, we develop the technology, we save money, and the military is a better neighbor with these thousands of locations that pose risks to the environment and to their neighbors?

Mr. HALE. Well, I admire your passion and I understand your point. I mean, we have an obligation to clean up things we did maybe inadvertently, but we did them or DOD did in the past. There is an environmental restoration budget and I clearly sense you think it is too low. It competes with all others in the Department of Defense. But it is, as I recall, substantial. And I would urge that we work with you to be sure that it meets as well as we can the needs that you suggest.

Mr. BLUMENAUER. Well, I invite your review to see if you think it is substantial. In terms of the amount of money that has been allocated over the years, the magnitude of the problem, most of it bubbles up when you have got a problem with the Massachusetts Military Reservation there in Martha's Vineyard where you have got a trophy problem that is going to infect the water supply and then you rush and spend hundreds of millions of dollars or the third time when there is a problem at American University that any member of this committee could ride to in 30 minutes and then we rush tens of millions of dollars. But having a systematic, sustained effort at cleanup, I think you will find that it is a pittance compared to the potential liability and what is happening to long-term costs that are going up and the benefit of returning this land to public use in the future. And last but not least, why people don't want to give you more land to train on because you didn't clean up after yourself last time, it is posing serious problems.

I will stop.

Mr. HALE. May I go back—I take your point. May I go back to the preamble to your question and then we have heard it several times today. Yes, we need better discipline in the Department of Defense and we are working to instill that. However, I do want to say, I think we have got a great group of people and generally they are well-equipped and they are working hard, both on the uniform and the civilian side. I have great respect for them. Some of them are with me here today. So I don't want to leave any sense that I don't respect what the Department has done and what its people are doing. Yes, more discipline, but the troops are doing a great job and the civilians who are supporting them.

Mr. BLUMENAUER. And I started by saying Congress hadn't done its job giving the resources.

Chairman SPRATT. Mr. Harper.

Mr. HARPER. Thank you, Mr. Chairman. Mr. Hale, thank you. I have the great privilege—my father was a gunner on a B-17 in the latter part of World War II and a brother was a B-52 pilot. A concern I have is we have got a lot of these young pilots flying planes older than their daddies. And I understand that we are going to delay the procurement of airborne tankers for another 5 years perhaps and cancel future bomber programs.

Is that what you are anticipating to happen in this unwritten budget?

Mr. HALE. Well, as I said before—and I apologize for being difficult—but anything you read in here is wrong because those decisions have not been made. Those programs, the tanker and the bomber, are certainly being looked at. But decisions have not been made, notwithstanding, as I said, what you may have read.

Mr. HARPER. It is my understanding that the President indeed said that he had plans to cancel the future bomber program. Am I incorrect on that?

Mr. HALE. I am not aware of that statement.

Mr. HARPER. All right.

Mr. HALE. I am not.

Mr. HARPER. Then I hope I am wrong on that.

I know we have had some discussion on missile defense, and it is my understanding there have been statements by the administration on looking at those systems and at those programs.

Do you consider any of the missile defense systems that have been in place to have been successful and ones that you say are off the table as far as cuts or scaling back?

Mr. HALE. Well, I don't think anything is off the table, but they are certainly having some testing success, perhaps not as much as they would like. These things are hard to develop. So, absolutely, there have been some successes. But I will stick with my mantra, that nothing is off the table in this review in missile defense or other areas, but no final decisions have been made.

Mr. HARPER. Well, we have had some successes obviously with these systems, and it would seem to me at a time when we are seeing around the world potential threats from other countries, some friendly, some not so friendly, that this would be a system that needs to be not only continued but looking at the best technology we can to protect not only our allies, but our own country. And, you know, I know we break that down into different segments. But is this something that you are saying nothing is decided at this point?

Mr. HALE. That is correct.

Mr. HARPER. No other questions.

Chairman SPRATT. Mr. Scott of Virginia.

Mr. SCOTT. Thank you, Mr. Chairman. Mr. Hale, good morning.

Mr. HALE. Good morning.

Mr. SCOTT. I have many ship repair yards in my district, all of whom have suggested to me that the Department of Defense has already appropriated money for ship repair. But they haven't awarded the contracts for that work in a timely basis and in fact have been holding back. We recently passed a stimulus bill to try to create and save jobs. These jobs are being lost. People are being laid off because the work hasn't been assigned. This is work that has to be done.

And so my question is, what does Congress need to do to make sure that these contracts are awarded as soon as possible?

Mr. HALE. Well, the Navy manages the shipbuilding repair, as you are well aware, Mr. Scott. I will certainly take it for the record to check. I think they phase the obligations over time depending on their requirement and the availability of the ships. I am not aware of any across-the-board delays in Navy ship repair work. But I will

be glad to respond for the record and ask and respond for the record.

Mr. SCOTT. Thank you very much. A relatively few years ago, we were talking about a 60-ship Navy. Today we are down to 283, and the rumors are that it is not going to get much better. What are the plans of this administration in terms of ship repair and ship construction?

Mr. HALE. Well, again, I can't give you any specifics. I think we are mindful of the need for a Navy both with some blue water and littoral capability. And it will be the size of the Navy and how it is used, a major issue I think in the Quadrennial Defense Review that is just getting underway now. I think you will see this administration support a substantial Navy, but I can't tell you exactly the size.

Mr. SCOTT. And that will be part—that report will be part of the quadrennial review?

Mr. HALE. It will be considered as part of the overall force structure, not just the Navy, but all aspects of the military is an important part of the so-called QDR. I believe the report is due to the Congress—I think it is due formally next January or February. So the review is just getting underway now.

Mr. SCOTT. Private contractors have had their ups and downs over in Iraq. Can you tell me what your views are on the relative cost, oversight, and effectiveness of doing what are essentially military functions with private contractors?

Mr. HALE. Well, first, I don't want to damn contractors with a broad brush. They serve us well and we could not run the Department of Defense without them, and I think in a number of cases they provide——

Mr. SCOTT. When I was in the National Guard a long time ago, we didn't have that many contractors. But when you talked about contractors, people were thinking along the lines of getting troops out of doing KP and that was about it. What is happening now is these are essential military functions being performed, and that seems to be quite a different thing, particularly in terms of oversight, if not cost and effectiveness.

Mr. HALE. I understand that. And I think you have done a good job of anticipating my answer, which is there are some areas where we need to continue to rely on contractors, especially to perform some administrative kinds of functions, perhaps are quite cost effective. We also need to look to be sure they are not doing inherently governmental functions and that it is cost effective, and I think there are probably some areas where the answer is we need to move away from contracting out that and some more in-sourcing.

But once again, the degree of that or even the amount of it is although it is part of this review—I feel like a stuck record here—but decisions have not been made. So I am not going to be in a position to say here is what we are going to do.

Mr. SCOTT. Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Diaz-Balart.

Mr. DIAZ-BALART. Thank you, Mr. Chairman. And thank you for being here, sir. And I am sure you would agree that you have inherited, even though maybe partially strained, the strongest and most effective military force ever that not only does a fine job in

waging war, but also on humanitarian areas, whether it is domestically like Katrina or internationally, and I am sure that is something that you are very proud of.

Mr. HALE. I am. I hope I said that clearly, but I would like to take the chance to repeat it.

Mr. DIAZ-BALART. Absolutely. I just want to make sure that is not misunderstood.

It is obvious that some rogue nations are trying and continuing to develop better missile technology, whether it is North Korea, whether it is Iran. I think all of us are concerned about what seems to be a more aggressive attitude by Communist China. We saw the recent incident. It is not the first and it probably will not be the last. And even though today we heard that historically those that support missile defense have done it for ideological grounds, I would further state that probably the opposite may be said, which is even before it was in its infancy with research there were many that for ideological grounds said it could never work and it would never work and that it was impossible, whatever. Obviously that has been proven to be wrong.

My question is this, though. Obviously you mentioned that decisions have to be made still and you are reviewing that, which is the way it has to be done. I am a little concerned, though, because we all read about the letter that the President sent to the Russians where there is clear reference to missile defense, and clearly many interpreted it as a first step of saying we are willing to negotiate that away if certain things were done which obviously a lot of us felt was a rather interesting way to start negotiations, when you tip your hand at the starting point. But that is not why I bring it up. The reason I bring it up is that—and obviously by the way, some of our allies were rather shocked. Some of our strongest allies, whether it is the Czechs or the Poles, by the reference to the letter.

My question is this. Where are we in the deployment of that system with the Czechs and the Poles? Is it in your budget? Is there more money to deploy it, to further deploy it or are you looking at phasing that part out?

Mr. HALE. I can tell you that issue is under intense review and we have a Secretary who is quite knowledgeable about the systems, but also very knowledgeable about the politics and history. What I can't tell you is his decisions because I don't believe he has made them. And again, I feel somewhat apologetic to keep repeating this statement. But it is true and he has not made them. And I would not take—I think that is just the case. They will be made and released in that case along with the rest of the budget decisions.

Mr. DIAZ-BALART. And I for one think that—I understand your answer. I think it is a legitimate answer. Obviously there has to be a review process, but you do not disagree with me that there are rogue nations that are continuing to develop their missile capabilities, correct?

Mr. HALE. That is the case.

Mr. DIAZ-BALART. All right. Thank you very much. I appreciate your service. Thank you, sir.

Chairman SPRATT. Mr. Schrader.

Mr. SCHRADER. Thank you, Mr. Chairman. While I understand you are not able to be very specific for obvious reasons, but I would assume that with less than a month to go with the budget and the specifics to be coming out, that we would have some methodologies in place already by which you are evaluating various programs that have been discussed here.

With regard to private contracting for various systems, whether they be missile defense or weapons procurement, what are the criteria that are being considered by the Secretary and yourself by which you judge some of the effectiveness and should we get involved in these particular systems? And in particular I would like you to comment on—especially with regard to private contracting, whether or not we could just put the onus of additional cost overruns on the private company themselves to foot that tab. Of course we would have to exert some discipline with our own military establishment and Congress in terms of add-ons to make that real.

Mr. HALE. Well, to your last question, firm fixed price contracts at least tend to do that. And as the President has said, we want to move more in the direction of that kind of contracting. It does put the onus on the private contractor. And you put it well. We have to then discipline ourselves and they will probably insist that we discipline ourselves not to do add-ons or there will be additions required to the contract.

So I think you will see us move more towards fixed price away from cost-plus kinds of contracting.

I think your earlier question regarded criteria for, say, the in-sourcing/outsourcing kinds of decisions. Did I understand it correctly.

Mr. SCHRADER. Yes.

Mr. HALE. I mean, first off I think the first criterion has to be the inherently governmental one. It is not always black and white. Sometimes it is clear. Sometimes there are gray areas, but it is one that we need to look at. If it is an inherently governmental function, then the law requires that we do it with Federal employees. If it is not, then I think it is a cost and performance issue.

In some cases, contractors will be more expensive. I think particularly if you are more or less saying I am going to replace 10 civil servants with 10 contractors doing similar things, they will tend to be more expensive. In other cases, a contractor will have often more flexibility than the government can have to move quickly to perhaps harness labor saving technology. And if they are doing a function for us, they may be able to do it for less cost. But the criteria, first inherently governmental and then a cost and performance assessment. And it has to be done at a fairly detailed level. We will consider some options, some policy, I guess, about the direction of change with regard to in-sourcing/outsourcing. The details are going to have to be done contract by contract, function by function.

Mr. SCHRADER. Thank you. And I hope you make that clear as you bring differences forward.

The last question is regarding our involvement in Afghanistan. I have some concerns about what our strategy is or is not there. There has never been a nation yet that has ever been able to win a land war in that particular country. The Russians, albeit not as

great as our military obviously, tried most recently and failed. So is the administration considering a different approach to warfare given the 21st century where we are more doing a war on terror rather than fighting World War II type of conflicts, and being more surgical in our deployment of our great men and women that defend this country and defend us against terrorism around the world? Is there a new strategy here, a new thought process about how to train our troops and use them more effectively.

Mr. HALE. I think I am probably not the best person to answer that question. In general, I think the answer is yes. The Pentagon is always engaged in, certainly in Afghanistan, thinking how we best counter, and they are well aware of the history and, as you suggest, the daunting challenge that we face. I am not going to be the right guy to tell you whether there is a new strategy in Afghanistan. I guess I would invite, you can either try that one for the record, or even better, perhaps, if you are interested, get you together with some of our policy folks.

Mr. SCHRADER. Thank you.

Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. Schrader.

Mr. Larsen is not here.

Ms. Tsongas.

Mr. Etheridge.

Mr. Edwards of Texas.

Mr. EDWARDS. Thank you, Mr. Chairman.

Secretary Hale, thank you for your present service to our troops and their families and for your distinguished past service as well. It is great to have you here today. I would like to address briefly the issue of earmarks which came up.

For the record, as a Democrat, I am proud that after 12 years of a Republican majority in the U.S. House, when Democrats took control of the House 2 years ago, we, one, dropped the total number of earmarks dramatically; two, provided more transparency for those earmarks so the public and press can be involved in the necessary oversight to be sure we weed out the earmarks that don't belong in a new bill.

But when it comes to the Department of Defense, I would like to make the observation that a lot of members of the press and the public assume all DOD earmarks coming from Congress are somehow frivolous and unneeded. Let me say that the Predator, the very effective Unmanned Aerial Vehicle that is saving lives and helping our troops in Iraq and Afghanistan and carry out their mission today as we speak from the comfort and safety of this room, was a congressional earmark.

Let me say that the MRAPs program, that has saved a dramatic number of lives by deflecting the power of IEDs in Iraq and Afghanistan, was either a congressional earmark or a program that was strongly pushed by Congress at a time it was really getting nowhere.

Let me say, as chairman of the Military Construction Committee, the modernization of our DOD hospital system was shamefully ignored for many, many years through Democratic and Republican administrations. That new modernization program is now moving forward because of congressional earmarks.

Some have even made fun of our subcommittee's earmarks for daycare centers for the Department of Defense. Let me say for the record, it is no laughing matter to troops from Fort Hood near my district in Texas who are on their third or fourth tour of duty in Iraq and have small children back home and a spouse working. It is no laughing matter to have quality affordable safe daycare centers so they can focus on their mission in Iraq and Afghanistan and then come home safely.

What I would like to ask you, Mr. Hale, based on your past experience on Defense budget issues, is it a fact that OMB doesn't always approve the level of funding requests, whether it is coming from the Air Force, the Army, the Navy, the Marines or from the Department of Defense in general.

Mr. HALE. There is a negotiation, Mr. Edwards, as you know, with OMB and the President. I mean, they are representing the President as to the right level. I think the Department's voice is heard strongly in that debate, but that is my impression——

Mr. EDWARDS. I understand.

Mr. HALE. By and large, the Department, if it can make a reasonable case that the needs are based on national security, will get the funding, but yes, there is a debate.

Mr. EDWARDS. The answer is, yes, there is a debate. What that means in lay terms, and I respect the carefulness of your answer, what that means in lay terms is, sometimes your military base commander, sometimes your Secretary of the Army, your Chief of Staff of the Army, Chief of Naval Operations, asks for a priority program, and some bureaucrat at OMB says no. That bureaucrat might be knowledgeable; that person might not have ever served our Nation in the military.

So many congressional earmarks, Mr. Chairman, coming from Congress are actually Defense requests made from our commanders in theater or our base commanders whose requests were turned down by OMB, sometimes for good reasons, sometimes for bad reasons. So I just want to set the record straight when reporters write that because it was a congressional earmark, this was a project or program the Department of Defense didn't ask for; it is simply not a correct observation to make.

Let me ask you, finally, with a little less than a minute that we have, since I do oversee Military Construction, we have seen inflation costs go up dramatically during the BRAC process over the last few years. It was not the fault of the Bush administration or the Pentagon, but it certainly has impacted our construction costs. Are we starting to see those costs come down?

Mr. HALE. We certainly hope so. We are planning on significantly lower levels of inflation. I think, with the economy in the situation it is in, that is a reasonable projection. Those two are based on indices that OMB puts together, but I think are consistent with what we are seeing. It is at least a slowdown, a significant slowdown in the rate of growth.

Mr. EDWARDS. And I will conclude, Mr. Chairman, by saying that, given that slowdown in construction and in some parts of the country, reductions in the natural cost of construction, this might be a good time to make the investments in modernizing our DOD hospital system, improving our barracks, and other construction

needs that could create jobs for Americans, but most importantly take care of our troops and our families.

Thank you, Mr. Secretary, for your service.

Chairman SPRATT. Mrs. Lummis.

Mrs. LUMMIS. Thank you very much Mr. Chairman.

Mr. Under Secretary, thank you for being here. Could you tell me, are there any planned reductions in our nuclear arsenal that are going to be reflected in the President's budget when we receive more detail? We see all these news reports. I am curious about your response.

Mr. HALE. Well, I am afraid it is going to be the same response that I have given before, which is, any detailed decisions haven't been made and won't be announced until we actually send the budget probably in late April. Again, I apologize for not being able to be more helpful, but it is the nature of the time.

Mrs. LUMMIS. Thanks.

I would like to say, of course, with the emergence of the nuclear wild cards like Iran and North Korea, I hope any modifications to our nuclear force structure will go through a thorough assessment by your Department and others. How will that process occur?

Mr. HALE. Well, I can answer that in general terms. The services all have, and I was head of it or deeply involved in it for a number of years in the Air Force, an extensive review process that starts with their commands, and both analytic work and military judgment is applied. That funnels up through major commands and eventually the Pentagon, at each point being assessed both based upon the analytic results and also based on the judgments of commanders.

So, at the Pentagon, at the level I am at, we are down to usually a fairly small set of large issues that have been fairly well vetted. And the pros and cons are well known. That doesn't mean the decisions are easy, because usually, at that point, there is a fair amount of, it is the risk-cost tradeoff; it is always hard in Defense. So it is kind of an academic answer, but it is the way it works. A series of both analytic and judgmental decisions are made at various levels.

Mrs. LUMMIS. Well, Mr. Chairman, a number of us are concerned about the nuclear potential of Iran, and its low-grade capabilities seem to be there now. And the concern about a low-grade nuclear weapon being deployed into the atmosphere that could interfere with the transmission of electricity and disrupting to the point of bringing nations to their knees, we believe, is a real threat.

And so I want to stress the importance, I believe, in the Iran and North Korean issues, and I appreciate your indulgence of that comment.

Now I would like to switch over to let you know that my home Air Force base, FE Warren Air Force Base in Cheyenne, Wyoming, is almost self-sustainable with the wind energy development. And the wind turbines there at FE Warren are providing the lion's share of the power there now. And with the addition of some additional turbines, it will be a base that becomes energy efficient. Of course, there are redundant sources, and so when the wind is not blowing in Cheyenne, which I can assure you happens occasionally, the base load will be there to serve the base. But we are proud of

FE Warren's efforts in becoming energy sustainable and doing it in a renewable fashion. Do you know how many other shovel-ready type projects of that kind are out there?

Mr. HALE. I don't have a number. I can tell you that there are, on the current response that I think will be up here in a few days for the stimulus bill, there are hundreds of projects that we think, at least dozens of projects, that we can probably get on contract within a month or two. So if that is the definition of shovel ready, I think that we will be able to succeed with the number of—and again, these are the Facilities Sustainment, Restoration, and Modernization kinds of projects where we can move quickly.

Mrs. LUMMIS. And Mr. Chairman, I would like to also acknowledge and applaud military efforts to work with clean coal technologies. It is important to stretch our coal resources so they don't become a stranded asset. And the efforts that the military has made towards clean coal technologies are appreciated, are important and I hope will be part of the budget we see.

Mr. Chairman, thank you kindly. Under Secretary, thank you kindly for being here.

I yield back the remainder of my time.

Chairman SPRATT. Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Under Secretary Hale, thank you, and thank you for being with us today. I, like some of my colleagues who have already spoken, I want to return to one of them, have some concerns about the readiness of our Army as well as our other services.

I have the privilege of, in my district, having Fort Bragg and Polk Air Force Base. And as you well know, all those threats that we talk about to America and Americans really don't come from Iran and Iraq or Afghanistan, I should say, from Iraq and Afghanistan. Because our military men have been stretched pretty thin. And I see that every time I talk with people from Fort Bragg, because we talk of the long engagements and the multiple deployments that we have had and others are headed back either to Iraq or Afghanistan. And our military families have really shouldered that burden for generations but in the last several years in a disproportionate way.

And so I know that the 2010 budget details are not available at this time. So I respect that. But I guess my question to you is, if you have a ballpark on how much of the funding would be devoted to, number one, rebuilding here at home, because we do have to do some backfilling on a lot of equipment? And how much will be devoted to supporting our military families, their health care, including mental health and counseling? That is really an issue that I have a great deal of concern about, and I think others do. And as my colleague, Chet Edwards, raised a while ago on the support for children with the issues of families because it goes beyond child care.

A lot of these bases are in communities where, depending on deployment and the level numbers, you have substantial need for education. And a lot of these counties and local units have really been stressed with the buildup or movement of folks. And they really provide the backbone, our families do, of our men and women in uniform, when they are away on missions.

And finally, if not, if you don't have the details today and you can't share them, I would really appreciate you at the appropriate time providing it to me and to the committee in writing. I think this is a core piece of the issues. I know you haven't been in the military, I understand that, probably more so today than ever with an all-military service, that for our warriors to be totally committed to the job at hand, they need to feel good about what is happening at home, and I would be interested in your comments on that.

Mr. HALE. Well, I certainly agree with you. I mean we depend on our troops obviously to defend us and our families to support those troops. And I think you will see in this budget extensive efforts to aid families with child care centers, family support initiatives, wounded warrior transition complexes, to help our troops who have been wounded in these wars, come back, and reassimilate into society.

I don't have a firm number for you, as you can imagine. I will be glad to try to provide it if the record is open long enough after the budget has been submitted. But I think, I know I can speak for the Secretary of Defense. This is a very high priority with him; it is a high priority with the administration.

Mr. ETHERIDGE. And one final point in the time left along that line. As we do that in your report when we get it, I would be very interested in the impact at certainly a number of these bases where tremendous pressure is being put on the local communities to provide the educational opportunities for these young men and women who are children of our men and women deployed or are here at home, the effort we are making on that. Because I think in the future, that is an area where we are going to have to pay a lot of attention to. We haven't done as much as we should have in the past.

Mr. HALE. I take your point.

Mr. ETHERIDGE. Thank you, Mr. Chairman. I yield back.

Chairman SPRATT. Thank you, Mr. Etheridge.

Ms. Schwartz.

Ms. SCHWARTZ. Thank you, Mr. Chairman.

And thank you, Secretary Hale.

A couple of questions. I don't think this has been addressed yet, although there has been reference to it. I want to ask about health care. And obviously, the Department of Defense provides a lot of health care for our military, both active and of course for our veterans. As I understand it, there is an effort, and if not a requirement for DOD and the VA to implement electronic medical records.

Now, we actually have done that, we have put in the recovery act a substantial sum of money, $19 billion spent over the next 2 years, under Medicare, to implement health IT. The VA has been a leader in this, electronic medical records. They have done an extraordinary job, as I understand it. And I visited a facility in my district, the Horsham Clinic, that does a great job, and of course, we have the VA Hospital in Philadelphia.

But the fact that, if you are in the active military, their records can't talk to the veterans. And as more and more of our young men and women come back from Iraq and Afghanistan serving overseas in whatever capacity and move from active service to the VA, linking those two systems can ease some of the issues for any of our

military and help provide better services. That is what we would like to see happen, ease the burden for them. I know the military is notorious at paper work, and the idea that this going to be electronic is potentially very, very helpful.

But it also could save real dollars. We expect it to happen under Medicare. And the CBO, which doesn't like to score savings, as they say has scored $10 billion in Medicare for this investment.

So two questions. I understand that this joint, this interoperability between the active military and veterans is supposed to be operational by September 30, 2009. It is not far off. What I have understood, there is an article, a GAO report in January of this year that said that there is now compatibility for pharmacy and drug allergy data for 21,000 shared patients. I assume that is a pretty small group of people we are talking about, so we have a long way to go. Could you speak to whether you are going to be able to meet that expectation of completing this work? And secondly, whether you have actually also looked at what kind of savings we might see as we proceed, and of course, DOD's medical spending has continued to grow quite a bit, and if we could actually see some savings in efficiencies and lack of duplication would be great as well, of course easing the burden of the men and women who have served our country so well. So if you could speak to both those issues, and I may have another question if we have time.

Mr. HALE. I know these issues are active, and there's active consideration. I don't have the details. I think it is quite reasonable to assume there will be some savings and, more importantly, improvements in care. Let me just ask if we have any details. I am afraid we don't. I am going to have to answer that one for the record. I apologize not having it, but I don't want to give you information that isn't right.

Ms. SCHWARTZ. Well, thank you. I wasn't sure you would have it readily available. But I would ask you could seek the answers and give us some update on where you stand on that and how we might proceed because we are—anyway, more information for the record would be very, very helpful.

Mr. HALE. I will add, there is a lot of, and at very senior levels, including Mr. Shinseki and the Secretary of Defense at Veterans Affairs, a lot of high level dialogue with the Veteran Affairs, much more frankly than I noticed 10 years ago when I was in the Department. So I think we are moving toward better cooperation, and I will try to get you the specifics.

Ms. SCHWARTZ. That would be great. And again, the VA has done a remarkable job on this and is a model for the private sector as well.

The other question I wanted to ask was about TRICARE fees. As I understand it, they are not explicitly in the budget document that we are looking at. But there have been rumors that there might be an increase, as proposed in the past, or enrollees having—military retirees having to pay some fee. We have typically been opposed to those, and I wonder if you could give us some anticipation whether we are going to see any kind of recommendation for a fee increase under TRICARE.

Mr. HALE. Well, I can't give you anything specific. I can tell you that is one of the many issues under active consideration. It was

called Sustain the Benefits. You are probably aware of it. And the administration, I think the last 2 years, has submitted it—there is a cost-sharing now, as I am sure you know—recommending an increase to essentially to bring you back to some levels that were there when TRICARE was established. We are actively looking at that now, as to what, if any, portion we will submit.

Ms. SCHWARTZ. There may be a little pushback on that, what I might suggest to you.

Mr. HALE. I fully understand. We are well aware of the concerns here. I mean, it is part of a broader issue that we need to look at as ways to hold down growth in health care costs. But I think we need to look at more than just fees for retirees. We need to look at other aspects as well.

Ms. SCHWARTZ. Thank you.

And on a very different subject, and I don't intend to do this, but this is a very local issue at the Willow Grove Navy Base that has been BRACed. There is an issue about the 111th Fighter Wing and keeping some airplanes, the A-10s. And so I sent a letter to your boss, and I would ask if you could see whether Secretary Gates would respond to me. It would be very helpful in getting an answer. It was a little bit of uncertainty, mixed messages in the BRAC documents, and we would like to protect those planes, and we would just ask for an answer. You might see him before I do, so that would be helpful. Thank you very much.

Chairman SPRATT. Ms. DeLauro.

Ms. DELAURO. Thank you very much, Mr. Chairman.

Mr. Under Secretary, these are probably two parochial interests, but they have, I think, national security ramifications to both of them. The first is about the F-22, which in my view is critical to the security of the Nation and our ability to respond to all kinds of air combat capabilities. I was in Aviano not too long ago, and the airmen there talked about their interest in the F-22. So I am not speaking about myself, but what they view as in their best interest in terms of carrying out their mission, and that if you close production on this, it will be difficult to ramp up.

I am going to try to get to the questions here quickly because I also want to ask a question about Marine One. If we deal with the cutting the production of the F-22, we will in fact lead to more job losses. That is critical. We have got—and I am just going to use my State of Connecticut. We could lose between 2,000 and 3,000 jobs if we cut production there. And to date, we funded 184 F-22s. It is below the minimum level of 381 the Air Force maintains is needed. So my questions with regard to this, will the complete fiscal year 2010 budget include a final decision on whether we are going to purchase more, perhaps continue the production of 20 aircraft a year until the Quadrennial Defense Review is completed? Will the supplemental request in 2009 include the four additional F-22 purchases as has been reported? And more generally, are the economic benefits of increasing Defense spending and dealing with the economy and jobs part of the debate in the discussion with regard to this project?

And then I am going to get to my Marine One questions.

Mr. HALE. Okay. I will try to be quick.

On fiscal year 2010, you will see a recommendation to either buy or not buy F-22s. I guess that is a tautology. But we are actively reviewing that program. The Secretary of Defense wrote a letter, I believe in December, about the supplemental indicating four F-22s would be there. We have not completed an OMB assessment and released it, but I think that should give you some guidance.

Ms. DELAURO. We believe the four will be there, but we are not sure about the 20.

Mr. HALE. I am not in a position to formally confirm the fiscal year 2009 supplemental either. It is not here, although I hope it will be next week. But I would direct you to the letter as some indication of thinking and try to be at least helpful.

In terms of jobs, I think we are all mindful that anything we do in Defense up or down affects jobs. And in this kind of an economic climate, there is great concern. But that said, our job in the Department of Defense is to recommend what the country needs or what we think the country needs for national defense. And that is the basis on which we try to make these decisions, not jobs per se.

Ms. DELAURO. I understand that is why.

Mr. HALE. I don't want to be unsympathetic.

Ms. DELAURO. I understand. I anticipated the answer which is why I began my comments with talking about the airmen in Aviano. And when they talked about down range, and maybe it was something that, you know, I learned down range was Iraq and Afghanistan and what they do. And that is the issue here, is about national security and Defense and their well being in a weapon.

Let me move to the Marine One helicopter. I am not going to regale you with all the past on that, of which a number of us have spoken up clearly then and now where we believed that, since Lockheed-Martin does not build helicopters from the ground up, that this consortium of AgustaWestland and Finmeccanica would produce delays, cost overruns and in fact put us behind the time in which we needed to do this.

Now I understand Lockheed-Martin is suggesting that it complete increment one. Quite frankly, it was increment two that we were looking forward to in terms of the new technology, the new security efforts as well. Increment one is way over budget and delayed. It has breached Nunn-McCurdy; 50 percent over estimate.

Lockheed now is essentially saying they cannot do the job, which is no surprise, as I said. What can we expect from the Defense Department for this program in its Nunn-McCurdy report for the fiscal year 2010 budget? And assuming there is still a requirement for production of increment two helicopters, will your Department look at alternatives, as is suggested by Nunn-McCurdy, and rebid the contract?

Mr. HALE. Well, I think you can expect a decision or a recommendation on that for sure. I mean, the President has commented on this helicopter. It is a, we are well aware, a program that is having execution programs, and we are committed to reviewing all weapons, but particularly that are having them. I am just not in a position to tell you what the recommendation will be at the moment, but I can tell you that that one is a program that is under review.

Ms. DELAURO. I will make one final comment, and beg the indulgence of the Chair, is that in fact Sikorsky, again parochial, when Stratford, Connecticut, built this helicopter since the 1950s, whenever there were changes required, they built it on budget on time. There was no need to shift this contract when it was, and we now would have the product, and it would have come in on budget and on time. That is a national security issue. That is an issue of security of the President of the United States, with the requirements I don't make. I am not in the business. You all are with what you need for the security of the President of the United States. And in fact, we wouldn't have off-shored jobs, and we would not have off-shored the technology, which truly is one of the big issues with regard to the Marine One helicopter.

Thank you, Mr. Chairman.

Chairman SPRATT. Thank you Ms. DeLauro. Mr. Boyd.

Mr. BOYD. Thank you, Mr. Chairman.

Mr. Under Secretary, welcome. You have quite an impressive resume. And thank you for your service to this country, both in uniform and out.

Mr. HALE. Thank you.

Mr. BOYD. Mr. Secretary, I think everybody in this room knows that there are some, and even GAO has written there are some very glaring and pervasive weaknesses in the DOD financial management systems, even to the point that it creates a very high-risk situation for waste, fraud, mismanagement, and general waste of the taxpayers' dollars. And those problems are inside the Pentagon financial systems itself. My question is sort of a 20,000-foot question. Do you consider the DOD's books auditable today?

Mr. HALE. No. That is the easiest question I have ever had to answer. No, they are not. We have had a disclaimer of opinion for years, and it will continue.

Mr. BOYD. Can you briefly talk to us then, what we might do to help you?

Mr. HALE. First of all, let me say a little more about that other than what I said is true; they are not auditable. First off, I think you need to understand DOD systems were designed to keep track of the money that Congress appropriated and how we spent it. They do that and they do that well. We can tell you whether we have spent the money in accordance with the guidance that you gave us. They are not designed to meet audit standards, which require that you have a transaction be able to trace back to an original transaction, for example, and there are some more detailed requirements about when moneys are expensed that auditors require.

Our systems weren't designed to do that. They don't do it, and for that and other reasons, evaluation for example, we can't value our weapon systems based on historical costs because we just don't have those kinds of records. We are looking at both improving our financial information and becoming more audit ready. And progress has been made in the 8 years or so since I have been in the Pentagon, some substantial progress. For example, the Army Corps of Engineers was able to obtain a cleaner unqualified audit opinion on its last statement. I think we are getting close with certain aspects of the Marine Corps to have auditable statements. But I am also mindful we have put off some of the hardest challenges to the end,

especially for the large military services evaluation of equipment, for example.

And what I am doing right now is looking at priorities, realizing there is only so much time and money that we are going to be able to devote to this as to how we should proceed. I don't have a plan, but I hope I will within a few months.

In terms of what Congress can do, I think their oversight role here is appropriate. I may not enjoy it, but it is appropriate that you continue to ask us questions about what our plan is and how we will get there. And I think Congress has done a good job at that.

Mr. BOYD. In light of the new administration, new leadership team and in light of the fact that I think everybody here knows that what you have just said leads to the fact that you can tell what you have spent the money on, but what happened beyond that, in many cases, we do not have a good way of tracking the use of the taxpayers' money, that leads to a lot of—I mean, certainly what you have just described is not acceptable to this current administration, is that a fair statement?

Mr. HALE. It is fair. The law requires auditable financial statements, and we are moving toward them. And as I say, we have made, the Department has made some progress over the last 10 years or so. It is a challenge, and it is how much resources you want to spend on it.

Again, I will repeat, we can keep track. You appropriate money. We can tell you whether we have spent that money for what you have told us in terms of the appropriations. What we can't do is go back to transaction-based requirements, every voucher, et cetera, that auditors require in order to give you a clean financial opinion. We can't value our equipment in ways that the auditors would require. But I think some fundamental things the financial system does reasonably well, fundamental things that should be of concern to this Congress in terms of your statutory responsibilities, but we need to do better, and we will continue.

And I am looking at priorities. Again, there is only so much time and money I am going to be able to devote to this, or the Department should, because we need to not take away from our war fighting commitments. And we need a set of priorities, in my view, that go after, first, the most important management information in terms of achieving auditability.

Mr. BOYD. Thank you, Mr. Chairman. I know my time is out. This is a subject which is near and dear to the hearts of many of us who feel like that for us to ever be accountable for the dollars that we collect, taken voluntarily from our citizens, and we have a responsibility to make sure they are spent well. I hope that, as time goes on, we will spend, as a Budget Committee, we can spend some more time on this kind of issue.

Chairman SPRATT. Thank you, Mr. Boyd.

Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman.

We have votes, so I am not going to ask too many questions. I just have one point to make, and I would just like to, I guess, reinforce the comments made by Congresswoman Schwartz regarding increased fees for TRICARE. That is something that is out there.

That is something that many of my constituents have already made comments to me on. I know that I am no different than any other Member in that regard. So I would express my deep concern that that is something that would not be looked upon favorably by my constituents, and I doubt if the Congress would as well. But I thank you for your testimony, and I yield back Mr. Chairman.

Chairman SPRATT. That concludes your questioning, Mr. Yarmuth?

Mr. YARMUTH. Yes.

Chairman SPRATT. Mr. Langevin, I believe.

Mr. LANGEVIN. Thank you, Mr. Chairman.

Secretary Hale, thank you for your testimony here today. I have a couple of questions. I will only ask one, though, in the interest of time. Perhaps we can get another member in.

As a member of the House Armed Services Committee and a former member of the Homeland Security Committee, I have been long concerned about the tendency of agencies with national and homeland security responsibilities to focus exclusively on strengthening their own programs and initiatives while losing some of the larger strategic goals to which their programs are contributing. Therefore, I propose creating what is called a Quadrennial National Security Review, QNSR, similar to DOD's quadrennial national security review, though at an interagency level.

In your opinion, how do you think an effort like that would help us better coordinate our assets of national power, and what, if anything, legislative recommendations would you make to help increase such a strategic cooperation between the Department of State and Defense?

Mr. HALE. Well, I would like to think more about the answer to that rather than answer it off the cuff. It is an important question. I can tell you that there is interagency involvement in a quadrennial defense review, the one that the Department does. It does focus on the Department's resources, but I think, increasingly, we are aware, the Secretary of Defense has said, it is very important that we make use of the full range of resources, State and Homeland Security, in terms of maintaining our overall national security. So I would like to think about and inquire of others rather than give you an off-the-cuff answer to a Quadrennial National Security Review, so I will take that one for the record. But I would assure you, I think there is increasing cooperation going on among the Departments, something I noticed as having increased over the last 10 years since I have been in the Department.

Mr. LANGEVIN. But it needs to be vitally important as we go forward, particularly in the global war on terrorism. This is not a war that we are going to win just by military might alone——

Mr. HALE. I think we would agree with you, the Secretary would agree with you.

Mr. LANGEVIN. The hearts and minds and getting at those people that may be on the fence as opposed to seeing it go in the direction of al Qaeda, that we move them more in the line of more of a civilized society. Anyway, I will stop there, and perhaps one of the other members might want to ask a question. I have some other questions for the record which I will submit.

Chairman SPRATT. Okay. Without objection.

Ms. Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman.

And welcome, Secretary Hale. I am sorry, I was at a hearing of the Army in my other committee so I couldn't be here earlier. My question relates to contracting out. And it is my understanding that, currently in theater, take Iraq, that there are actually more contracted personnel than regular force personnel; is that correct?

Mr. HALE. I think that may be.

Can you help me out here? Do we have numbers, John?

We don't have specific numbers, but I think your facts are basically right.

Ms. KAPTUR. I am very interested in the impact of that enormous amount of contracting out, which is at historic proportion in its relationship to the budget. For example, the other day, in a hearing on the Marine Corps, one of the issues that came up was the availability of mechanics and trained mechanics to handle armored Humvees in theater. A lot of the vehicles were being brought back to base to be repaired by contracted personnel. I am very interested if your Department has a summary, an understandable summary, that they could provide to us on the nature of contracting out overall within the Department, and then its budgetary impact. Because this is not cheap, whether we are talking security personnel, whether we are talking service personnel. And one of my greatest interests is in sourcing those services back into the Department. And I am wondering, can you help us in that regard? Then we can make good budget decisions when we see how much a contracted worker is costing us versus a regular force individual.

Mr. HALE. I will do my best to provide some additional details for the record. But let me say, to really get down to the cost-benefit analysis, you have got to go well below the level of the aggregate number of people or jobs we are contracting. You actually have to get to the function. There are functions where contractors can be more efficient. They have often more flexibility than we do in the civil service. They may be able to import technology in ways that we can't readily do in the civil service of the government. So I think there are cases where they will be more cost-effective.

If it is simply doing a particular job, a one-for-one transformation of a contractor or a Federal civil servant, the contractor, they are probably more expensive because of the overhead associated. So I will do my best to give you an overview. And this issue is under active discussion in the Department of Defense, and you may see some proposals in our next budget. But we are going to actually have to get well down below that aggregate level to answer the cost-effective questions or cost-effectiveness questions that you are asking.

Ms. KAPTUR. Well, at least you are talking about aggregate level, because we haven't even had any good presentations on the overall impact of contracting out, the increase of it over the last decade or so, and how atypical that has been of our history as a country. When I was actually being flown into Iraq by a regular force guard, actually, who had been deployed, we were talking about some of the contractors that they were flying over. And the morale among our troops, knowing how much those folks were making versus what our folks in regular force were making, it has consequences

inside. And I, obviously, am a very strong supporter of regular force. And I want to take a look in some understandable way, if it can be made understandable, of the impact of this exponential growth in contracting on so many levels.

Frankly, one base we were at, there were so many contractors, they were falling over themselves. And there became a real question of who was in charge. And what shocked me was that some of the logistics on the ground were being handled by contractors. I have to tell you, that was not a comfortable moment for me as a citizen of our country. So they are not just doing incidental activities; they were embedded right into the war-making function. So I am very interested to see how the Department perceives that architecture of contracting and now sort of an overlay in all of the Departments, and particularly Army and support functions. Has there ever been a report commissioned that really looked at this?

Mr. HALE. I am not aware of an overview report. I can tell you that there is active consideration now.

Does anybody know of an overview report?

I am not aware of any. But the issue is being looked at. I think your words and words from others have gotten through to the Department and to the Secretary. As I say, an active review of this issue is under way.

Ms. KAPTUR. Thank you.

And finally, Mr. Chairman, let me ask, Blackwater's contract with the State Department was terminated, but they changed their name to I think Xe or some name like that. Are they under contract to the Department of Defense in any way now as renamed?

Mr. HALE. I do not know. That is something I will also have to check for the record.

Ms. KAPTUR. All right. Thank you very much.

Chairman SPRATT. Thank you very much, Mr. Hale, for your excellent answers and responses. In the list of things that you answer for the record, it would be useful if we could have also your sort of back-of-the-envelope analysis of what it costs to move one brigade combat team from the theater to the stateside post.

Mr. HALE. I am not going to be able to give you a good number there, Mr. Chairman, just because it varies so widely. Is it heavy? Is it light? Where is it located? But we can certainly lay out the factors that will drive it. We cost this out on a detailed basis when we know a particular unit, but we can certainly lay out the factors for you that influence it.

Chairman SPRATT. Mr. Sullivan, we shall return.

I beg your forbearance. We have two votes, but we will be right back as soon as these are over.

[Recess.]

Chairman SPRATT. We will now proceed with our hearing with the second panel.

We have Michael Sullivan. Mr. Sullivan is director of acquisition and sourcing management, a group which has responsibility for examining the effectiveness of DOD's acquisition and procurement practices and in meeting its mission, performance objectives and requirements.

Most recently Mr. Sullivan has directed the Government Accountability Office in assessing major weapons system programs

and providing Congress with visibility over acquisition costs and the causes of unwarranted cost growth. This team also provides Congress with early warning on technical and management challenges facing these investments. Mr. Sullivan has been with the GAO for 23 years.

He received his bachelors degree in political science from Indiana University and a masters degree in public administration from the School of Public Affairs at Indiana University.

Mr. Sullivan, thank you for appearing here today. We look forward to your testimony. We will file your testimony in its entirety as part of the record, so you may summarize it as you see fit.

The floor is yours, sir.

STATEMENT OF MICHAEL SULLIVAN, DIRECTOR, ACQUISITION AND SOURCING MANAGEMENT, GOVERNMENT ACCOUNTABILITY OFFICE

Mr. SULLIVAN. Thank you, Mr. Chairman.

I am pleased to be here today to discuss the Department of Defense's Fiscal Year 2010 budget and its major acquisition programs.

Over the next 5 years, the Department plans to spend more than $357 billion specifically on its major weapons system programs. While the details of the President's budget have not been released as of yet, its emphasis on reforming DOD weapon system acquisitions is notable, as it may bring new momentum from the administration and key congressional committees such as yours to address this issue.

Today I want to focus on our efforts to achieve the efficiencies through our high-risk series and other products, the systemic problems that have contributed to poor cost and schedule outcomes on weapon system acquisitions and further steps that might be needed to improve performance. In January 2009, we released our high-risk update for the 111th Congress. Of the 30 high-risk areas we identified, the Department bears sole responsibility for 8, including weapon system acquisition, and shares responsibility for 7 others.

During fiscal year 2001 through 2007, we issued 637 reports to the Department of Defense that included a total of 2,726 recommendations. In responding to those recommendations, as of October 2008, about 62 percent had been implemented; 28 percent remained open; and the Department was still working on closing those and about 10 percent were closed, but for one reason or another, they were not implemented for a variety of reasons. We recorded over $89 billion in financial benefits associated with those recommendations at the Department. A significant amount of this benefit was due to our recommendations related to improving the Department's major acquisition programs and its acquisition process. For example, in Fiscal Year 2007, 74 of our 313 recommendations were related to improving those programs, and we reported $2.6 billion in financial benefits as a result of the actions taken by the Department to close them.

In 2008, we reported about $5.7 billion in benefits. We have been reporting for years on poor cost and schedule outcomes on the Department's major weapon system acquisitions, and most recently, in March of 2008, we reported that there were 95 major weapon system acquisition programs in the Department's current portfolio,

and they had grown in cost by a total of $295 billion and, on average, were delivered about 21 months late.

We believe there are problems at both the strategic and program level that cause these outcomes. At the strategic level, the Department's three systemic processes for building its investment strategy are fragmented and broken. The requirements-setting process is stovepiped. It takes too long to approve needs. It does not consider resources, and it approves nearly every proposal for a capability that it reviews. The funding process accepts and funds programs with unrealistic cost estimates and does not fully fund their development costs. These two processes, which are very important to the acquisition process, are poorly integrated, and this poor communication leads to unhealthy competition where too many programs are chasing too few dollars.

Finally, at the program level, the acquisition process initiates programs with unreliable cost estimates and without knowledge from proper systems engineering analysis to understand each weapons system program's requirements and the resources that will be needed to achieve them. With the Federal budget under increasing strain from the economic crisis now facing the Nation, the time for change is now.

In testimony last month, the Secretary of Defense identified many of these systemic problems associated with acquisitions, recognized that the acquisition process was a chief institutional challenge at the Department and indicated that efforts are underway to address it.

The Congress is also proposing legislation that focuses on improving the acquisition environment. It targets key problem areas, provides much needed oversight and provides increased authority and independence to critical functions, such as cost estimating and development testing, that has been lacking in recent years. Its provision for requiring a full inventory of the Department systems engineering capabilities as an excellent beginning to rebuilding that sorely needed capability in the acquisition workforce. It also sends a strong signal to the Department to prioritize its needs better and to make sure it has requisite knowledge about costs and other resources about each program before it begins the program.

It is important to state that there is a need for changes to the overall acquisition culture and the incentives it provides as well. These changes should be begin with resisting the urge to achieve the revolutionary but unachievable capability in one step, allowing technologies to mature in the tech base before bringing them on to product development programs, ensuring that urgent requirements are well-defined and doable and instituting shorter, more predictable development cycles. These changes will not be easy to make. Tough decisions will be needed about the Department's overall portfolio of weapons programs and about specific weapons systems, and stakeholders, from the military services to industry to the Congress, will have to play a constructive role in this process.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer my questions.

[The prepared statement of Michael Sullivan follows:]

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DEFENSE ACQUISITIONS

DOD Must Prioritize Its Weapon System Acquisitions and Balance Them with Available Resources

Statement of Statement of Michael J. Sullivan, Director
Acquisition and Sourcing Management

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GAO-09-501T

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Highlights

Highlights of GAO-09-501T, a testimony before the Committee on the Budget, House of Representatives

DEFENSE ACQUISITIONS

DOD Must Prioritize Its Weapon System Acquisitions and Balance Them with Available Resources

Why GAO Did This Study

Since fiscal year 2000, the Department of Defense (DOD) has significantly increased the number of major defense acquisition programs and its overall investment in them. However, acquisition outcomes have not improved. Over the next 5 years, DOD expects to invest $357 billion on the development and procurement of major defense acquisition programs and billions more on their operation and maintenance. Last year, we reported that the total acquisition cost of DOD's portfolio of major defense programs under development or in production has grown by $295 billion (in fiscal year 2008 dollars). In most cases, the programs we assessed failed to deliver capabilities when promised—often forcing warfighters to spend additional funds on maintaining legacy systems. Continued cost growth results in less funding being available for other DOD priorities and programs, while continued failure to deliver weapon systems on time delays providing critical capabilities to the warfighter.

This testimony describes the systemic problems that have contributed to poor cost and schedule outcomes in DOD's acquisition of major weapon systems; recent actions DOD has taken to address these problems; and steps that Congress and DOD need to take to improve the future performance of DOD's major weapon programs. The testimony is drawn from GAO's body of work on DOD's acquisition, requirements, and funding processes.

View GAO-09-501T or key components. For more information, contact Michael J. Sullivan at (202) 512-4841 or sullivanm@gao.gov.

What GAO Found

Since 1990, GAO has consistently designated DOD's management of its major weapon acquisitions as a high-risk area. A broad consensus exists that weapon system problems are serious, but efforts at reform have had limited effect. For several years, GAO's work has highlighted a number of strategic- and program-level causes for cost, schedule, and performance problems in DOD's weapon system programs. At the strategic level, DOD's processes for identifying warfighter needs, allocating resources, and developing and procuring weapon systems, which together define the department's overall weapon system investment strategy, are fragmented. As a result, DOD fails to balance the competing needs of the services with those of the joint warfighter and commits to more programs than resources can support. At the program level, DOD allows programs to begin development without a full understanding of requirements and the resources needed to execute them. The lack of early systems engineering, acceptance of unreliable cost estimates based on overly optimistic assumptions, failure to commit full funding, and the addition of new requirements well into the acquisition cycle all contribute to poor outcomes. Moreover, DOD officials are rarely held accountable for poor decisions or poor program outcomes.

Recent changes to the DOD acquisition system could begin to improve weapon program outcomes. However, DOD must take additional actions to reinforce the initiatives in practice including (1) making better decisions about which programs should be pursued or not pursued given existing and expected funding; (2) developing an analytical approach to better prioritize capability needs; (3) requiring new programs to have manageable development cycles; (4) requiring programs to establish knowledge-based cost and schedule estimates; and (5) requiring contractors to perform detailed systems engineering analysis before proceeding to system development. Recently proposed acquisition reform legislation addresses some of these areas. However, while legislation and policy revisions may lead to improvements, they will not be effective without changes to the overall acquisition environment. DOD has tough decisions to make about its weapon systems portfolio, and stakeholders, including the DOD Comptroller, the military services, industry, and Congress, have to play a constructive role in the process of bringing balance to it.

Analysis of DOD Major Defense Acquisition Program Portfolio (fiscal year 2008 dollars)

Portfolio status	Fiscal year 2007 portfolio
Number of programs	95
Change in total research and development costs from first estimate	40 percent increase
Change in total acquisition cost from first estimate	26 percent increase
Estimated total acquisition cost growth from first estimate	$295 billion
Share of programs with 25 percent or more increase in program acquisition unit cost	44 percent
Average schedule delay in delivering initial capabilities	21 months

Source: GAO analysis of DOD data.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the Department of Defense's (DOD) fiscal year 2010 budget and its acquisition of major weapon systems. While the programmatic details of the President's Budget have not been released, its recognition of the need for reforming DOD weapon system acquisition is a positive first step. This area has been on GAO's high-risk list since 1990, however now there is momentum from the administration, including the Secretary of Defense, and key congressional committees to address this issue. While the combat effectiveness of DOD weapon systems is unparalleled, major weapon programs continue to cost more, take longer, and deliver fewer quantities and capabilities than originally planned. Last year we reported that the cumulative cost growth in DOD's portfolio of 95 major defense acquisition programs was $295 billion and the average delay in delivering promised capabilities to the warfighter was 21 months. Clearly, some problems are to be expected in developing weapon systems given the technical risks and complexities involved. However, all too often, we have found that cost and schedule problems are rooted in poor planning, execution, and oversight.

DOD is entrusted with more taxpayer dollars than any other federal agency, representing the largest part of the discretionary spending in the U.S. budget. Congress provided DOD with about $512 billion in annual appropriations for fiscal year 2009 and the administration is requesting almost $534 billion for 2010. Effective management of this substantial investment is critical as competition for funding has increased dramatically within the department and across the government. DOD faces a number of fiscal pressures, such as the ongoing military campaigns in Afghanistan and Iraq, rising personnel costs, the rebuilding and modernization of the force, and cost overruns in its major defense acquisition programs. At a time when the federal budget is strained by spending needs for a growing number of national priorities, it is important that DOD get the best value for every dollar it invests in weapon system programs. Every dollar wasted during the development and acquisition of weapon systems is money not available for other priorities within DOD and elsewhere in the government.

Today, I will discuss (1) the systemic problems that have contributed to poor cost and schedule outcomes in DOD's acquisition of major weapon systems, (2) recent actions DOD has taken to address these problems, and (3) steps that Congress and DOD need to take to improve the future performance of DOD's major weapon programs. The statement draws from our extensive body of work on DOD's acquisition of weapon systems.

A list of our key products is provided at the end of this testimony. This work was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

For almost two decades, we have reported on pervasive and long-standing weaknesses in DOD's business operations. In January 2009, we released our high-risk series update for the 111th Congress.[1] This series emphasizes federal programs and operations that are at high risk because of vulnerabilities to fraud, waste, abuse, and mismanagement and has also evolved to draw attention to areas associated with broad-based transformation needed to achieve greater efficiency, effectiveness, and sustainability. Solutions to high-risk problems offer the potential to save billions of dollars, dramatically improve service to the public, strengthen confidence and trust in the performance and accountability of the U.S. government, and ensure the ability of government to deliver on its promises. Since our high-risk program began, the government has taken these problems seriously and has made progress toward correcting them. Of the 30 high-risk areas identified by GAO across the government, DOD bears sole responsibility for 8 high-risk areas, including weapon systems acquisition, and shares responsibility for 7 other high-risk areas (see table 1).

[1]GAO, *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009).

Table 1: High-Risk Areas Involving the Department of Defense (DOD)

Defense-specific	Governmentwide areas that apply to DOD
DOD Approach to Business Transformation	Strategic Human Capital Management
DOD Weapon Systems Acquisition	Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures
DOD Contract Management	Managing Federal Real Property
DOD Supply Chain Management	Establishing Effective Mechanisms for Sharing Terrorism-Related Information to Protect the Homeland
DOD Financial Management	Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests
DOD Business Systems Modernization	Management of Interagency Contracting
DOD Support Infrastructure Management	Improving and Modernizing Federal Disability Programs
DOD Personnel Security Clearance Program	

Source: GAO.

In addition to monitoring these high-risk areas, we also monitor actions that DOD has taken in response to our findings, conclusions, and recommendations. During fiscal years 2001 through 2007, we issued 637 reports to DOD that included a total of 2,726 recommendations. In December 2008, we reported to this committee on the implementation status of these recommendations and related financial accomplishments.[2] As of October 2008, 1,682 or 62 percent of the recommendations we made were reported as were closed and implemented, 758 or 28 percent were open, and 286 or 10 percent were closed, but not implemented for a variety of reasons.[3] Consistent with past experience that shows it takes agencies some time to implement recommendations, we found most recommendations from fiscal year 2001 have been implemented while most recommendations from fiscal year 2007 remain open. During this same period, we recorded over $89 billion in financial benefits associated

[2]GAO, *Status of Recommendations to the Department of Defense (Fiscal Years 2001-2007)*, GAO-09-201R (Washington, D.C.: Dec. 11, 2008).

[3]We consider a recommendation to be open when action has not been taken but may be taken in the future, action is in the planning stage, or action has been taken on only part of the recommendation. We consider a recommendation to be closed-implemented when the action is fully implemented or action has been taken that essentially meets the recommendation's intent, that is, the action meets the spirit—rather than the letter—of the recommendation, or all parts of the recommendation have been implemented. We consider a recommendation to be closed–not implemented if DOD has no intention of implementing the recommendation or circumstances have changed and the recommendation is no longer valid.

with our work involving DOD.[4] Besides financial accomplishments, our recommendations also produce many nonfinancial benefits and accomplishments, such as DOD actions taken to improve operations or management oversight. Both types of benefits result from our efforts to provide information to the Congress that helped to (1) change laws and regulations, (2) improve services to the public, and (3) promote sound agency and governmentwide management.

For fiscal year 2007, 74 of our 313 recommendations to DOD were related to improving weapon system acquisition programs. In addition, for fiscal year 2007, we reported $2.6 billion in financial benefits related to weapon system acquisition programs. The financial benefits claimed result from the actions taken by Congress or DOD that are based on findings, conclusions, or recommendations contained in our products. Such actions include congressional reductions to the President's annual budget requests, cost reductions due to greater efficiency, or cost reductions due to program cancellations or program delays. For example, the fiscal year 2007 budget request for the Army's Future Combat System was reduced by $254 million based in part on our testimony about the program's development risks. Over the next 5 years, DOD plans to spend more than $357 billion on the development and procurement of major defense acquisition programs. We will continue to seek to improve the efficiency and effectiveness of DOD's weapon system investments through our work on individual programs and crosscutting areas that affect acquisition outcomes.

[4]In many, but not all, cases our findings and recommendations produce measurable financial benefits for the federal government after Congress acts on or agencies such as DOD implement them and the funds are made available to reduce government expenditures or are reallocated to other areas.

Failure to Match Requirements with Technology and Other Resources Underlie Poor Weapon Program Outcomes and Undermine Accountability

Over the past several years our work has highlighted a number of underlying systemic causes for cost growth and schedule delays at both the strategic and program levels. At the strategic level, DOD's processes for identifying warfighter needs, allocating resources, and developing and procuring weapon systems—which together define DOD's overall weapon system investment strategy—are fragmented. As a result, DOD fails to effectively address joint warfighting needs and commits to more programs than it has resources for, thus creating unhealthy competition for funding. At the program level, a military service typically establishes and DOD approves a business case containing requirements that are not fully understood and cost and schedule estimates that are based on overly optimistic assumptions rather than on sufficient knowledge. Once a program begins, it too often moves forward with inadequate technology, design, testing, and manufacturing knowledge, making it impossible to successfully execute the program within established cost, schedule, and performance targets. Furthermore, DOD officials are rarely held accountable for poor decisions or poor program outcomes.

DOD Lacks an Integrated Approach to Balance Weapon System Investments

At the strategic level, DOD largely continues to define warfighting needs and make investment decisions on a service-by-service and individual platform basis, using fragmented decision-making processes. This approach makes it difficult for the department to achieve a balanced mix of weapon systems that are affordable and feasible and that provide the best military value to the joint warfighter. In contrast, we have found that successful commercial enterprises use an integrated portfolio management approach to focus early investment decisions on products collectively at the enterprise level and ensure that there is a sound basis to justify the commitment of resources.[5] By following a disciplined, integrated process—during which the relative pros and cons of competing product proposals are assessed based on strategic objectives, customer needs, and available resources, and where tough decisions about which investments to pursue and not to pursue are made—companies minimize duplication between business units, move away from organizational stovepipes, and effectively support each new development program. To be effective, integrated portfolio management must have strong, committed

[5]GAO, *Best Practices: An Integrated Portfolio Management Approach to Weapon System Investments Could Improve DOD's Acquisition Outcomes*, GAO-07-388 (Washington, D.C.: Mar. 30, 2007).

leadership; empowered portfolio managers; and accountability at all levels of the organization.

DOD determines its capability needs through the Joint Capabilities and Integration Development System (JCIDS). While JCIDS provides a framework for reviewing and validating needs, it does not adequately prioritize those needs from a joint, departmentwide perspective and lacks the agility to meet changing warfighter demands. We recently reviewed JCIDS documentation related to new capability proposals and found that almost 70 percent were sponsored by the military services with little involvement from the joint community, including the combatant commands, which are responsible for planning and carrying out military operations.[6] By continuing to rely on capability needs defined primarily by the services, DOD may be losing opportunities for improving joint warfighting capabilities and reducing the duplication of capabilities in some areas. The JCIDS process has also proven to be lengthy and cumbersome—taking on average up to 10 months to validate a need—thus undermining the department's efforts to effectively respond to the needs of the warfighter, especially those needs that are near term. Furthermore, the vast majority of capability proposals that enter the JCIDS process are validated or approved without accounting for the resources or technologies that will be needed to acquire the desired capabilities. Ultimately, the process produces more demand for new weapon system programs than available resources can support.

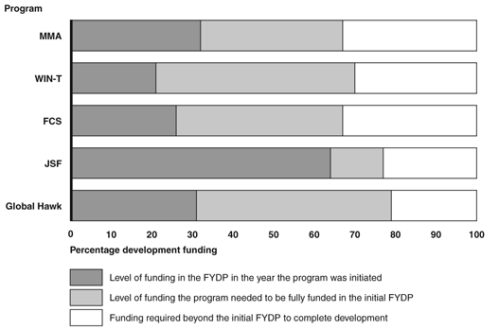
The funding of proposed programs takes place through a separate process, the department's Planning, Programming, Budgeting, and Execution (PPBE) system, which is not fully synchronized with JCIDS. While JCIDS is a continuous, need-driven process that unfolds in response to capability proposals as they are submitted by sponsors, PPBE is a calendar-driven process comprising phases occurring over a 2-year cycle, which can lead to resource decisions for proposed programs that may occur several years later. We recently reviewed the effect of the PPBE process on major defense acquisition programs and found that the process does not produce an accurate picture of the department's resource needs for weapon system programs.[7] The cost of many of the programs we reviewed exceeded the

[6]GAO, *Defense Acquisitions: DOD's Requirements Determination Process Has Not Been Effective in Prioritizing Joint Capabilities*, GAO-08-1060 (Washington, D.C.: Sept. 25, 2008).

[7]GAO, *Defense Acquisitions: A Knowledge-Based Funding Approach Could Improve Major Weapon System Program Outcomes*, GAO-08-619 (Washington, D.C.: July 2, 2008).

funding levels planned for and reflected in the Future Years Defense Program (FYDP)—the department's long-term investment strategy (see fig. 1). Rather than limit the number and size of programs or adjust requirements, DOD opts to push the real costs of programs to the future. With too many programs under way for the available resources and high cost growth occurring in many programs, the department must make up for funding shortfalls by shifting funds from one program to pay for another, reducing system capabilities, cutting procurement quantities, or in rare cases terminating programs. Such actions not only create instability in DOD's weapon system portfolio, they further obscure the true future costs of current commitments, making it difficult to make informed investment decisions.

Figure 1: Funding Shortfalls at the Start of Development for Five Weapon System Programs



Source: DOD (data); GAO (analysis and presentation).

Initiating Programs with Inadequate Knowledge of Requirements and Resources Often Results in Poor Outcomes

At the program level, the key cause of poor outcomes is the approval of programs with business cases that contain inadequate knowledge about requirements and the resources—funding, time, technologies, and people—needed to execute them. Our work in best practices has found that an executable business case for a program demonstrated evidence that (1) the identified needs are real and necessary and that they can best

be met with the chosen concept and (2) the chosen concept can be developed and produced within existing resources. Over the past several years, we have found no evidence of the widespread adoption of such an approach for major acquisition programs in the department. Our annual assessments of major weapon systems have consistently found that the vast majority of programs began system development without mature technologies and moved into system demonstration without design stability.

The chief reason for these problems is the encouragement within the acquisition environment of overly ambitious and lengthy product developments that embody too many technical unknowns and not enough knowledge about the performance and production risks they entail. The knowledge gaps are largely the result of a lack of early and disciplined systems engineering analysis of a weapon system's requirements prior to beginning system development. Systems engineering translates customer needs into specific product requirements for which requisite technological, software, engineering, and production capabilities can be identified through requirements analysis, design, and testing. Early systems engineering provides the knowledge a product developer needs to identify and resolve performance and resource gaps before product development begins by either reducing requirements, deferring them to the future, or increasing the estimated cost for the weapon system's development. Because the government often does not perform the proper up-front requirements analysis to determine whether the program will meet its needs, significant contract cost increases can and do occur as the scope of the requirements changes or becomes better understood by the government and contractor. Not only does DOD not conduct disciplined systems engineering prior to the beginning of system development, it has allowed new requirements to be added well into the acquisition cycle. We have reported on the negative effect that poor systems engineering practices have had on several programs, such as the Global Hawk Unmanned Aircraft System, F-22A, Expeditionary Fighting Vehicle, and Joint Air-to-Surface Standoff Missile.[8]

With high levels of uncertainty about requirements, technologies, and design, program cost estimates and related funding needs are often

[8]GAO, *Best Practices: Increased Focus on Requirements and Oversight Needed to Improve DOD's Acquisition Environment and Weapon System Quality*, GAO-08-294 (Washington, D.C.: Feb. 1, 2008).

understated, effectively setting programs up for cost and schedule growth. We recently assessed the service and independent cost estimates for 20 major weapon system programs and found that while the independent estimates were somewhat higher, both estimates were too low in most cases.[9] In some of the programs we reviewed, cost estimates have been off by billions of dollars. For example, the Army's initial cost estimate for the development of the Future Combat System (FCS) was about $20 billion, while DOD's Cost Analysis and Improvement Group's estimate was $27 billion. The department began the program using the $20 billion estimate, but development costs for the FCS are now estimated to be $28 billion and the program is still dealing with significant technical risk. Estimates this far off the mark do not provide the necessary foundation for sufficient funding commitments and realistic long-term planning.

The programs we reviewed frequently lacked the knowledge needed to develop realistic cost estimates. For example, program Cost Analysis Requirements Description documents—used to build the program cost estimate—often lack sufficient detail about planned program content for developing sound cost estimates. Without this knowledge, cost estimators must rely heavily on parametric analysis and assumptions about system requirements, technologies, design maturity, and the time and funding needed. A cost estimate is then usually presented to decision makers as a single, or point, estimate that is expected to represent the most likely cost of the program but provides no information about the range of risk and uncertainty or level of confidence associated with the estimate.

Lack of Accountability for Making Weapon System Decisions Hinders Achieving Successful Outcomes

DOD's requirements, resource allocation, and acquisition processes are led by different organizations, thus making it difficult to hold any one person or organization accountable for saying no to a proposed program or for ensuring that the department's portfolio of programs is balanced. DOD's 2006 Defense Acquisition Performance Assessment study observed that these processes are not connected organizationally at any level below the Deputy Secretary of Defense and concluded that this weak structure induces instability and inhibits accountability. Frequent turnover in leadership positions in the department exacerbates the problem. The average tenure, for example, of the Under Secretary of Defense for

[9] GAO, *Defense Acquisitions: A Knowledge-Based Funding Approach Could Improve Major Weapon System Program Outcomes*, GAO-08-619, (Washington, D.C.: July 2, 2008).

Acquisition, Technology and Logistics over the past 22 years has been only about 20 months.[10]

When DOD's strategic processes fail to balance needs with resources and allow unsound, unexecutable programs to move forward, program managers cannot be held accountable when the programs they are handed already have a low probability of success. Program managers are also not empowered to make go or no-go decisions, have little control over funding, cannot veto new requirements, and have little authority over staffing. At the same time, program managers frequently change during a program's development, making it difficult to hold them accountable for the business cases that they are entrusted to manage and deliver.

Recent DOD Policy Changes Could Improve Future Performance of Weapon System Programs

DOD understands many of the problems that affect acquisition programs and has recently taken steps to remedy them. It has revised its acquisition policy and introduced several initiatives based in part on direction from Congress and recommendations from GAO that could provide a foundation for establishing sound, knowledge-based business cases for individual acquisition programs. However, to improve outcomes, DOD must ensure that its policy changes are consistently implemented and reflected in decisions on individual programs—not only new program starts but also ongoing programs. In the past, inconsistent implementation of existing policy has hindered DOD's efforts to execute acquisition programs effectively. Moreover, while policy improvements are necessary, they may be insufficient unless the broader strategic issues associated with the department's fragmented approach to managing its portfolio of weapon system investments are also addressed.

In December 2008, DOD revised its policy governing major defense acquisition programs in ways intended to provide key department leaders with the knowledge needed to make informed decisions before a program starts and to maintain disciplined development once it begins. The revised policy recommends the completion of key systems engineering activities before the start of development, includes a requirement for early prototyping, and establishes review boards to evaluate the effect of potential requirements changes on ongoing programs. The policy also

[10]The position of Under Secretary of Defense for Acquisition was established in 1986 and the title was subsequently changed to the Under Secretary of Defense for Acquisition, Technology, and Logistics in 1999. Since 1986, there have been 11 under secretaries.

establishes early reviews for programs going through the pre–systems acquisition phase. In the past, DOD's acquisition policy may have encouraged programs to rush into systems development without sufficient knowledge, in part because no formal milestone reviews were required before system development. If implemented, these policy changes could help programs replace risk with knowledge, thereby increasing the chances of developing weapon systems within cost and schedule targets while meeting user needs.

As part of its strategy for enhancing the roles of program managers in major weapon system acquisitions, DOD has established a policy that requires formal agreements among program managers, their acquisition executives, and the user community setting forth common program goals. According to DOD, these agreements are intended to be binding and to detail the progress the program is expected to make during the year and the resources the program will be provided to reach these goals. DOD also requires program managers to sign tenure agreements so that their tenure will correspond to the next major milestone review closest to 4 years. DOD acknowledges that any actions taken to improve accountability must be based on a foundation whereby program managers can launch and manage programs toward successful performance, rather than focusing on maintaining support and funding for individual programs. DOD acquisition leaders have also stated that any improvements to program managers' performance depend on the department's ability to promote requirements and resource stability over weapon system investments.

Over the past few years, DOD has also been testing portfolio management approaches in selected capability areas—command and control, net-centric operations, battlespace awareness, and logistics—to facilitate more strategic choices for resource allocation across programs. The department recently formalized the concept of capability portfolio management, issuing a directive in 2008 that established policy and assigned responsibilities for portfolio management. The directive established nine joint capability-area portfolios, each to be managed by civilian and military coleads. While the portfolios have no independent decision-making authority over requirements determination and resource allocation, according to some DOD officials, they provided key input and recommendations in this year's budget process. However, without portfolios in which managers have authority and control over resources, the department is at risk of continuing to develop and acquire systems in a stovepiped manner and of not knowing if its systems are being developed within available resources.

Concluding Observations on What Remains to Be Done

A broad consensus exists that weapon system problems are serious and that their resolution is overdue. With the federal budget under increasing strain from the nation's economic crisis and long-term fiscal challenges looming, the time for change is now. Achieving successful and lasting improvements in weapon program outcomes will require changes to the overall acquisition environment and the incentives that drive it. Acquisition problems are likely to persist until DOD's approach to managing its weapon system portfolio (1) prioritizes needs with available resources, thus eliminating unhealthy competition for funding and the incentives for making programs look affordable when they are not; (2) ensures that programs that are started can be executed by matching requirements with resources; and (3) balances the near-term needs of the joint warfighter with the long-term need to modernize the force. Establishing a single point of accountability for managing DOD's weapon system portfolio could help the department make these changes. Congress can also support change though its own decisions about whether to authorize and appropriate funds for individual weapon programs.

From an acquisition policy perspective, DOD is off to a good start with its recent policy revisions. However, DOD could do more in this regard too by requiring new programs to have manageable development cycles, requiring programs to establish knowledge-based cost and schedule estimates, and requiring contractors to perform detailed systems engineering analysis before proceeding to system development. Limiting the length of development cycles would make it easier to more accurately estimate costs, predict the future funding needs, effectively allocate resources, and hold decision makers accountable. DOD's conventional acquisition process often requires as many as 10 or 15 years to get from program start to production as programs strive to provide revolutionary capability. Constraining cycle times to 5 or 6 years would force programs to adopt more realistic requirements and lend itself to fully funding programs to completion, thereby increasing stability and the likelihood that capability can be delivered to the warfighter within established time frames and available resources.

Recently proposed acquisition reform legislation addresses some of these areas. Provisions increasing the emphasis on systems engineering, requiring early preliminary design reviews, and strengthening independent cost estimates and technology readiness assessments should make the critical front end of the acquisition process more disciplined. Establishing a termination criterion for critical cost breaches could help prevent the acceptance of unrealistic cost estimates at program initiation. Having greater combatant command involvement in determining requirements

and greater consultation between the requirements, budget, and acquisition processes could help improve the department's efforts to balance its portfolio of weapon system programs. However, while legislation and policy revisions may lead to improvements, they will not be effective without changes to the overall acquisition environment. The department has tough decisions to make about its weapon systems and portfolio, and stakeholders, including the DOD Comptroller, military services, industry, and Congress, have to play a constructive role in the process toward change. It will also require strong leadership and accountability within the department.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions you may have at this time.

Contacts and Acknowledgments

For further information about this statement, please contact Michael J. Sullivan at (202) 512-4841 or sullivanm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this statement include Ann Borseth, Dayna Foster, Matt Lea, Susan Neill, John Oppenheim, Ken Patton, Sharon Pickup, Ron Schwenn, Charlie Shivers, Bruce Thomas, and Alyssa Weir.

Chairman SPRATT. Mr. Sullivan, just to clarify for the record, do you have authority to undertake—the concurrent resolution of the budget for fiscal year 2009 asks or requires GAO to report to the appropriate congressional committee by the end of that Congress regarding DOD's progress in implementing your recommendations over a 7-year period of time. Over a 7-year period of time, what authority did you rely upon to require DOD to give you access to their financial records and other data so that you could make these examinations?

Mr. SULLIVAN. In terms of the recommendations that we made?

Chairman SPRATT. So that you could undertake the examination that supported the recommendations you made?

Mr. SULLIVAN. The law for one thing. There was legislation——

Chairman SPRATT. The general authority of the Government Accountability Office?

Mr. SULLIVAN. Yes.

Chairman SPRATT. You have the authority to initiate an examination and audit or some sort of oversight?

Mr. SULLIVAN. Yes, we do. You know, it stems from a congressional mandate or from requests from committees such as yours.

Chairman SPRATT. But what I am building at, is there any deficiency in your authority that needs to be bolstered or filled out more completely so that you would have the authority to do this on a continual basis?

Mr. SULLIVAN. Not to my knowledge, sir. I think we are okay there.

Chairman SPRATT. Good. Would it help you if we renewed Section 402 in this year's concurrent resolution? I ask you to give—you have given us a 6-year report. I ask you to maintain the same level of effort to do it on a fiscal-year-by-fiscal-year basis.

Mr. SULLIVAN. From here on out you mean?

Chairman SPRATT. Yes, sir. Is that a problem or is that useful?

Mr. SULLIVAN. I think that we responded to the mandate here. It takes resources for us to do that. If it is useful to the Congress, of course. It is something that we would do. If you mandated it, we would take care of it.

Chairman SPRATT. You just gave a pretty astounding number, $89 billion in savings?

Mr. SULLIVAN. Yes, sir. Well, I guess, to get into that a little bit more, we have—the authorities that we are given right now from the law and from the authorities that you mandate to us as you write laws or as you request work, we gather the information that we are able to claim these accomplishments from in that way. We do a lot of budget analysis. We are in communication with the cognizant committees on a regular basis. We have access to the things we need to look at in terms of the budget. So our budget analysis, the recommendations we make in our reports, you know, when we do a drill-down of a weapons system, for example, like the Joint Strike Fighter or the C-17 or whatever, and we say—we see an area where we might gain efficiency by taking money—you know, just a quick example would be, if we know there is some testing that is supposed to take place in fiscal year 2010, but the program is behind, and the money that they were appropriated to do that testing is not going to be used; we have the ability to report that to Congress, and Congress can claim that money as an efficiency. So I think we do that pretty well now, and we are able to document our accomplishments the way we did in this report that we gave to you.

Chairman SPRATT. All of the testimony today and particularly the questions from members indicated a widespread belief that the procurement system is badly flawed, if not broken, at the Pentagon, and the Department of Defense. First of all, if you make that overall assessment, how would you describe the system overall?

Mr. SULLIVAN. First, I would describe the system for developing and procuring most things that the Pentagon procures, in particular major weapons systems, as three major processes. And it is

requirements; it is the comptroller's shop; and it is the acquisition process itself.

And I would say that there are a lot of problems at a strategic level getting those three processes to talk to each other properly and to prioritize properly, and there are problems once you get down to the acquisition process in building a proper business case for each weapons system and then seeing it through. There are problems with accountability. There are problems with a lack of knowledge to make good cost estimates. And there are a lot of problems with setting requirements properly.

Chairman SPRATT. Let us start with requirements. You noted that in your testimony, but in particular, I think GAO had made some significant contributions to a study that Senator Levin had done that led to a piece of legislation that is being filed indicating that, amongst other things, we had far too few systems engineers.

Mr. SULLIVAN. Yes, sir.

Chairman SPRATT. The sort of engineers who could assess a particular proposal and decide where the pressure points and likely vulnerabilities were and things that could be foregone in order to achieve significant savings at a minor penalty for performance. Could you describe in your view, from your experience, the deficiency of especially types like system engineers in the procurement workforce?

Mr. SULLIVAN. In the acquisition workforce right now, I don't have the exact numbers right now, Mr. Chairman, but it is certainly something we are working on all the time. And I can get that for the record if it is available.

But we know for a fact that, in the past several years, acquisition dollars have doubled and the acquisition workforce has remained constant. So, number one, the acquisition workforce at large, not just systems engineering, but program management, contract management, all of those functions is probably way down from where it was 10 years ago.

Chairman SPRATT. Quantitatively?

Mr. SULLIVAN. Quantitatively, by numbers, yes. I mean, we have been growing—the dollars have been growing that we purchase things with. The workforce has actually been declining. A lot of that was discussed in the last panel. There are a lot of contractors that are doing a lot of that work now, and we rely heavily on them. Systems engineering, in particular, is down, and as I said, I can get probably more specific numbers for you. But it is down significantly I can tell you right now.

Chairman SPRATT. What about management reporting systems, have you made a particular study of them, the selected acquisition report for example?

Mr. SULLIVAN. We have not—actually, the last time we probably looked at the selected acquisition reports as a management reporting system is probably 5 or 6 years ago, and we found them to be lacking in some specifics, but probably more importantly, there were two things that came out of the study. One is that they are not timely, that the Department should do something to make that information available much sooner than they do. It should come out with the budget is, I think, the suggestion we made.

And the other thing at the time, and I am going back probably to 2004 here; the other thing that we focused on was the rebaselining of weapons systems programs. At that time, the selected acquisition reports were not putting down a permanent baseline for a weapons system program and having that in every one of the reports. It was in the first report, but on an annual basis, you could lose the baseline, the cost and schedule baseline, of an acquisition program because the reports would slip as programs.

Chairman SPRATT. We tried to stop that in the Armed Services Committee because I offered one of the amendments for that purpose. What is your judgment as to the reliability of the baseline today? Do we still have a problem with a rubber baseline?

Mr. SULLIVAN. I think it is a lot better today. I would say that it is probably acceptable today. The report we made back then, we recommended that they put a permanent baseline in and have that in each report. I believe the committee supported it.

Chairman SPRATT. When do you think that baseline should be determined? At what stage in the acquisition process?

Mr. SULLIVAN. We believe it should be determined at Milestone B, which is the initiation of a weapons system acquisition. That is when the big dollars get turned on.

Chairman SPRATT. Engineering development or beyond that?

Mr. SULLIVAN. It would be, Milestone B is the beginning of system development and demonstration. So it would be when the design effort begins; product development is what we call it, engineering and manufacturing development.

Chairman SPRATT. Would you give us your recommendations based on years of experience, particularly the close-up experience you have had, as to what should be done with respect to personnel, with respect to a process to really make our acquisition system far more efficient and effective?

Mr. SULLIVAN. Would you like it right now and then get something for the record?

Chairman SPRATT. Just for the record and off the top of your head.

Mr. SULLIVAN. Okay. Well, off the top of my—we will get something for the record, but we do need a lot more people, and we need more knowledge in the process, basically. They begin programs when they don't know what they are building, basically.

Chairman SPRATT. How does DOD go about soliciting these people, encouraging them to work on program management, work on source selection, work on engineering development, things of this nature? It has always seemed to me that DOD had something to sell to energetic young engineers and MBA types and that kind and wasn't really marketing the opportunities they had to offer young college graduates and, for that matter, older more experienced engineers.

Mr. SULLIVAN. I think that is an excellent point. And a lot of that is probably at the service level as well. They probably would want to look at the program management tracks and the acquisition communities of the services. But I think they could do a lot better job of that. Of course, more money always helps, and government jobs are probably not as attractive as private sector. However, in

times like today, you would think that they would be a lot more attractive.

They do have a lot of programs that drive towards acquisition excellence through recruiting. They have taken note of that. They know that their workforce is down, so they have got some programs in place. I believe the legislation that the Senate Armed Services Committee put forward and that I think that you are probably a part of has some sections in it that will——

Chairman SPRATT. A lot of effort went into the background of that.

Thank you very much for your testimony.

And we have members here who would like to ask you questions.

We will begin with Mr. Doggett of Texas.

Mr. DOGGETT. Mr. Chairman, I believe Mr. Connolly has the—I yield to him.

Chairman SPRATT. I beg your pardon, Mr. Connolly.

Thank you.

Mr. CONNOLLY. Thank you, Mr. Chairman.

I have a markup right now of another committee, so I appreciate the accommodation. And I would ask unanimous consent to enter my opening statement into the record.

Chairman SPRATT. Without objection.

[The statement of Mr. Connolly follows:]

PREPARED STATEMENT OF HON. GERALD E. CONNOLLY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. Chairman, I would like to thank you for holding this hearing today with respect to the defense component of the Fiscal Year 2010 budget. I have always been a staunch advocate for a strong national defense. As the former Chairman of the National Capital Region's Emergency Preparedness Council, I know the risks this country faces and the benefits of a proper defensive capability. Our men and women in uniform represent the best that America has to offer and are the premier military force in the world.

I would like to commend the President for his Fiscal Year 2010 defense spending proposal. The budget presents an honest look at the true costs of defense and overseas operations spending. As the base request for defense funding has gradually risen over the past five years, it is important to ensure that the funds are spent in support of our troops and in an efficient manner to preserve our national security.

I look forward to the Quadrennial Defense Review and its comprehensive look at the entirety of our defense requirements. In its overview, I hope that the Review, while ensuring that we provide our military with the proper resources and support, also recognizes that there is never a military-only solution to every potential conflict. There are circumstances when military action becomes unavoidable and justified; however, it would be unwise for us to ignore the roll of diplomacy in the necessity for defense operational spending.

Defense Secretary Robert Gates said in July, "We cannot kill or capture our way to victory * * * It has become clear that America's civilian institutions of diplomacy and development have been chronically undermanned and underfunded for far too long." Secretary Gates understands the value of diplomacy as a defensive tool. Therefore, I believe it is important that as a component of our national defense strategy, we support and protect President Obama's request of a $4.5 billion increase in next year's international affairs budget. The international affairs budget, which funds two of the three pillars of our national security strategy, development and diplomacy, represents only 1.4% of the FY 2010 Budget, and represents an extremely cost effective compliment to the third pillar of defense.

In closing, I would like to bring up an issue that has an impact on the ability of our military personnel to properly function and accomplish their duties—that of the Base Realignment and Closure process. As a former local government official, I know the benefits and burdens that BRAC can impose on localities losing and gaining military personnel and facilities. I hope that the Administration and this

Congress continue to look at the impacts of the most recent BRAC decisions and pledges the proper support to the affected localities.

I look forward to Undersecretary Hale and Mr. Sullivan's testimony today.

Mr. CONNOLLY. Thank you, Mr. Chairman.

If I could, Mr. Sullivan, just hone in on acquisition for a minute. One of my observations, having been sort of on the other side of the desk, if you will, in the contracting world, is that the Federal Government as such and the Department of Defense perhaps in particular are not very well organized for large complex acquisitions. You can have multiple project managers during the course of the contract, the procurement contract, acquisition contract. Many of them don't have the requisite technical skills or technological know-how to always be able to fully manage or grasp or even write up the scope of the acquisition to be made. Combined with shortages in acquisition personnel to begin with and the extended burdens, the Federal Government is just not very well equipped to manage complex acquisition.

And then you ask yourself, what could go wrong with that? And of course, we know. We have documented in the GAO report 72 programs assessed, not one of them had proceeded to the system development meeting or the best practices standards. Weapons systems increasingly have cost overruns. The requirements process does not even take cost into account, which is amazing and would come, I am sure, as news to most citizens who pay the bills. What is your observation about whether the whole acquisition process is maybe broken and needs to be addressed?

Mr. SULLIVAN. I think excellent points, and we have been talking about that for quite some time. In fact, I believe that the Department is actually beginning to listen to some of that. There has been some initiatives recently that respond to that.

But if I could take them kind of one by one. The first one is the workforce issue, program managers, for example, in the Department of Defense. If we are talking about major weapons systems, those acquisition programs can take as long as 15 years just in development before they get into procurement. And in that period of time, you might have as many as six to eight program managers. They tend to spend about—we did a study on that not too long ago I believe—maybe 18 months is the average that the program managers are there. We believe that is a very good indicator that you are going to have trouble on a program. When you have that many managers, there is no continuity, and it is very difficult to manage something that way.

Mr. CONNOLLY. If I could interrupt just one second. Again, my experience on the other side of the table on this issue, each one of them has his or her own special needs that further refine the project at hand often, so that by the end of the project, if you have had multiple program managers, the scope of the project may actually look differently than the beginning of the process.

Mr. SULLIVAN. The scope of the project probably will look differently, and that is not just because of the program manager; that is a lot of the other pressures, the users, industry itself.

There are a lot of requirements created by these programs. That is a second thing that I would say is very undisciplined and poorly organized that they need to work on. They need to have shorter

programs. They need to have requirements that are understood. That is where the systems engineering, this workforce that they need to be able to look at requirements more and analyze those requirements in a systems engineering way so they can determine if they have the technologies and the knowledge and the money and the time to be able to build what it is that is coming before them as a requirement. And we have suggested many times that, when you are doing product development, you should probably limit yourself to no more than a 5-year effort and do it in an evolutionary way.

We view the F-16 as an example of a program that probably was done pretty well. They delivered the initial capability within 5 years, continued to deliver block upgrades to that for the next 30 years. And that is a pretty good fighter jet and has been for a long time.

Mr. CONNOLLY. One quick question, could the SAR, the selected acquisition reports program, be better utilized? It really hasn't changed much in 40 years.

Mr. SULLIVAN. Yes. The chairman was alluding to that a little bit, and as I mentioned there, timeliness could be improved. I think they have done a lot for getting the baselines more permanent. But we think that there are other elements that you could put into a selected acquisition report that kind of records the knowledge we are talking about, like technology maturity for instance. They could have an element in that report that records the technology maturity level at the time that the SAR begins and track that. You could have an element to check design maturity, which is another knowledge point that we talk about.

And they could do a lot more with manufacturing processes. As a program begins to move towards production, it is designed—there are indicators of design maturity that could be in there, and there are indicators of having control over your critical processes that could be in there as well. That is a lot of knowledge that would help people getting oversight of the programs.

Mr. CONNOLLY. Thank you.

Thank you, Mr. Chairman, so much, and I thank my colleague.

Chairman SPRATT. Thank you, Mr. Connolly.

Mr. Doggett.

Mr. DOGGETT. Thank you, Mr. Chairman.

I appreciate your efforts here and in the Armed Services Committee as well to literally get us more bang for our buck when it comes to this matter. And certainly, Mr. Sullivan, the important work that you and your team does has given us, if not more accountability at the Pentagon, at least kept us aware of how little accountability we have had over the huge amount of money. It seems we have shoveled out almost all of the money requested by the hundreds of billions of dollars to the Pentagon and a little bit more on top of that without assuring taxpayer protection.

I agree fully with one of my Republican colleagues earlier who said that President Obama has received the strongest military in the world from President Bush. Unfortunately, I think it is a much weaker military than he got from President Clinton, but nevertheless, it is and always should be the strongest military in the world. The other thing that was missing from that statement is that

President Obama also received a civilian military bureaucracy at the Pentagon that has given us more waste than any military in the history of the world. And I know you have worked to put in place systems to try to get at that waste because I think that our taxpayers ought to be getting more money—more benefit from the dollars being spent there than we have.

I want to direct your attention to the report that I questioned earlier. Was this new report on missile defense components that came from GAO this week prepared under your office?

Mr. SULLIVAN. Yes, it was. In fact, under our team. I wasn't the director involved on it, but I worked closely with those who did.

Mr. DOGGETT. Are the programs under the missile defense agencies, are they among the most expensive in the weapons systems at the Pentagon?

Mr. SULLIVAN. If you take the programs as a whole, I think the MDA is in the top three.

Mr. DOGGETT. And is this experience of having gone there, from GAO, 6 years in a row and trying to get them to give you the information you need to evaluate the programs and not get it even yet, has that been pretty typical of what you found with the weapons systems there?

Mr. SULLIVAN. I think it has been a lot more difficult for the teams that we have had going to MDA to get that kind of information, specifically because of the way it is structured, I think.

Mr. DOGGETT. Again, referring to earlier discussion, I think there is a feeling here that if Members of Congress or ideologues outside of Congress say this system works enough, that it will work, but when I look through the details of the report that your team there produced, I believe that, of the 10 components or 10 elements of the Missile Defense Agency, which vary significantly, that not a single one of them was on time and fulfilled. Only one out of nine could be said to fulfill all of its objectives, is that right?

Mr. SULLIVAN. I believe that is correct, sir. And I think one of the reasons for all of that is the way the MDA has been allowed to operate. And the MDA is really not even an acquisition program. It doesn't fall under—it has been exempt, if you will, from the acquisition policies at the Department, which we call the 5,000 series.

Mr. DOGGETT. So it has not even had to meet the standards that applied to other weapons systems?

Mr. SULLIVAN. That is right.

Mr. DOGGETT. Well, neither acquisition standards nor good science seems to apply there. I noticed in reading the report that, as it relates to the land-based system, the suggestion or the indication is that they, I think, they did about half the tests that they said they would do for last year and that you, your team concluded that they didn't have the information necessary because of the deficiencies in the sensory data to tell you whether the system would work or not. Is that about the bottom line of that?

Mr. SULLIVAN. That is, you know, as I said, I didn't work on that. But if our team said it, it is correct.

Mr. DOGGETT. Do you know if your team explored what the Congressional Budget Office reported again within the last few weeks concerning alternatives for missile defense in Europe?

Mr. SULLIVAN. Pardon me?

Mr. DOGGETT. The Congressional Budget Office, which also attempts to get a little accountability, has issued a report that there is an alternative to placing a permanent U.S. bases in the Czech Republic and Poland. If there is any protection to be offered at all from this missile defense system, can be done using existing U.S. bases; has that been an area of study by your office?

Mr. SULLIVAN. That is something I could get for the record if you want. We could go and ask the team that is doing that work.

Mr. DOGGETT. Thank you for the time, Mr. Chairman.

Thank you so much for your service. It sounds like we have hope now that there will be a little more cooperation at the Pentagon, and when you are there, and maybe we will have a happier report this time next year. I certainly hope so, and I think American taxpayers would hope so.

Chairman SPRATT. Thank you.

Let me echo what Mr. Doggett just said. Thank you for your very excellent testimony and for the fine work that the General Accounting Office, now the Government Accountability Office, has done for us. I think there will probably be a counterpart to Section 402 in this year's budget resolution to ask you to do this, so we can make it an annual affair. I think that would be healthy for us to know and not a bad thing for the Pentagon to have to respond to.

We thank you very much indeed for your efforts and for your testimony here today. Thank you for your participation.

I ask unanimous consent that any members having statements they would like to enter for the record or questions they would like to propose to the witness, you will have 7 days in order submit those for the record. Thank you very much. The hearing is adjourned.

[Questions for the record submitted by Mr. Aderholt follow:]

QUESTIONS FOR THE RECORD SUBMITTED BY MR. ADERHOLT

1. President Obama has made many comments about the creation of jobs. It seems to me that a glaring omission in this Administration's actions thus far is that the defense industry not only protects our nation, but also supports hundreds of thousands of jobs. Can you comment on how the forthcoming budget will take that into account, and how the budget will maintain some continuity in the procurement and manufacturing process?

2. As you are aware, the President and Congressional leadership do not want sole source contracts, especially on earmarked projects. As you know, any company currently can challenge such a contract and apply to do the work. If the President follows through on the denial of sole source contracts, is the Pentagon prepared to hire the extra personnel required to review all the contract applications, in order to ensure that programs and products are not dramatically delayed?

3. One of the Air Force's key war-fighting needs has been identified as updating America's fleet of aging refueling tankers. Yet in the past few weeks we have heard about a delay of up to five years to begin replacing the fleet. How can such a delay be justified given the fleet's importance to our nation's security?

4. If the decision were made to invest in dual-use defense research as an investment in future innovation and as an economic stimulus in what technologies should we invest to get the biggest benefits for both national security and for the commercial marketplace?

[Responses to questions for the record from Mr. Sullivan follow:]

RESPONSES TO QUESTIONS FOR THE RECORD FROM MR. SULLIVAN

Chairman Spratt

1. Could you describe in your view, the systems engineering deficiencies in the acquisition workforce?

The number of military and civilian personnel in DOD's systems engineering workforce has not kept up with the growth in the number of major defense acquisition programs. According to DOD's Selected Acquisition Reports, the number of major defense acquisition programs grew from 71 to 89 from fiscal year 2001 to fiscal year 2007. We recently reported that over the same time, the number of systems engineers in the acquisition workforce declined from 34,899 to 34,710.

It is difficult to assess the extent of DOD's systems engineering deficiencies because DOD lacks critical departmentwide information in several areas necessary to assess, manage, and oversee its acquisition workforce. Specifically, the Office of the Undersecretary of Defense for Acquisition, Technology and Logistics does not have key pieces of information regarding its in-house acquisition workforce, such as complete data on skill sets, which are needed to accurately identify its workforce gaps. In addition, it lacks information on the use and skill sets of contractor personnel performing acquisition-related functions. To address these issues we have recommended that DOD identify and update on an ongoing basis the number and skill sets of the total acquisition workforce—including civilian, military, and contractor personnel—that the department needs to fulfill its mission.

2. Would you give us your recommendations as to what should be done with respect to process and with respect to personnel to really make our acquisition system far more efficient and effective?

With respect to process, DOD will need a comprehensive approach that not only addresses problems in the acquisition process, but the requirements and funding processes as well. For example, at the strategic level, DOD's processes for identifying warfighter needs, allocating resources, and developing and procuring weapon systems—which together define DOD's overall weapon system investment strategy—are fragmented and broken. At the program level, the military services propose and DOD approves programs without adequate knowledge about requirements and the resources needed to execute the program within cost, schedule, and performance targets. While DOD has made some progress in addressing these challenges, DOD must take the following additional actions to improve its overall acquisition outcomes: (1) make better decisions about which programs should be pursued or not pursued given existing and expected funding; (2) develop an analytical approach to better prioritize capability needs; (3) require new programs to have manageable development cycles; (4) require programs to establish knowledge-based cost and schedule estimates; and (5) requiring contractors to perform detailed systems engineering analysis before proceeding to system development.

With respect to personnel, DOD must sure it has an acquisition workforce that is the right size and has the right skills to execute its major defense acquisition programs. In our March 2009 report on DOD's acquisition workforce, we recommended that DOD take four actions to address this issue. First, DOD should collect and track data on contractor personnel who supplement the acquisition workforce—including their functions performed, skill sets, and length of service—and conduct analyses using these data to inform acquisition workforce decisions regarding the appropriate number and mix of civilian, military, and contractor personnel the department needs. Second, DOD should identify and update on an ongoing basis the number and skill sets of the total acquisition workforce—including civilian, military, and contractor personnel—that the department needs to fulfill its mission. DOD should use this information to better inform its resource allocation decisions. Third, DOD should review and revise the criteria and guidance for using contractor personnel to clarify under what circumstances and the extent to which it is appropriate to use contractor personnel to perform acquisition-related functions. Fourth, DOD should develop a tracking mechanism to determine whether the guidance has been appropriately implemented across the department. The tracking mechanism should collect information on the reasons contractor personnel are being used, such as whether they were used because of civilian staffing limits, civilian hiring time frames, a lack of in-house expertise, budgetary provisions, cost, or other reasons. DOD concurred with the last three of the recommendations and noted that implementing the first will require careful consideration before making it a contract requirement.

Representative Doggett

1. The Congressional Budget Office has issued a report that there is an alternative to placing permanent U.S. bases in the Czech Republic in Poland for missile defense. If there is any protection to be offered at all from the missile defense system, can it be done using existing U.S. bases? Has this been an area of study for GAO?

We have not evaluated the Congressional Budget Office study on missile defense alternatives and did not address this issue in our recent reports.

[Whereupon, at 1:12 p.m., the committee was adjourned.]

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