

DEPARTMENT OF DEFENSE REFORM: OVERCOMING OBSTACLES TO EFFECTIVE MANAGEMENT

HEARING

BEFORE THE

COMMITTEE ON ARMED SERVICES UNITED STATES SENATE

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

NOVEMBER 17, 2015

Printed for the use of the Committee on Armed Services



Available via the World Wide Web: <http://www.fdsys.gov/>

U.S. GOVERNMENT PUBLISHING OFFICE

22-191 PDF

WASHINGTON : 2016

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

COMMITTEE ON ARMED SERVICES

JOHN McCAIN, Arizona, *Chairman*

JAMES M. INHOFE, Oklahoma	JACK REED, Rhode Island
JEFF SESSIONS, Alabama	BILL NELSON, Florida
ROGER F. WICKER, Mississippi	CLAIRE McCASKILL, Missouri
KELLY AYOTTE, New Hampshire	JOE MANCHIN III, West Virginia
DEB FISCHER, Nebraska	JEANNE SHAHEEN, New Hampshire
TOM COTTON, Arkansas	KIRSTEN E. GILLIBRAND, New York
MIKE ROUNDS, South Dakota	RICHARD BLUMENTHAL, Connecticut
JONI ERNST, Iowa	JOE DONNELLY, Indiana
THOM TILLIS, North Carolina	MAZIE K. HIRONO, Hawaii
DAN SULLIVAN, Alaska	TIM Kaine, Virginia
MIKE LEE, Utah	ANGUS S. KING, JR., Maine
LINDSEY GRAHAM, South Carolina	MARTIN HEINRICH, New Mexico
TED CRUZ, Texas	

CHRISTIAN D. BROSE, *Staff Director*

ELIZABETH L. KING, *Minority Staff Director*

CONTENTS

NOVEMBER 17, 2015

	Page
DEPARTMENT OF DEFENSE REFORM: OVERCOMING OBSTACLES TO EFFECTIVE MANAGEMENT	1
Walker, Hon. David M., Former Comptroller General of the United States	5
Punaro, Major General Arnold L., USMC (Ret.), Member of the Defense Business Board	10
Spencer, Richard V., Former Member of the Defense Business Board	30
Bisaccia, Lisa G., Executive Vice President and Chief Human Resources Offi- cer, CVS Health Corporation	34
Questions for the Record	60

DEPARTMENT OF DEFENSE REFORM: OVERCOMING OBSTACLES TO EFFECTIVE MANAGEMENT

TUESDAY, NOVEMBER 17, 2015

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The committee met, pursuant to notice, at 9:35 a.m. in Room SD-G50, Dirksen Senate Office Building, Senator John McCain (chairman) presiding.

Committee members present: Senators McCain, Inhofe, Ayotte, Fischer, Cotton, Rounds, Ernst, Sullivan, Lee, Reed, Nelson, McCaskill, Manchin, Gillibrand, Blumenthal, Donnelly, Hirono, Kaine, King, and Heinrich.

OPENING STATEMENT OF SENATOR JOHN MCCAIN

Chairman MCCAIN. Well, good morning, all.

Before we begin, I'd like to briefly address recent events of profound consequence to the work of this committee. Over the past few weeks, the massacre in Paris, attacks in Beirut, Baghdad, and Ankara, and the likely bombing of a Russian airliner, now confirmed by the Russians, over Egypt have signaled the beginning of a new phase of ISIL's [the Islamic State of Iraq and the Levant] war on the civilized world. This committee has held several hearings on U.S. strategy against ISIL over the past several months, yet no administration witness to date has presented a plausible theory of success to degrade and destroy ISIL. With ISIL determined to launch more attacks across the globe, we cannot afford more of the same insufficient strategy. And in the coming weeks and months, this committee will continue to focus our oversight on the urgent development of a new strategy to achieve the decisive and lasting defeat of ISIL.

The committee meets this morning to continue our series of oversight hearings focused on defense reform. Today, we will focus on reforming the management of the Department of Defense. This is a perennial and enormously costly problem, precisely because it's one of the most difficult. But, if the Department is to meet the diverse and complex national security challenges that our Nation confronts around the world both now and in the future, it must make far more effective and efficient use of its resources, especially when budgets are tight.

We're very fortunate to have a distinguished group of witnesses to discuss how to overcome the obstacles to better management in

the Department of Defense: The Honorable David Walker, former Comptroller General of the United States, who has a long and very productive relationship with this committee; Major General Arnold Punaro, member of the Defense Business Board, as well as former Staff Director of this committee, which he did a terrible job while he was a member—

[Laughter.]

Chairman MCCAIN. Mr. Richard V. Spencer, a former member of the Defense Business Board with a decades—with decades of experience in the private sector; and Lisa Bisaccia, Executive Vice President and Chief Human Resources Officer at CVS Health Corporation. I'd like to point out that, while CVS has the misfortune of being headquartered in the State of Rhode Island, it does have more than 6,000 employees and over 500 pharmacists working in Arizona, administering some of our Nation's—administering some of our Nation's most important Federal health programs. And we're thankful for the work that they do.

The United States military is without peer in delivering combat capability anywhere on the globe. Our soldiers, sailors, airmen, and marines are the greatest fighting force the world has ever seen. However, it's also the case that the management, what is sometimes called the “back office” of the Department of Defense, is in dire need of improvement. In constant dollars, our Nation is spending about the same as we did three decades ago. However, for this money today, we're getting 35 percent fewer combat brigades, 53 percent fewer ships, 63 percent fewer aircraft squadrons, and a lot more overhead. How much more is somewhat unclear, because the Department cannot even produce complete and reliable data on its overhead expenses.

What we do know is, these reductions in combat power have occurred while the Department's overhead elements, especially its contracted workforce, have exploded. Nearly 1.1 million personnel now perform overhead activities in the defense agencies, the military departments, and the service staffs. And the money spent on these overhead functions is staggering. Indeed, of the top 10 entities that contract for business with the Department of Defense, half of them are the Department's own agencies. In annual dollars, the Defense Logistics Agency does nearly twice as much business with the Department as Lockheed Martin.

A few years ago, an analysis by McKenzie & Company found that less than one-quarter of Active Duty troops were in combat roles, with a majority instead performing overhead activities. Recent studies by the Defense Business Board and others confirmed that little has changed in this regard. The United States tooth-to-tail ratio is below the global average, including such countries as Russia, India, and Brazil. For years, decades in some cases, the Government Accountability Office [GAO] has identified some of the major overhead and headquarters functions of the Department of Defense at being at high risk of waste, fraud, abuse, and duplication of effort. Business systems modernization and transformation, supply chain management, contract management, infrastructure management, and financial management have all been on GAO's high-risk list for years. And yet, these problems have grown through administrations of both party, and persist to this day.

It is not as if the Department has not tried to address these problems. Indeed, it has spent billions of dollars to bring so-called, quote, “private-sector best practices” into the Department of Defense through the adoption of commercial off-the-shelf information technology programs. Unfortunately, these efforts have little to show for them. Information technology programs intended to create lasting business transformation at the Department have either collapsed from their own weight and size, such as the Air Force’s Expeditionary Combat Support System, or were merely reconfigured, at great cost, to replicate the inefficient and outdated business processes that the Department of Defense was already employing.

In order to improve its management skills and transform its business process, the Department has also paid consultants and contractors billions of taxpayers’ dollars to conduct analysis of problems in the areas of supply chain, logistics, financial management, and contract management. Here, too, there is precious little to show for the effort, which has persisted over decades. But, despite this spending, none of the high-risk areas that GAO has identified have been removed from that list. What’s worse, it’s hard to address management problems when you lack basic data that are essential to understanding and diagnosing those problems. And yet, that is the case with the Department of Defense.

Here is how former Secretary of Defense Robert Gates described the dilemma. He said, quote, “My staff and I have learned that it was nearly impossible to get accurate information and answers to questions such as, ‘How much money did you spend?’ and, ‘How many people do you have?’” The result is not just greater inefficiency and wasted resources, it also harms the effectiveness of the Department of Defense; and thus, our national security.

The result of these shortfalls in information, as Secretary Gates has explained, is that Department leaders and their overseers in Congress cannot measure the results of our national security policies or make judgments about priorities for our military or accurately assess the tradeoffs involved in different courses of action. If the Department cannot do these basic things, it will struggle to be effective. We cannot afford to continue on this way. The stakes are too high, and the consequences of failure are too dire.

I thank our witnesses for helping us to better understand these defense management problems and how to overcome them.

Senator Reed.

STATEMENT OF SENATOR JACK REED

Senator REED. Well, thank you very much, Mr. Chairman.

Let me join you in thanking our witnesses for coming here to the panel and to testify, with their great expertise, on the difficulties of managing the largest organization in the world, the Department of Defense, and how, more importantly, such management can be improved, which it must be, as the Chairman has pointed out.

Each of our witnesses has a unique perspective, both inside and outside the government, and will help significantly improve the committee’s review of possible reforms to the Department of Defense. Thank you all.

I’d like to extend a special welcome to Lisa Bisaccia. Lisa is an Executive Vice President and Chief Human Resources Officer for

CVS Health Corporation, which the Chairman noted is headquartered in Rhode Island, but it has a much larger presence in Arizona. So, that's why they're—she—he's—she's here today, I think.

Chairman MCCAIN. I understand why they moved there.

Senator REED. Yes, yes. Yeah.

[Laughter.]

Senator REED. CVS is also the recipient of the 2015 Secretary of Defense Employer Support Freedom Award for its support of employees who serve in the National Guard and Reserves. So, thank you for joining us today, Lisa, very much.

The Pentagon, with its fundamental mission being the defense of our Nation, is not a business, in a classic sense, and it's unrealistic, in some respects, to believe it would completely operate like a business. However, there may be important process and organizational lessons learned from the private sector that can and must help the Department to accomplish their mission and our objective, which is make them more effective in the face of new threats, globalization of technology, and budget uncertainty.

Although DOD [Department of Defense] and commercial industry measures success in different ways and we are under different constraints, in terms of laws and regulations and congressional oversight—that is, the Department of Defense—there are still many challenges that the Department of Defense shares with the commercial world. For example, both DOD and the commercial sector are continuously striving to reinvent themselves against external competitors. Both are trying to attract and grow the best talent. And both are trying to find the best partners so that their goals can be achieved as efficiently and effectively as possible.

During last week's hearing, Jim Locher proposed that DOD adopt the concept of cross-functional teams, a private-sector innovation that is designed to integrate representatives with relevant organizational components to rapidly address a specific problem or set of problems. Mr. Locher made the point that there is currently no place in the DOD where such functional expertise can be brought together quickly by the Secretary or Deputy Secretary of Defense. I hope today's witnesses will build upon that discussion by relating examples from their corporate experiences that will help us better frame the question we need to ask, the scope and the changes we need to make, and the likely resistance we will face when we do so.

Specifically, I hope that our witnesses will touch on organizational individual incentives that encourage a culture of continuous improvement and innovation in the DOD workforce. For example, Can such an effort be supported through changes in management policy, organizational structures, hiring, training, and compensation practices or increased engagement with the commercial sector? I hope, also, that our witnesses will shed light on methods for attracting and employing the most effective workforce for all DOD missions, ranging from operational warfighting, to performing cutting-edge research, to managing a huge and complex defense enterprise.

I think that the common thread connecting these issues is the importance of good, modern, innovative management and govern-

ance. And I'm confident that DOD and this committee can learn a lot from the commercial experiences in these areas. And I look forward to your testimony.

Thank you, Mr. Chairman.

Chairman MCCAIN. I welcome the witnesses.

Mr. Walker, welcome back.

**STATEMENT OF HON. DAVID M. WALKER, FORMER
COMPTROLLER GENERAL OF THE UNITED STATES**

Mr. WALKER. Chairman McCain, Ranking Member Reed, members of the Armed Services Committee, thank you for the opportunity to be here today.

My testimony will be based upon my experience as head of GAO, a former member of the Defense Business Board, and a senior strategic advisor with PricewaterhouseCoopers today. But, these will be my personal views.

Chairman MCCAIN. Before you continue—

Mr. WALKER. Yes, sir.

Chairman MCCAIN.—all the written testimony of the witnesses will be made part of the record.

Please proceed.

Mr. WALKER. Thank you. Thank you, Senator. I will move to summarize.

As you mentioned, Mr. Chairman, DOD has seven high-risk areas directly. It also shares two other high-risk areas. DOD, in its latest January 2015 report, noted that they are making progress to differing degrees, but yet none of the items have come off the list in recent years. GAO has consistently stated that the responsibility for the overall business transformation effort needs to be a full-time endeavor, and it needs to be led by a person with an appropriate level of expertise and prior experience. The new Under Secretary of Defense for Management and Information position is at a higher level, but I am concerned that the way that it's structured will not maximize the chance of success, nor will it maximize the ability to integrate a number of other submanagement functions within the Department of Defense.

Specifically, I believe that the new position should be at the Deputy Secretary level and that all key DOD-wide management functions should report to this position. By doing so, it would result in a reasonable separation of duties and span of control for the two resulting deputies. Specifically, the existing Deputy would be focused on policy and external matters, and the new Deputy would focus on internal and management matters, including all business transformation initiatives. The new CEO [chief executive officer] should be appointed based upon specific statutory qualification requirements. In my view, it is highly preferable that that CMO [chief management officer] have both public- and private-sector experience. And ideally, the new Deputy for Management and CMO would have a term appointment of 5 years, with a performance contract. The above approach is much more consistent with what GAO and I recommended 10 years ago to help accelerate and better institutionalize the large, complex, and multidimensional business transformation effort within DOD.

Importantly, it will take more than one person. Any—one CMO is not going to make the difference to achieve sustainable success. DOD needs to review and reconsider its approach to the appropriate appointment process and reporting lines for the military services and fourth-estate CMOs, as well. In my view, all military service and fourth-estate CMOs need to be appointed by the Secretary of Defense, with the advice of the new DOD Deputy for Chief Management Officer. These appointments should be based, also, on statutory qualification requirements, and should involve a requisite period of time with a performance contract.

Based on my past experience, the DOD is currently organized and operating under management models that were prevalent in the 1950s, and it's been doing so for many years. It's also clear that an increasing portion of DOD's budget is being allocated to administrative and overhead costs, and DOD still has far too many uniformed personnel in civilian positions. As a result, there needs to be a fundamental review and reassessment of the current organizational structure, operational and personnel practices within DOD. Specifically, there needs to be a baseline review of all current organizations and key positions to determine their continued appropriateness.

In addition to that, we know that more and more of the budget of DOD is being spent on healthcare, disability, and other types of costs. These programs also need to be reviewed and reconsidered.

I can—I have firsthand experience in making transformational change happen in the government. At DOD—pardon me—at the GAO, for example, we engaged in a similar transformation effort. The result was as follows. We reduced our footprint by a third. We eliminated a layer of management. We consolidated 35 organizational units into 13. We upgraded our management, information, and knowledge-sharing system. We revitalized our recruiting, training, and succession planning functions. We infused new talent from the private sector and elsewhere in government into the agency. We restructured our performance management reward systems. We reduced our personnel by 13 percent. And, despite that, our outcome-based results were tripled during that period of time. This approach is transferable and scalable within government if you have the right people in the right jobs for the requisite amount of time, which we don't in DOD at the present point in time.

The DOD culture is very mission-focused and chain-of-command-oriented. When a decision is made to take a specific action, no matter what the nature of the action is, and when it's no longer realistic or when there have been changes in conditions on the ground or within the Department, there is a hesitancy to change course. There's also a hesitancy to tell—to state the ground truth with regard to where things are. And, as a result, there are significant expectation gaps that exist within the Department with regard to major management and other activities. These expectation gaps result in additional cost and other adverse outcomes.

In summary, DOD personnel are capable, caring, and totally committed to the mission of protecting the national security interests of the United States. We have good people in a bad system. We also have the best military capabilities in the world, and no one else is close at this point in time. At the same point in time, the

Pentagon has become a bloated bureaucracy, and overhead costs are way too high. There are too many layers, players, and hardened silos in the DOD. This is both undesirable and unsustainable. The Pentagon needs to be streamlined and simplified in order to free up resources for direct mission-critical activities. This will involve deciding what needs to be done, who needs to do it, and how best to accomplish the objective between public- and/or private-sector personnel, as well as how we measure success.

We can succeed in this effort, but we need to have the right people in the right job for the requisite period of time, and we need to change our performance measurement reward systems to incent innovation and to hold people accountable for real results or the lack thereof.

Thank you again, Mr. Chairman. More than happy to answer the questions of this committee.

[The prepared statement of Mr. Walker follows:]

PREPARED STATEMENT BY HON. DAVID M. WALKER

Chairman McCain, Ranking Member Reed, and members of the Senate Armed Services Committee, thank you for the opportunity to testify today. My testimony is based on my past positions of Comptroller General of the United States and head of the U.S. Government Accountability Office (GAO), as a prior member of the Defense Business Board (DBB), and my current position as a Senior Strategic Advisor for PricewaterhouseCoopers' (PwC) Public Sector Practice. While my comments are based on my experience in all of these positions, they represent my personal views and not the views of the respective organizations.

Today's hearing is on business transformation and management challenges within the U.S. Department of Defense (DOD). As you know, DOD has by far the most items on the GAO's High Risk List. Specifically, DOD has seven direct high risk areas (i.e., Business Transformation, Systems Modernization, Infrastructure Management, Supply Chain Management, Financial Management, Weapons Systems Acquisition, and Contract Management). DOD also shares certain Government-wide High Risk items (e.g., Human Capital, Real Property). These high risk areas cost the DOD and American taxpayers many billions of dollars every year in waste and inefficiency.

Importantly, GAO has noted in its most recent High Risk Report Update that progress is being made on these High Risk areas to differing degrees. GAO also noted that the leadership within DOD has been much more supportive of the needed transformation efforts in recent years, especially in connection with the financial management, supply chain management and contract management areas. However, according to the GAO's latest High Risk Report dated January 2015, the DCMO office had a limited impact on accelerating the business transformation process up to that point in time. Importantly, there has been significant turnover in this office since its creation. Peter Levine was confirmed as the current DCMO in late May. He has been fully engaged in a range of business transformation efforts. GAO has not issued a report on the DCMO office's activities since his confirmation.

GAO has consistently stated that the responsibility for the overall business transformation effort is a full-time endeavor that needs to be led by a person at an appropriate level with requisite prior experience. The new Under Secretary of Defense for Management and Information position has the potential to make a bigger difference if the right type person is appointed. However, I am concerned that this new CMO (PAS Level 2) position is not structured to maximize the chance of success or in a manner that could help to facilitate a needed delayering and integration of the key management functions within DOD.

Specifically, I believe that the new position should be at the Deputy Secretary level and that all key DOD-wide management functions, including the Comptroller, AT&L, Personnel and Readiness, Information Management, etc. should report to this position. By doing so, it would result in a reasonable separation of duties and span of control for the resulting two Deputies. Specifically, the existing Deputy would be focused on policy and external matters and the new Deputy would focus on internal and management matters, including all business transformation initiatives.

The new CMO should be appointed based on specific statutory qualification requirements. Such requirements should include the individual having significant leadership and operational management experience as well as a demonstrated track record of achieving transformational change. In my view, it is highly preferable for the new CMO should have both public and private sector experience given the nature of the DOD and its key stakeholder groups. Ideally, the new Deputy would have a term appointment (e.g., five years) with a performance contract. Under this approach, you would also have an opportunity to reconsider the proper level and titles for various positions that report to the new Deputy - CMO.

The above approach is much more consistent with what GAO and I recommended about 10 years ago to help accelerate and better institutionalize the large, complex and multi-dimensional business transformation effort within DOD. I respectively suggest that Congress reconsider the nature of this new Level 2 position and the related possibility for restructuring related management positions and functions so they could be effective at the beginning of the next Administration. Importantly, it will take more than one key person (DOD CMO) to achieve sustainable success. DOD needs to review and reconsider its approach to the appropriate appointment process and reporting lines for the Military Services and "Fourth Estate" CMO's as well.

In my view, all Military Service and Fourth Estate CMO's need to be appointed by the SecDef with the advice of the DOD CMO. These appointments should also be made based on statutory qualification requirements and should be for a specified term with a performance contract. The SecDef should be able to use his/her temporary appointment authority to fill these positions in a timely manner but that authority should be modified to be able to make such appointments for up to five years. This approach would help to enhance the quality and consistency of DOD CMO's while also increasing continuity within these key positions. The resulting CMO's should have dual solid line reporting authority to the head of the Service or Fourth Estate entity and to the DOD CMO. Any resulting conflicts would be resolved by the SecDef, as and if necessary.

Based on my past experience, the DOD is currently organized and operating under management models that were prevalent in the 1950s and has been doing so for many years. It is also clear that an increasing portion of DOD's budget is being allocated to administrative and overhead costs. For example, according to the Congressional Budget Office (CBO), Defense Health Agency, BAH and housing, and total civilian compensation costs, costs grew by 101 percent, 59 percent and 35 percent in excess of inflation during the period 2000–2014, respectively. The DOD still has far too many uniformed personnel in civilian oriented positions. In addition, DOD's escalating health care, disability and other employee benefits related costs are crowding out the ability to enhance force structure and modernize weapons systems. As a result, there is also a clear need to restructure these programs in a fair and equitable manner.

Given the above, there needs to be a fundamental review and reassessment of the current organizational structure, operational and personnel practices within DOD. Specifically, there needs to be a baseline review of all current organizations and key positions to determine their continued appropriateness. Some need to be eliminated and others need to be consolidated. This fundamental review and reassessment needs to be driven from the top with the clear support of the Secretary of Defense (SecDef) and the committees of jurisdiction in Congress.

I have some first-hand experience making this type of transformational change a reality in the federal government. For example, when I was Comptroller General we undertook a comprehensive review and reassessment of GAO's organization and operational practices. The objective of this effort was to modernize GAO's organization and operations to improve performance in a time of resource constraints. Among other things, I wanted GAO to maximize its mission related resources with adequate but controlled mission support capabilities. My philosophy was to minimize the number of layers, players and organization entities in order improve both flexibility and accountability. This transformation effort resulted in, among other things, an elimination of 1/3 of GAO's footprint, elimination of a layer of management, the consolidation of 35 organizational units into 13, an upgrade of our management information and knowledge sharing systems, a revitalization of GAO's recruiting, training and succession planning functions, an infusion of new talent within the agency, a fundamental restructuring of GAO's performance management and reward systems, and a 13 percent reduction in the number of personnel. At the same time, GAO's outcome-based results more than tripled during my tenure. This type of transformation effort is transferable and scalable within government, including within DOD, but it takes a commitment from the very top, the right type people to lead it, and adequate time and resources to achieve sustainable success.

Importantly, some progress is being made in certain business lines within the DOD that has resulted in real cost reductions and service improvements. For example, major process improvements and accountability mechanisms within USTRANSCOM have resulted in about \$1.5 billion in real savings and 10–20 percent service level improvements. This type of cost reduction focused process improvement and performance enhancement is also transferable and scalable. Progress has been made in other business lines in the past, including NAVSEA. The real question is - “How can we best proliferate and sustain these business transformation efforts and promote continuous improvement within DOD.”

Despite the above, the American people continue to see periodic examples of clear waste and mismanagement within the federal government, including within the DOD. One recent example is the multi-million dollar warehouse in Afghanistan that was built even though it was not needed and is still not being used. While this does not involve a lot of money given the size of the DOD budget, it is symbolic of a systemic problem within the DOD that needs to be addressed.

The DOD culture is very mission focused and chain of command oriented. When a decision is made to take a specific action, no matter what the nature of the action is, efforts are undertaken to do so even when the action is not realistic or no longer makes sense. Many people within DOD hesitate to speak candidly and to advise their superiors to change course when current conditions and subsequent events dictate that a change in course is clearly called for. In addition, there are too many cases where DOD leaders are told what people think they want to hear rather than what that need to hear based on the “ground truth”. As a result, there are too many cases where expectation gaps exist and bad news comes as a surprise. Furthermore, when failure and mismanagement occurs, there is rarely anyone who is held accountable. This is simply unacceptable and it serves to undercut the American people’s trust and confidence in government.

Another key cultural challenge is the fact that too many people in DOD think they have a “veto” over key cross organizational initiatives within the department. Additional steps need to be taken to make it clear that the responsible official for major DOD transformation issues has the full support of the SecDef and playing “rope a dope” or attempting to exercise “pocket vetoes” are unacceptable practices that will not be tolerated. This includes people at all levels, including PAS positions. My previously mentioned recommendations to establish a second Deputy level CMO position and to integrate and modify the reporting lines for various internal management functions can help to address this problem.

In my view, these cultural and accountability issues need to be addressed head-on in the recruiting, training and performance management systems within the DOD. These changes need to be combined with enhanced incentives, transparency and accountability mechanisms for major business transformation projects within the Department. Individuals who make strong contributions should be recognized and rewarded and those who fail to do their part or act irresponsibly should be held accountable, including being demoted or fired in appropriate circumstances.

I believe that additional steps need to be taken to gain additional private sector expertise within the DOD in connection with major transformation efforts. This would be a supplement to rather than a substitution for the CMO positions noted previously and selected independent contractor efforts. DOD could accomplish this through using the temporary appointment authority that the SecDef has to appoint persons at any civilian level to perform specified functions. This could be particularly helpful in connection with addressing highly technical information technology, financial management and other operational matters. I had similar authority when I was Comptroller General. I used it to fill critical mission and mission support positions in a timely manner with qualified personnel. It clearly made a difference in connection with the GAO’s transformation effort and it can make an even bigger difference in connection with the DOD’s transformation efforts.

Furthermore, adequate resources and control mechanisms need to be provided to the individual who is responsible and accountable for any major transformation initiative. As has been said, individuals must have the authority, as well as reasonable levels of human and financial resources in order to get the job done if they are to be held accountable.

With regard to financial management and audit issues, I am concerned that an “expectation gap” may exist regarding the current state of the audit readiness efforts and when and how a successful audit of DOD’s consolidated financial statements can best be achieved in a reasonably timely and cost-effective manner. One possibility is to use the SecDef’s temporary authority to bring in a retired audit partner from a major CPA firm on a full-time basis to help with the Department’s FIAR efforts. I am confident that DOD could find a qualified person who would be willing to give several years of public service to his/her country in connection with

this important initiative. I am also confident that there are similar people in other disciplines who would be willing to do the same in connection with other key DOD business transformation initiatives if this approach was made a priority within DOD. These could be great Capstone opportunities for successful private sector leaders who have achieved financial and other success and who want to do something for their country.

The new Chairman of the DBB recently asked me to suggest a few areas that the DBB might best address. I suggested several, including the FIAR and related financial management and reporting issues (e.g., financial reporting and the DOD audit, internal controls, cost accounting and performance management information, and related governance issues); DOD bureaucracy streamlining and shared service opportunities; DOD/VA coordination and selected integration, and; disability and retirement program reforms, especially retiree health care for individuals who are working with no service related injuries or serious impairments in light of the ACA. The Chairman has stated that he would like to meet with me in the near future to discuss these areas further.

The truth is, DOD personnel are mission focused and totally committed to the mission of protecting the national security interests of the United States. We have the best military capabilities in the world and no one else is close to us at this point in time. At the same time, the Pentagon has become a bloated bureaucracy and overhead costs are way too high. There are too many layers, players and hardened silos within DOD. This is both undesirable and unsustainable.

The Pentagon needs to be streamlined and simplified in order to free up resources for direct mission critical activities. This will involve deciding what needs to be done, which DOD entity should be responsible, how best to accomplish the objective, whether it should be performed by public and/or private sector personnel, and how we should measure success. In addition, effective internal controls and related performance management systems and accountability mechanisms need to be in place to ensure the economy, efficiency and effectiveness of DOD's ongoing activities. When the new CMO position is filled and operationalized, that person needs to bring a "tough love" attitude to DOD. They will also need to support of the Congress, the President, and the SecDef in order to achieve sustainable success. We can succeed in this effort with the right people and approach; however, it will take years.

Thank you again for the opportunity to testify today. I would be happy to answer any questions you may have.

Chairman MCCAIN. General Punaro.

**STATEMENT OF MAJOR GENERAL ARNOLD L. PUNARO, USMC
(RET.), MEMBER OF THE DEFENSE BUSINESS BOARD**

General PUNARO. Mr. Chairman, Senator Reed, members of the committee, I, also, want to thank you for the privilege of testifying on the urgent need to get the full cost of DOD's massive overhead and infrastructure identified, analyzed, and ultimately under control, but, most importantly, reduced from both a cost and people standpoint.

Mr. Chairman, as part of my prepared statement you put in the record, I included a presentation that I made as chairman of the Defense Reform Task Force to Secretary Don Rumsfeld in March 2001 with a series of recommendations on how to control DOD's infrastructure, which, at the time, was \$100 billion. Today, it is \$240 billion, and larger than the GDP [Gross Domestic Product] of the country of Ireland. So, the growth in defense infrastructure has been continuous. The tendency has been to add, rather than subtract. As we have added more staff, more layers, and more infrastructure, we have slowed the decision process, expanded the number of players, and made the over system more risk-averse at a time when we need to take more risk and make quicker decisions. If we wait for certainty, we will have waited too long and imperiled our warfighting forces as they continue to decrease.

We must distinguish between working hard and working well. And with the fiscal pressures we face, with the strategic challenges erupting all around us, with the operational demands accumulating on the force, we can no longer afford the luxury of a growing imbalance between what we must feel operationally and what we feel managerially. We need to generate more combat power from our military end strength and the fiscal resources associated with it, not less. And today we are fielding less in what I have called the ever-shrinking fighting force.

So, I applaud the committee for taking a hard look at this problem. But, any Pentagon reforms will be insufficient without serious reforms in the Congress as well as reforms in the National Security Council and OMB [Office of Management and Budget]. And I've put a long list of my recommended reform in these areas in my prepared statement.

A major problem in defense today, as you pointed out, Mr. Chairman, is the internal composition of the defense budget, how the internal Pac-Man of growing costs in personnel, acquisition, and overhead are gobbling up our warfighting forces. In constant dollars, we are spending more today than we spent at the peak of the Reagan buildup, roughly 30 percent more, but the warfighting forces are 40 to 50 percent smaller. You've made this point very clear. However, defense-wide spending has gone from 5 percent to 20 percent of the budget. And again, infrastructure running about 240 billion, with over a million people. The defense agencies have grown in number, scope, and cost. And they're not just defense agencies, these are large business enterprises that account for over 20 percent of all the money that DOD spends. And you have the ballooning of the defense agencies, the OSD [Office of the Secretary of Defense], the combatant commands, and many other overhead organizations. The Office of the Secretary of Defense alone, we believe, has 5,000 people. Some argue it's even higher. The Defense Department would probably argue it's lower. And there are too many layers in the bureaucracy. Twenty-eight layers of—

Chairman MCCAIN. Excuse me. You said the Office of Secretary of Defense has 5,000 people?

General PUNARO. Mr. Chairman, all our analysis shows that if you add the number of military, civilians, contractors, it's roughly between 5- and 8,000. Typically on their books at Washington Headquarters Services, they tell you it's either 2,200 or 3,000. And so, if you add in the DOD IG [Inspector General] and associated, it could be 10,000 people.

Chairman MCCAIN. Thank you.

General PUNARO. Twenty-eight layers, way too many.

Another problem is—David Walker has pointed out—too many of our Active Duty military personnel, over 330,000 Active Duty military, are performing commercial activities that could be done by civilians or contractors, and frankly, many not done at all. So, before listing my recommended course of actions, you need to address the basics of DOD infrastructure and overhead. How big is it? How much does it cost? What size do you want it to be? Questions are easy. The answers are very difficult. Let me give you my suggestions on some of the answers:

Number one, establish a firm benchline of headquarters organizations and activities, including OSD, JCS [Joint Chiefs of Staffs], combatant commands, defense agencies and field activities, service headquarters and commands, including the layers of management. Mr. Chairman, we have got to come to an agreement on the definitions and the baseline.

Number two, then require DOD to report, in the Annual Defense Manpower Requirement Report, all categories of personnel in the overhead and infrastructure functions.

Number three, also require DOD to report the Annual Defense Manpower Requirements Report, the fully burdened and lifecycle costs of all categories and personnel. Not the budgeted costs, but what the true cost to the taxpayer is over the lifecycle of these personnel for Active Duty, Guard and Reserve, defense civilians, defense contractors, and federally funded research and development. These are the people that work in the overhead.

Number four, legislate end strengths for military, civilians, and contractors to be assigned to and employed by the various overhead and infrastructure functions once these headcount costs are firmly established. And I know there will be a lot of pushback when you say, "Let's legislate end strengths for overhead." But, in the late '70s, there were no end strengths for Active Duty, personnel, or Guard or Reserve. This committee put them into law, and they've worked pretty well, so I believe that's something that you could do.

Number five, reduce the number of senior officials to include the number of Under Secretaries, Principal Deputies, Deputy Assistants, Deputy Unders, and other layers, while improving the supervisor-to-led ratios.

Number six, review the Goldwater-Nichols legislation in the context that the joint approach is now accepted and our most senior military leaders no longer need all the strictures of the legislation. Organizations, processes, and restrictions brought in by that legislation could be eliminated.

Number seven, approve another round of BRAC [Base Realignment and Closure] using an improved process. Carrying excess facilities costs billions of dollars every year.

Number eight, reauthorize the A-76 process. Congress should lift the moratorium on A-76 public/private competitions, but revise the procedures to make it fair.

Number nine, eliminate duplications. There are numerous places in the Pentagon—

Chairman MCCAIN. Let me—

General PUNARO.—where we have significant—

Chairman MCCAIN. Let me—for the benefit of the record, describe A-76.

General PUNARO. Mr. Chairman, I'm not a—the A-76 is the opportunity where a local base commander will look at a commercial function and decide whether it ought to be done by government employees or it ought to be contracted out. And they will have a competition. The way the Office of Management and Budget has written the rules, there's always tilted towards the government. They get a 10- to 20-percent advantage on cost. So, most of big companies don't even want to go through with it, because it's kind of rigged. And Congress doesn't like outsourcing the government jobs,

so they put a moratorium on them. So, we don't even do the competitions anymore.

Chairman MCCAIN. Thank you.

General PUNARO. Eliminate duplications. There are numerous places in the Pentagon where we have significant duplications of effort. An obvious place is the overlaps that exist between OSD and the Joint Staff. Also in the military departments between the military and civilian staff.

Number ten, reduce the 28 management layers. Between OSD, the Joint Staff, Service Secretaries, military staff, the combatant commanders and their staffs, and the various standing groups and committees, such as the Joint Requirements Oversight Council, Command Action Groups, there are far too many management layers populated by well-meaning official and officers who feel they have a major role in any issue, large or small.

And the last two, number eleven, carefully examine best business practices. The DOD needs to learn from world-class organizations which have to compete in the global economy, keep costs low, and deliver products on time and on cost. I've listed a chart that outlines these: focus on core functions, use flat structures, use performance goals, and control headcounts.

And finally, Mr. Chairman, revise the executive branch and Senate processes for recruiting, confirming, and appointing personnel that need to go in these very key top management positions. The Packard Commission said all of their key provisions that they put in were tied to getting individuals in government with significant experience in running large, complex organizations and technical programs. And it's very, very difficult to both recruit those kind of individuals now or get them through the vetting process.

So, thank you, Mr. Chairman and Senator Reed and the committee, for giving me this opportunity. And I'll look forward to your questions.

[The prepared statement of General Punaro follows:]

PREPARED STATEMENT BY GENERAL ARNOLD L. PUNARO

THE URGENT NEED TO REFORM AND REDUCE DOD'S OVERHEAD AND INFRASTRUCTURE

Mr. Chairman, Senator Reed, members of the committee, I want to thank you for the opportunity to appear today to discuss the urgent and overdue need to get the full costs of the Defense Department's massive overhead and infrastructure identified, analyzed, and ultimately under control, but, most importantly, reduced from both a cost and a people standpoint.

Using DOD's own definition, its overhead and infrastructure is over 40 percent of the total annual DOD budget—\$240 billion. If these overhead costs were a gross domestic product, it would rank ahead of the country of Ireland. DOD's infrastructure has more people working in it than the entire population of Senator Reed's home state of Rhode Island—one million.

At the same time, we need to reverse the trend of what I have called the "ever shrinking fighting force." We need to increase the size, readiness, and response time of our war fighting forces while developing 21st century command and control of these forces.

I appear exclusively as a private citizen and not as a member of the Defense Business Board, or Chairman of the Secretary of Defense Reserve Forces Policy Board, or Chairman of the National Defense Industrial Association. I believe, however, my personal experience is relevant to your inquiries. I have 24 years working with the Senate Armed Services Committee, 35 years in the United States Marine Corps (4 active, 31 reserves), 14 years as a senior executive of a Fortune 250 company, and six years as a small business owner advising Fortune 50 companies. I have both

chaired and served on multiple commissions analyzing these issues and making recommendations in the areas of your focus today.

Let me emphasize that my comments today do not reflect any criticism of current or past Administrations or Congresses. This is not a report card on individual leaders—these problems have built up over decades. And despite many serious efforts in the Pentagon and in Congress over the years, the bureaucratic and antiquated processes have proven more resilient than the recommended reforms. Though we have hard-working and dedicated military and civilian personnel ensuring our nation's security every day, as a former Secretary of Defense told me recently, "Bad processes will trump good people every day." And we have a proliferation of bad processes both in the Pentagon and in the Congress.

A good example of this occurred after I left the SASC [Senate Armed Services Committee] in 1997. I was asked by then Secretary of Defense Bill Cohen to chair the Defense Reform Task Force. The other members included Rhett Dawson, Jim Locher, Dov Zakheim, Kim Wincup, David Chu, and Michael Bayer. Secretary Cohen wanted to bring world-class business practices to the management side of the Pentagon. After eight months of review, we reported to the Secretary that DOD needed to focus on core functions, reduce multiple layers of management, eliminate the duplication between OSD and the Joint Staff, control the headcounts in the headquarters, and streamline the defense agencies among other recommendations. Secretary Cohen was delighted with our results, saying that this was exactly what he was looking for. But I pointed out to him these were actually the conclusions of a Commission set up by President Eisenhower in 1956, which included notable members such as General Hap Arnold and Vannevar Bush, with Henry Kissinger serving as staff director. Our Task Force came to the same conclusion they had some 40 years earlier and presented Secretary Cohen with five major studies on how to reform OSD, JCS, the defense agencies, the military departments, and the health care agencies. Because of the length of the original study, I have attached a summary of a presentation we made to Secretary of Defense Donald Rumsfeld in 2001. You will find recommendations to reduce the size and duplication in OSD and the JCS, reducing the number of senior personnel and multiple layers of management, streamlining the defense agencies and installing performance-based management, and divesting or eliminating non-core activities.

Almost twenty years after the work we did for Secretary Cohen, and sixty years after the work Henry Kissinger did for President Eisenhower, the management chain-of-command in DOD still requires significant improvements, since the tooth is getting smaller while the tail is getting larger and more expensive.

I know this Committee is willing to take up such a daunting challenge. This is the Committee that passed the sweeping changes that created the national security establishment after World War II, that addressed its problems in 1956, that shifted the military from the draft to the All-Volunteer Force in 1973 and then saved the AVF when it needed reforms in the late 1970s, that passed Goldwater-Nichols and Special Operations legislation, and continues to tackle the problems with the acquisition process. We know from history that large institutions like DOD cannot make significant organizational and process reforms from within. This Committee has an enviable history in solving major defense problems. The SASC will need to be the battering ram of reform once more.

You do have a real advantage because the leaders in the Department today are willing to change. In Secretary of Defense Ash Carter, you have what I call a "bureaucracy buster." He is committed to genuine reform, evident from his groundbreaking push for the Force of the Future to his unrelenting drive to bring innovation into the Department and implement Better Buying Power. I know he shares the concerns about significantly improving the management of the Department. While many in the Pentagon below his level may resist any change, this Committee has key allies working with the Secretary, including Deputy Secretary Bob Work and Deputy Chief Management Officer Peter Levine.

REVISITING GOLDWATER NICHOLS

Thirty years ago many of us on the major defense committees were working hard on what became the Goldwater-Nichols Act. The act focused primarily on the operational chain of command and basically had the objective of improving defense processes in nine areas:

1. Strengthen civilian authority
2. Improve military advice to civilian authorities
3. Place clear responsibility on combatant commanders
4. Ensure commensurate authority for the combatant commanders
5. Enhance the effectiveness of military operations

6. Improve joint officer management
7. Increase attention to strategy and contingency planning
8. Provide for more efficient use of resources
9. Improve DOD management

As my friend and former colleague Jim Locher testified last week, the attention of the committees back then focused on the first six items, and accordingly spent considerably less time and effort on the last three. I believe most of us share the view expressed by Jim that the first six elements have resulted in significant improvements, while the last three have changed little, if at all. It is in these remaining areas that I believe we must concentrate future efforts. If there is to be something called Goldwater-Nichols II, it needs to seriously address those areas that were never sufficiently addressed in Goldwater-Nichols I. I will also have some recommendations for needed changes in some of the first six. After thirty years, they should be revisited in light of today's threats and the fact that GNA has improved joint-ness, making some of its provisions no longer necessary.

CONGRESSIONAL REFORM IS NECESSARY

Any Pentagon reforms will be insufficient without serious reforms in the Congress as well. The Pentagon and Congress are drowning in budget detail and duplicative processes and procedures. Congress should consider re-establishing the Joint Committee on the Organization of the Congress, which has produced major recommendations three previous times. The last time was in 1993 when it was chaired by Congressman Lee Hamilton and Senator David Boren with ranking members Senator Pete Dominici and Congressman Dave Dreyer. Congress should move to a two-year budget: the first year Congress would make decisions on the request and the second year would be reserved for extensive Congressional oversight and fact-of-life changes. We did this in the early 1990s with the defense authorization bill. Congress should consider reducing the three processes, budget, authorization, and appropriations, into two by combining the authorization and appropriations committees. Congress should authorize and appropriate in the same bill. The chairs and rankings of the new combined authorization and appropriation committee could constitute the budget committees and set the overall framework for the revenues, spending, and whether we are in surplus or deficit, including estimates on long-term entitlement spending. If collapsing the committees is not possible, then stricter procedures should be adopted to preclude unauthorized appropriations in both defense and domestic accounts. And Congress needs to complete its work on time. Consideration should be given to move the fiscal year start to the calendar year start on January 1, but the budget for the next fiscal year would still be submitted on February 1. The joint committee should have a presumption of reducing the size of Congress' staffs and support agencies as well. In a world where events move in nanoseconds, DOD needs significantly more flexibility from Congress in how it spends its money to adjust to changing circumstances. To credibly reform the Pentagon, Congress needs to reform itself as well.

WHITE HOUSE AND OMB REFORM IS ALSO NECESSARY

Pentagon and Congressional reforms must also be coupled with reforms in the White House. It must reduce the proliferation of executive offices and staffs, and establish controls on a National Security Council that is widely known to have trouble distinguishing between its "coordination" role and the "operational" functions of the line cabinet officers. We need to return the NSC to the Andrew Goodpaster and Brent Scowcroft model, both in approach and size. And the Office of Management and Budget needs to spend much more time on government-wide management and much less time on budget micro-management, which is more prevalent for the domestic agencies than DOD.

CLOSE THE STRATEGIC DISCONNECT

I want to compliment this Committee for the leadership role it played in delivering the budget compromise recently enacted by Congress and signed by the President. It sets national security spending near the levels that both the Administration and the budget and defense committees indicated. The increased resources flowing to defense will have a near-term, positive impact on readiness, modernization, and quality of life. I hope that this will be a precursor to wider actions that set aside artificial spending caps and will end the threat of sequestration, an approach to budget control that has few merits and even fewer advocates. Nonetheless, sequester remains the law for Fiscal Year 2018 and beyond, but it should be given a quiet burial.

The idea behind the Budget Control Act of 2011 was to get control of the deficit through a broad approach. Even former Chairman of the Joint Chiefs of Staff Admiral Mike Mullen called the nation's long-term deficits our number one national security threat. In the BCA, capping discretionary spending was the first step. The joint committee was supposed to come up with revenue increases and entitlement reductions to reduce the deficit as well, but it was not successful.

When a new Administration and Congress are sworn in 2017, they should immediately work on the grand compromise that addresses all elements of spending, revenues, and entitlements.

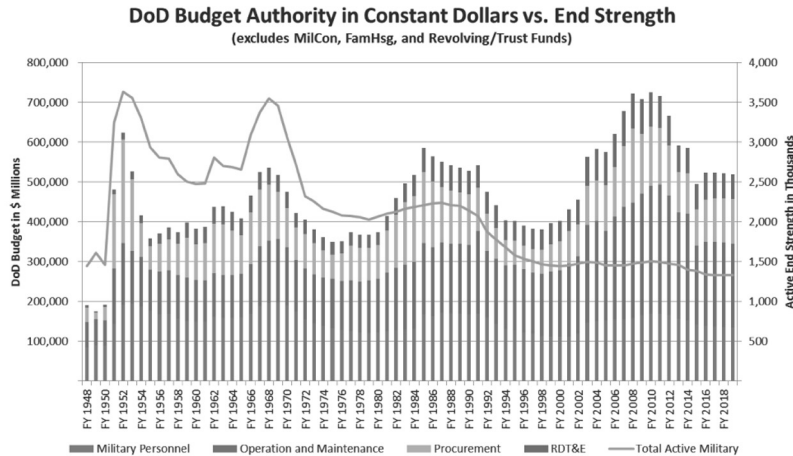
We need to ensure that DOD resources are sufficient and stable to deal with the current chaotic strategic environment. The past drawdowns of our fighting forces and defense resources, most recently after Vietnam, after the Cold War, and adjustments tied to the drawdowns in Iraq and Afghanistan have been driven by a perceived improvement in the strategic environment.

The resources we devote to national security must be driven by the challenges the nation faces and those challenges are increasing: the growing chaos in the Middle East; the rise of religious extremism and non-state actors; an irredentist, aggressive, and in the words of some, "reckless" Russia; an emboldened China, a state that is quickly expanding both its conventional and unconventional military capabilities and flexing its muscles in often novel ways; and the continued provocation of an unpredictable and persistently irresponsible regime in North Korea.

Yet, in the face of all these immediate challenges, under the BCA and the sequestration regime, we are reducing our war fighting forces. As you have suggested yourself, Mr. Chairman, it may be no coincidence that we are seeing increased global challenges as we reduce our capabilities and lower our regional profiles. Such a reaction by such a diverse set of international players may not be proven, but neither can it be dismissed.

DEFINING THE PROBLEM

Senator Russell Long had a saying: "You should not solve a problem for people before they know they have one." The major problem in defense today is the internal composition of the defense budget—how the internal PAC-Man of growing costs in personnel, acquisition and overhead are gobbling up our war fighting forces. As the chart below shows in a telling way, even as we have continued to spend more on defense—matching historically high levels—each dollar supports a significantly smaller active duty military end strength. The \$600 billion we spent on defense in 1953—a draft era force—supported 3.5 million troops. In the All-Volunteer Force era—at the peak of the Reagan buildup, \$600 billion supported 2.2 million active troops. Today, \$600 billion supports 1.2 million—the same amount of money for one million less active forces.



Mr. Chairman, the chart you included in your kick-off to these hearings demonstrated that the rising all-in costs of personnel over the last thirty years have gone up 270 percent. In just the last ten years, they have risen almost 100 percent for a slightly smaller force.

The Military Compensation and Retirement Modernization Commission, in its oft-overlooked interim report on what programs actually cost, included a chart that showed that the total cost for pay, benefits, health care, retirement, was over \$400 billion a year and that there is a \$1 trillion unfunded liability over the next ten years in the military retirement fund that is not in any budget. The commission challenged the notion put forth by some that military compensation represents 30 percent of the budget, and is therefore not a concern. The commission said:

The fact that military compensation costs consistently represents roughly one-third of the DOD budget does not provide evidence of fiscal sustainability. The commission considers the growth rate in Gross Domestic Product (GDP) to be the maximum rate at which compensation funding, holding force size constant, can grow while representing the same share of national income.

When they looked at this comparison from 1998 to 2014, growth in military pay, quality of life, retired pay, VA and DOD health care far exceeded both the GDP and the Employment Cost Index. This is why the immediate three former Secretaries of Defense—Gates, Panetta, and Hagel—have said publicly that this cost growth is unsustainable. Secretary Carter has expressed similar concerns.

The main objective of the Defense Department, and its management processes, is to produce as much combat capability and power as possible with the resources available. Unfortunately, we spend too much time focusing on how much we spend, rather than on how well that money is spent and what the results are. In short, as an old phrase described it best: we need “more bang for the buck”—the nation needs, especially in the current strategic and fiscal environment, more “trigger-pullers” in operational units and fewer “paper-pushers” in back-office management. I believe we all share that aspiration, but the trends are not moving us in that direction as seen in the chart below:

The Ever Shrinking Fighting Force

Category	End of Carter 1980	End of Reagan 1988	End of Bush 1992	End of Clinton 2000	End of GW Bush 2008	Obama 2012	Latest Budget 2020	Change 1980-2020	Change 1988-2020
Total Budget Authority									
(\$B – Constant \$)	\$422	\$562	\$487	\$425	\$575	\$580	\$536 (est)	27%	-4.63%
Total Budget Authority									
(\$B – Current \$)	\$143	\$284	\$278	\$291	\$480	\$540	\$578	304%	103.52%
Supplementals (\$B)	\$0	\$0	\$4	\$0	\$193	\$115	\$27 (est)		
Active Duty Personnel (K)	2,101	2,209	1,886	1,449	1,406	1,432	1,273	-39.41%	-42.37%
Reserve and Guard Personnel (K)	851	1,158	1,135	865	843	846	798	-6.23%	-31.09%
DoD Civilian Personnel (K)	1,019	1,090	1,006	698	671	764	712 (est)	-26.50%	-31.30%
Active in Commission Ships	521	573	471	341	282	285	283	-45.70%	-50.60%
Army Divisions (active)	19	20	20	10	10	10	10	-47.40%	-50%
AF Fighter/Attack									
(Total Active Inventory)	2,789	3,027	2,000	1,666	1,521	1,493	1,067	-52.50%	-56.20%

Sources: Defense Manpower Requirements Reports, President's FY2016 Budget Request, Congressional Testimony

In constant dollars, we are spending more today than we spent at the peak of the Reagan buildup—up by 30 percent, but the war fighting forces are 40 to 50 percent smaller. We see this trend for three major reasons: 1) the all-in costs for the all-volunteer force and its support structure, as well as the costs of the retired force; 2) the \$400 billion we spend annually on goods and services, supplies, and equipment where the outcome can best be described as “spend more, take longer and get less”; and, 3) DOD’s massive overhead and infrastructure, with defense-wide spending going from 5 percent of the budget to 20 percent of the budget and the combined OSD, JCS, Defense Agencies, combatant commands, and other HQ with over 250,000 people costing \$120 billion a year. We are not getting the defense capability

we should for the dollars we spend and, if uncorrected, we will not have the military we need in the years ahead.

Recent Army plans, for example, indicate the Army will reduce its number of active duty soldiers between 2010 and 2017 by 20 percent (567,000 to 450,000), and it will reduce its active brigade combat teams by 33 percent (45 to 30). In other words, the number of combat brigades is being reduced proportionately more than the reduction in the number of soldiers would suggest—meaning trigger-pullers are leaving and paper pushers are staying. There are examples like this throughout all the services.

This one data point is merely suggestive of a broader issue: the enduring size of the defense infrastructure that has so far been resistant to reductions. Efforts to tame the tooth-to-tail ratio have never resulted in the outcomes we had envisioned, and over the years the ratio has, if anything, grown worse.

Putting DoD Overhead in Perspective in FY15

If DoD overhead was a separate country, it would rank 61st in GDP in the World

Rank	Country	GDP
56	Israel	\$268.3
57	Morocco	\$254.4
58	Denmark	\$248.7
59	Burma	\$244.3
60	Hungary	\$239.9
61	DoD Overhead	\$239.4
62	Ireland	\$224.7
69	Finland	\$221.5
70	Sri Lanka	\$217.1
71	Ecuador	\$182.0
72	Angola	\$175.5

Sources: Year 2014 Country GDP PPP Statistics (CIA Factbook); Budget Agreement amount for Fiscal Year 2016 (\$584B); FY15 Defense Manpower Requirements Report, Chapter 2, Tables 2-1a through 2-1d, Infrastructure (41% of the total).

Breakout of % Infrastructure by Service	
ARMY	32%
NAVY	63%
USMC	31%
AIR FORCE	44%



That raises a major issue. Overall, when it comes to defense infrastructure, we simply don't know how big it actually is. Likewise, we don't know what it actually costs. In some areas we have the data, but disagree over the definitions; in other areas we agree on definitions, but don't have the data. Getting to the bottom of this problem merits intense study and close attention. We must better understand why it appears we can't afford Army brigade combat teams, Air Force Tactical Fighter Squadrons, and Navy Battle Force ships, but we have larger management staffs within the Pentagon than ever before.

Let me elaborate briefly using only one example, though there are many to choose from. When Congress passed the National Security Reorganization Act of 1947, it created the structure that basically exists today. Among the organizational structures created was the Joint Staff, and legislation capped the staff at 100 officers. The 1949 Amendment, which created the office of the Chairman of the Joint Chiefs of Staff, more than doubled the Joint Staff manpower to 210. The Department of Defense Reorganization Act of 1958 doubled the Joint Staff again to 400. So what do we have in joint staff numbers today?

As the chart below shows, the Joint Staff today, including the separately reported Office of the Chairman, numbers nearly 4,000—military, civilians, and contractors. Since 1958 the size of the Joint Staff has increased by a factor of 10. When Secretary Gates disestablished the Joint Forces Command in 2010, the military assigned there—over 2,000—were reassigned to the Joint Staff. This is one of the reasons there is no accurate headcount: when one agency goes down, another one is created to absorb the shock.

Joint Staff and Combatant Command Headcounts

FY15 Headcounts for the Joint Staff and Combatant Commands				
Organization	Military	Civilian	Contractor	Total
The Joint Staff (TJS)	1,474	1,032	761	3,267
Chairman of the Joint Chief of Staff (CJCS)	169	289		458
North American Aerospace Defense Command (NORAD)	219	101		320
North Atlantic Treaty Organization (NATO)	2,223	99		2,322
US African Command (AFRICOM)	427	519	197	1,143
US Central Command (USCENTCOM)	753	466		1,219
US European Command (USEUCOM)	515	412	238	1,165
US Northern Command (USNORTHCOM)	570	719	429	1,718
US Pacific Command (USPACOM)	1,243	959		2,202
US Southern Command (USSOUTHCOM)	459	649	483	1,591
US Special Operations Command (USSOCOM)	3,051	6,548	5,949	15,548
US Strategic Command (USSTRATCOM)	1,519	1,958	1,068	4,545
US Transportation Command (USTRANSCOM)	1,181	754	4,421	6,356
Joint Staff & Combatant Command Totals	13,803	14,505	13,546	41,854

When we look at the staffing of the combatant commands, the total number of those assigned to Joint billets is over 40,000—yet another increase by a factor of 10. The combatant commands have expanded from lean, war fighting headquarters to sprawling mini-Pentagons with thousands of staff members. They no longer fight wars themselves, but must create new joint task forces to accomplish that mission. The regional combatant commanders have evolved into political-military ambassadors who focus heavily on peacetime engagement. Given the inability of other parts of our government to fulfill their proper role, this is a very important mission. Yet Goldwater-Nichols specifically resisted the notion of adding requirements to the combatant commanders, such as budgeting and acquisition, so they would not lose focus on their primary duty—war fighting. The proper role and size of the combatant commanders, their service component commanders, and the standing ad-hoc joint task forces should be the subject of your careful review

DEFENSE AGENCIES ARE BIG BUSINESS

The defense agencies have also grown in number, scope, and costs. They are not just defense agencies; these are very large business enterprises.

If one looks at the staffing of the various defense agencies that have been established over time, the trend is similar. Today the various defense headquarters and agencies have a headcount of over 400,000 active duty military, defense civilians, and contractors. To put this in perspective, the manpower of these activities is well over double the active duty size of the United States Marine Corps, and, should current Army plans continue, is approaching the size of the active duty Army.

Many people will incorrectly guess that the largest government contractor is Lockheed or Boeing or one of the other large primes. It is, in fact, one of DOD's own agencies: the Defense Logistics Agency. DLA does over \$44 billion a year of business with DOD compared to Lockheed's \$28 billion. In the top ten largest businesses, five are the department's own agencies, not including several of the intelligence community agencies. Most of the defense agencies would rate in the Fortune 250 and several are in the Fortune 50. Yet they are not managed as businesses—even though one is, in fact, a grocery business. Another is a worldwide communications provider and another is one of the world's largest and most expensive health care providers.

Defense Agencies are Big Business		
Rank	Defense Agency/Defense Contractor	Agency Budget/ Contract Awards (\$B)
1	Defense Logistics Agency (DLA)	\$44.1
2	Defense Health Program (DHP)	\$41.7
3	Lockheed Martin Corp	\$28.2
4	Boeing Co	\$22.5
5	Northrop Grumman	\$14.2
6	General Dynamics Corp	\$10.6
7	Raytheon	\$10.2
8	Defense Information Systems Agency (DISA)	\$9.4
9	Missile Defense Agency (MDA)	\$7.6
10	Defense Commissary Agency (DeCA)	\$7.3
11	United Technologies Corp	\$5.7
12	Halliburton	\$5.4
13	Stewart & Stevenson	\$5.1
14	L-3 Communications	\$3.8
15	SAIC	\$3.6
16	General Electric	\$3.6
17	BAE Systems	\$3.5
18	Humana	\$3.0
19	Defense Advanced Research Project Agency (DARPA)	\$2.9
20	Defense Education Activity (DoDEA)	\$2.6

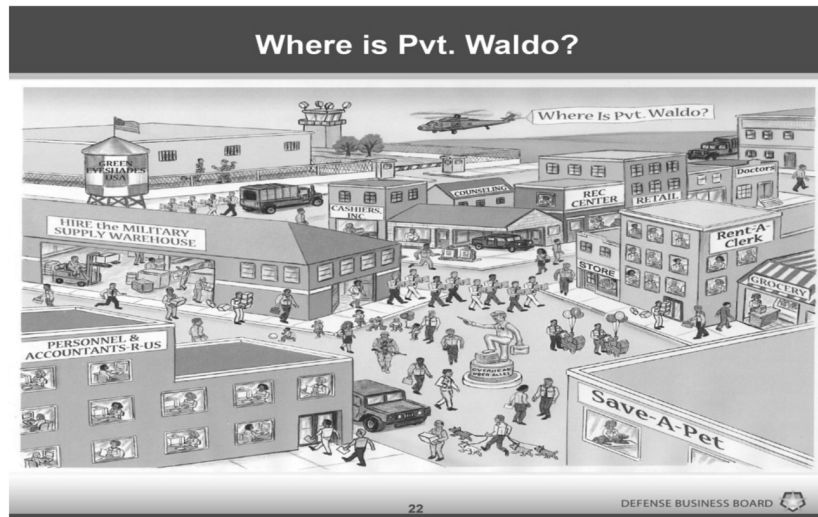
** Contractor data is prime contracts with DOD from federal contract database.*

The number one reason these defense agencies should be managed more as a business is that their total expenditures are in excess of 20 percent of the entire defense budget. Worse yet, for the most part, they are supervised by OSD civilian political appointees whose day-to-day jobs do not provide them with ample time for management and leadership. These entities lack strong, disciplined business leadership, performance management systems and several perform functions that are non-core to the essential missions of the Department.

WHERE IS PRIVATE WALDO: ACTIVE MILITARY IN COMMERCIAL ACTIVITIES

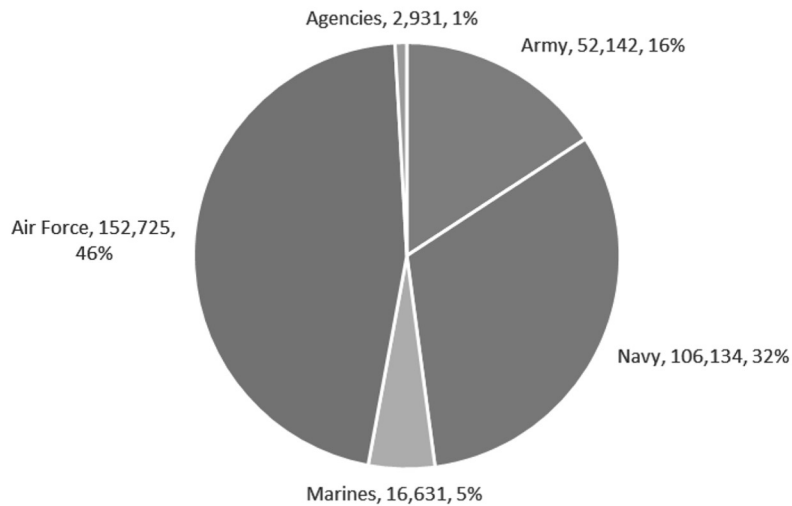
We also need to focus on DOD's most important employees: its active duty military personnel. They are the most expensive personnel, whether from a recruiting, training, and retaining standpoint or from a life-cycle standpoint. Our military should be at the pointed end of the spear as much as possible—they are the only ones who can perform that role. And yet, we continually hear about the strains on the force, not having sufficient dwell time, and needing to cross level personnel to make up units.

Of those 1.3 million serving on active duty, some 220,000 are currently stationed overseas or forward deployed in the Middle East or Afghanistan. So what are the other one million doing? Where is Private Waldo? Some are just back from deployments; some are getting ready to deploy. But the 2014 Department of Defense's Federal Activities Inventory Reform (FAIR) Act Inventory report reviewing the number of active duty military serving in commercial activities showed over 330,000 active duty military personnel—our most expensive personnel asset by far—in jobs that could be done by civil servants or contractors. There are several hundred unique descriptions for commercial activity positions in the FAIR Inventory reports. Some examples include budget support, commissary operations, ambulatory care services, contract administration and operations finance and accounting services, and state-side supply services. We should not have our most capable and expensive military in the rear with the gear instead of at the tip of the spear.



This is another area the Congress and the Department must correct. Here, we are using the most expensive personnel to perform activities that could otherwise be performed by less expensive personnel or not done at all. Furthermore, freeing-up the uniformed personnel makes them more available for the inherently governmental and military activities. The charts below show the number of military personnel in each component serving in commercial activity positions. By conservative estimates, if by removing even 10 percent of the 330,563 active duty from this category, the Department could free up \$5.3 billion for combat purposes. This estimate is based on the programming figure for active personnel. If you use the fully-burdened annual costs, you would save over \$10 billion. DOD works hard to improve in this area, but unfortunately there are more active military working in commercial activities in this most recent report than the previous one.

Active Military in Commercial Activities



Component	Army	Navy	Marines	Air Force	Agencies	Total
Active	52,142	106,134	16,631	152,725	2,931	330,563
Guard	438	0	0	61,279	0	61,717
Reserve	47,263	23,194	462	47,115	3	118,037
Total	99,843	129,328	17,093	261,119	2,934	510,317

DOD OVERHEAD

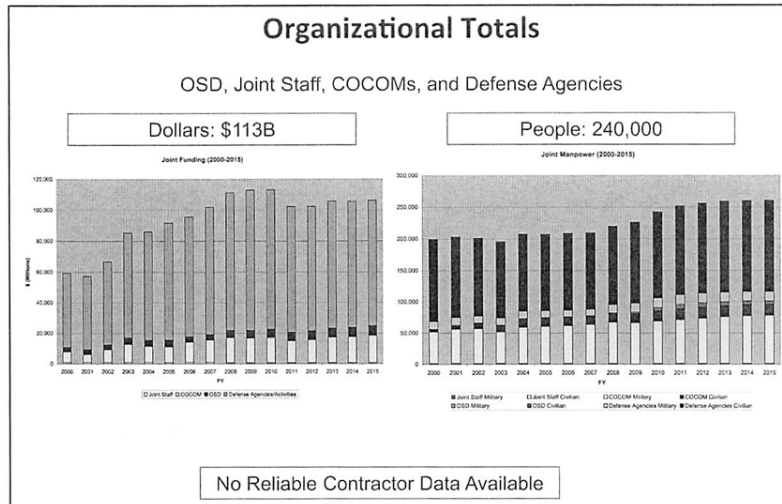
Let me draw particular attention to the more than 5,000 people employed in the Office of the Secretary of Defense, as seen in the chart below. We would all agree that serving as the Secretary of Defense in the current world is a most difficult and demanding undertaking, but we must ask ourselves if he truly needs a staff of over 5,000 people. In the early 1960s, when DOD had 2.8 million active duty personnel and 1.6 million reservists, there was one Deputy, no Unders, and only three Assistant Secretaries. Today, with about half as many total military personnel, there is still one Deputy, but five Unders, and seventeen Assistants with a proliferation of Deputy Unders, Deputy Assistants, Principal Deputies, and so on. And GAO says they do not have confidence in the size of OSD as carried on DOD's books. There are some estimates that it could be as high as 8,000. For example, the chart below differentiates between OSD, OIG, PFPA, and WHS—all which could arguably be defined as part of OSD. Altogether, this would put the count over 10,000.

Defense-Wide Headcounts

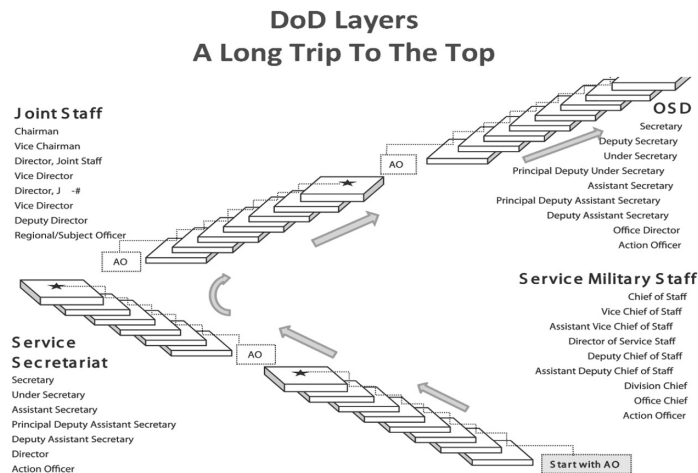
FY15 Headcounts for Defense Agencies				
Organization	Military	Civilian	Contractor	Total
Office of the Secretary of Defense (OSD)	404	1,946	2,923	5,273
Office of the Inspector General (OIG)	28	1,693	102	1,823
Defense Advanced Research Project Agency (DARPA)	16	182	600	798
Defense Commissary Agency (DeCA)	4	14,341	7,110	21,455
Defense Contract Audit Agency (DCAA)	0	4,668	51	4,719
Defense Contract Management Agency (DCMA)	535	11,291	481	12,307
Defense Finance and Accounting Service (DFAS)	29	11,569	483	12,081
Defense Legal Services Agency (DLSA)	198	140		338
Defense Logistics Agency (DLA)	649	26,186	232	27,067
Defense Security Cooperation Agency (DSCA)	134	483	112	729
Defense Security Service (DSS)	0	898	99	997
Defense Threat Reduction Agency (DTRA)	716	1,251	438	2,405
Pentagon Force Protection Agency (PFPA)	14	1,260		1,274
Missile Defense Agency (MDA)	134	2,727	18,517	21,378
Defense Human Resources Activity (DHRA)	9	1,173	1,350	2,532
Defense Media Activity (DMA)	933	751	340	2,024
Defense Prisoner of War/Missing Persons Office (DPMO)	46	78	20	144
Defense Technical Information Center (DTIC)		272		272
Defense Technology Security Administration (DTSA)	9	138		147
Defense Test Resource Management Center (DTRMC)	3	30		33
DoD Education (DoDEA)	1	14,347	4,317	18,665
Office of Economic Adjustment (OEA)	3	38	5	46
Defense Health Agency (DHA)	47	5,152	9,877	15,076
Washington Headquarters Services (WHS)	190	1,435	831	2,456
DoD Acquisition Workforce Development Fund		2,582		2,582
Defense Acquisition University (DAU)	52	620	52	724
National Defense University (NDU)	190	490	45	725
Uniformed Services University of Health Sciences (USUHS)	928	727		1,655
US Court of Appeals for the Armed Services		59	4	63
Defense Information Services Agency (DISA)	1,620	2,236	2,567	6,423
Other Communications and Classified Activities (not DISA)	12,747	45,949	12,556	71,252
Defense Health Program	84,568	67,553	21,585	173,706
Total DoD Headquarters & Agencies	104,207	222,265	84,697	411,169

In his 1984 autobiography, Lee Iacocca, the legendary CEO of Chrysler Corporation, who successfully turned that company around from the brink of extinction in the late 1970s, noted that he had a very small headquarters staff at Chrysler—much smaller than he had as a senior executive at Ford. But Iacocca argued that with a smaller staff, the headquarters was forced to focus on the big issues, did not have time to micro-manage, and could not present him with a decision to be made with any greater than 80 percent certainty. Iacocca felt that it was his job to provide, with his experience and intuition, the remaining 20 percent. At Ford, he stated that senior management used its much larger staff to provide 95 percent certainty. Iacocca argued that achieving such certainty was made by sacrificing speed and increasing the cost of overhead, and with a company that was initially in serious financial distress, he could not afford the cost burden of additional overhead.

That experience is worth some serious consideration. One could strongly argue that the current management structure in the Pentagon is too large, too complex, too layered, and heavily invested in overseeing processes that are, in general, too slow. In terms of just the number of personnel in OSD, the Joint Staff, the Combatant Commands and the Defense Agencies there are nearly a quarter million—240,000 people—and this does not include the very large contractor counts. The costs for these people are \$113 billion. These organizations have shown consistent growth from 2000. Secretary Gates, in his “overhead reduction” efforts, subsequently supported by Secretary Panetta, identified these areas for reductions. However, the ratio of the overhead accounts to the combat side of the military is still adverse. The tooth-to-tail ratio—which was poor when both Secretaries began pushing to improve this area—has unfortunately gotten worse.



We have also known for years that the military structure of DOD institutionalizes layers of management. When you have so many senior personnel, more layers follow. For example, when you have the top person in a layer, the “head dawg,” that person will have a “deputy dawg” and the “deputy dawg” will have a “deputy, deputy dawg” and so on. DOD needs to cut out some of these management layers—by some accounts, there are 28 layers from the action-officer in the military department to the Secretary of Defense. This drives huge staffs and support personnel which continue to increase.



DOD LOGISTICS

Another area ripe for review is the overall activity in logistics. DOD operates one of the largest logistics enterprises in the world: its annual cost is over \$170 billion, including supply, maintenance and transportation. DOD has over 100,000 suppliers, \$96 billion in inventory, and is supported by 18 maintenance depots, 25 distribution

depots, and over 49,000 customer sites. Our logistics enterprise does provide a real war fighting advantage, a fact that must be kept in mind. Despite much effort to bring DOD's logistics enterprise up to the level of today's world-class business practices, it has a long way to go. I am currently chairing a task force of the Defense Business Board reviewing this area to make recommendations to the Secretary of Defense in early 2016.

REAL PROPERTY MAINTENANCE

DOD also maintains one of the largest property books in the world—with over 562,000 facilities, on more than 4,800 sites, in all 50 states, 7 U.S. territories, and 40 foreign countries. The annual cost to operate and maintain these facilities is estimated at over \$30 billion a year, but GAO has stated that here, as well there, is significant room for improvement. DOD is currently conducting surveys to establish how much real estate is needed and how much is excess.

BRINGING WORLD CLASS BUSINESS PRACTICES TO THE DEPARTMENT OF DEFENSE

It is often pointed out when one suggests that DOD needs to significantly improve its management chain of command that DOD is not a business—this is correct. But there are world-class business practices that are definitely applicable to government, as outlined in the chart below:

	World Class Business Practices	OSD Today	OSD Application
1	Balance between leadership and management	Traditional leader role focused on management	Increase attention to leadership
2	Unifying vision for the future	Unarticulated, competing visions	Develop and communicate a unifying vision
3	Focused on core functions	Diffused work effort	Define and focus on core functions; Divest other activities
4	Flat, flexible structures	Layered, rigid structure	De-layer, Consolidate
5	Widely shared information and knowledge	Little information/knowledge sharing	Powerful CIO focused on promoting information and knowledge sharing
6	Sustained high-level attention to human resource management	Haphazard human recourse management	Leader-driven fundamental reforms
7	Process-centered in cross functional teams	Some use of integrated process teams	Establish cross-functional teams for key processes
8	Performance goals used to achieve results	Few performance goals	Establish a performance management system
9	Tight control over overhead personnel	Few, ineffective controls	Establish an effective control system

This chart lists certain world-class business practices that are applicable to DOD, how OSD stacks up against those practices and how they could be applied to OSD. This list is very consistent with multiple studies that have been done in this area over the decades. Several of the points above I have touched on earlier in my testimony, such as the need to focus on core functions, reduce layers, tightly control overhead personnel, and use performance goals to incentivize change, are underscored here.

ESSENTIAL FIRST STEPS

So what should be done? We must first take three preliminary steps to address this problem of large, and seemingly growing, defense infrastructure and overhead before any further actions can be taken.

Step 1: You must establish a definitional agreement on what defense infrastructure actually is. Many will argue that some of those problem areas mentioned previously are actually tooth, not tail. Others, like Business Executives for National Security, will argue the overhead is much larger than DOD admits. We need consensus on what is counted as infrastructure and overhead. Having addressed the definitional challenge, we then need to determine where this infrastructure and overhead resides. In other words, where do the people work? And it needs to include

active military, defense civilians, guard and reserve, defense contractors, and FFRDC personnel.

A particular challenge to this exists in determining total contractor personnel in overhead and infrastructure. Currently, there is not a data source that fully and accurately captures the exact numbers of contractors or where they work. While some data exist, contractors are typically paid from O&M accounts. Therefore, their exact numbers are not as easily derived as are military personnel—with their own appropriations, and civilian FTEs—who are paid through the Defense Finance and Accounting System.

Step 2: After determining who and what comprises infrastructure and overhead, and determining with much higher confidence where they work, we then need to know what they cost. Not just their salary, but the fully-burdened and life-cycle costs of active military, government civilians, guard and reserve, contractor personnel, and FFRDC personnel supporting these activities.

It is imperative that we reach an agreement on what constitutes the fully-burdened and life-cycle costs of the All-Volunteer Force, taking into account all cost elements, including education, health care, and future retirement costs. Of equal significance is that the defense retiree population is growing and is now at 2.4 million people. They are living longer, and their health care costs are growing, and under the current system their retirement income is inflation indexed. This means that it will be difficult to afford the force of tomorrow as we continue to pay large amounts for the force of yesterday. DOD does not know and does not track the fully-burdened and life-cycle costs of active military personnel, defense civilians, guard and reserve personnel, defense contractors, and FFRDCs. Some say because it is too difficult—it is difficult—but some suspect that DOD does not want to do the calculations to reveal the actual costs because of the sticker shock.

The Reserve Forces Policy Board did a year-long study as a FACA body, deliberating in open sessions, coordinating in the Department and with outside experts like GAO and CBO and made a lengthy report to the Secretary of Defense with six major recommendations. The following two charts outline what the RFPB found:



Inconsistent Use of Cost Elements in Military Personnel Cost Analyses in DoD



- The RFPB project team convened 16 meetings of an informal working group of costing experts from across the Department in order to examine and compare current military personnel costing practices across Services and Components.
- Found that military personnel costing is neither complete nor consistent.

Cost Elements Used by Most Components	Cost Elements with Wide Variance in Use	Cost Elements Not Used
<ul style="list-style-type: none"> Basic Pay Basic Allowance for Housing (BAH) Basic Allowance for Subsistence (BAS) Incentive Pays Special Pays Allowance - Uniform Clothing Allowance - Station Allowance Overseas Allowance - CONUS COLA Subsistence in Kind Family Subsistence Supplemental Allowance Social Security and Medicare (Employer's Contribution) Permanent Change of Station - All but Separation Travel Retired Pay Annual Separation Payments Education Assistance (e.g., portion of GI Bill) Other Military Personnel Cost - Unemployment Other Military Personnel Cost - Death Stipends Other Military Personnel Cost - Survivor Benefits Other Military Personnel Cost - Other Medicare-Eligible Health Care Fund (MERHCF) 	<ul style="list-style-type: none"> Allowance - Family Separation Allowance - Personal Money Allowance, Gen & Flag Offs Permanent Change of Station - Separation Travel Other Military Personnel Cost - Adoption Other Military Personnel Cost - Partial Relocation Other Military Personnel Cost - Transport Subsidies Family Housing Construction & Operation Military Construction Health Care Discount Groceries / Commissary Cost Child Day Care Facilities Training Recruitment Advertising, Etc. DoDA and Family Assistance Child Education (Dept of Education Impact Aid) Operations & Maintenance Procurement 	<ul style="list-style-type: none"> Veteran's Employment and Training Treasury Contribution to Retirement Treasury Contribution for Concurrent Receipt Treasury Contribution to MERHCF Treasury Contribution to Survivor Benefits Veteran's Benefits (Cash and In-Kind) DoD Research Development Test & Evaluation
~ \$130 Billion in FY 2013	~ \$315 Billion in FY 2013	~ \$280 Billion in FY 2013

\$605 Billion in costs is NOT usually counted!



Why it matters

FY 2013 Fully-Burdened Per-Capita Cost to the US Government



Omitting these costs ignores about 20% of compensation



Military Personnel Account Costs*

DoD Defense Health Program

DoD Dependent Education

DoD & Service Family Housing

DoD Commissary Agency

TOTAL DoD Compensation Costs

O&M (Less DoD Dependent Education)

Procurement

Military Construction

RDTE & Other

TOTAL DoD Non-Compensation Costs

Dept of Defense Grand Total

Dept of Education "Impact Aid"

Dept of Treas - Concurrent Receipt

Dept of Treas - MERHCF

Dept of Treas - Mil Retirement

Dept of Veteran Affairs

Dept of Labor for Vet Education / Training

TOTAL COST TO US GOVERNMENT

	Active Component	Reserve Component
Military Personnel Account Costs*	\$ 84,808	\$ 26,033
DoD Defense Health Program	\$ 19,233	\$ 8,157
DoD Dependent Education	\$ 2,034	\$ 33
DoD & Service Family Housing	\$ 1,235	\$ -
DoD Commissary Agency	\$ 996	\$ 49
TOTAL DoD Compensation Costs	\$ 108,307	\$ 34,272
O&M (Less DoD Dependent Education)	\$ 110,532	\$ 26,477
Procurement	\$ 71,601	\$ 3,771
Military Construction	\$ 5,556	\$ 1,512
RDTE & Other	\$ 34,348	\$ 34,348
TOTAL DoD Non-Compensation Costs	\$ 222,037	\$ 66,108
Dept of Defense Grand Total	\$ 330,343	\$ 100,380
Dept of Education "Impact Aid"	\$ 355	\$ 9
Dept of Treas - Concurrent Receipt	\$ 4,514	\$ 747
Dept of Treas - MERHCF	\$ 3,264	\$ 2,230
Dept of Treas - Mil Retirement	\$ 39,800	\$ 13,638
Dept of Veteran Affairs	\$ 6,334	\$ 6,334
Dept of Labor for Vet Education / Training	\$ 12	\$ 12
TOTAL COST TO US GOVERNMENT	\$ 384,622	\$ 123,351

* Includes DoD contributions to MERHCF and Military Retirement Account

Step 3: Once we have agreed upon definitions, determined work locations, and calculated fully-burdened costs, we need to determine the right size for the various activities. This is difficult, and we might not get it right the first time, but it is not enough to just study the issue. With headquarters size, we need to make the same tough decision about how much is enough just like with force structure. Certainly we should all agree that we cannot allow the status quo to continue. There are too many people—active duty, defense civilians, guard and reserve, FFRDCs and contractors—working in OSD, JCS, the combatant commands, and the fourth estate.

CONCRETE ACTIONS FOR THE COMMITTEE TO CONSIDER

After taking the steps above to establish definitions, identify infrastructure, and agree upon metrics, costs, and size, several additional steps should follow:

1. Establish a firm baseline of headquarters organizations and activities including OSD, JCS, Combatant Commands, defense agencies and field activities, service headquarters, and commands including layers of management and measure reductions through annual reporting of all categories of personnel, end strength, and average strength. The FY15 Defense Manpower Requirements Report (DMRR) provides a breakout of personnel strength. It could provide a starting point for validation of the baseline. The FY15 estimates could be used as a ceiling for Fiscal Year 2016 and beyond, but at a more detailed level. The key is to establish a firm baseline and not allow DOD to constantly change it. This baseline needs to be the “all-in” count which does not exist today.
2. Require DOD to report in the annual Defense Manpower Requirement Report all categories of personnel in the overhead and infrastructure functions following the agreements reached on definitions, size, and cost.
3. Require DOD to report in the annual Defense Manpower Requirements Report the fully-burdened and life-cycle costs of all categories of these personnel in the functions in step 2 above.
4. Legislate end-strengths for military, civilians, and contractors to be assigned to, and employed by, the various overhead and infrastructure functions, once these headcounts and costs are firmly established. This is, of course, never a popular undertaking and one that DOD will resist. It should be done after careful consideration of the potential impacts on outputs required elsewhere, but it is an effective way to get numbers down and force the exploration of efficiencies. In budgeting, we have found that caps force hard discussions about tradeoffs—if decision makers want more money to go to one area they must make cuts to others. This discussion about priorities needs to happen with overhead personnel as well. Once Congress has determined there is sufficient discipline in this area, any caps could be eliminated.
5. Reduce management layers in all HQ and overhead functions; reduce the number of Undersecretaries, Principal Deputies, Deputy Assistants, Deputy Unders, and other layers, while improving the supervisor to led ratios. Eliminate the new Undersecretary of Management and Information and the two Deputy Undersecretaries before they go into effect in January 2017. In their place, create one Assistant Secretary for Command, Control, Communication, Computers and Cyber. In a pilot program, take several of the defense agencies and replace active duty military leaders with proven civilian private sector leaders with contract performance goals and incentives.
6. Review the Goldwater-Nichols legislation in the context that the joint approach is now accepted and our most senior military leaders no longer need all the strictures of the legislation. I also recommend the terms of the Chairman and Vice Chairman be converted to one four-year term (vice two two-year terms) to ensure their independence and ability to always offer their professional military judgments. I would stagger the terms so they do not turn over at the same time and that will require either an extension or a short-tour for one at some point. As part of the additional flexibilities and non-traditional career options that are reported to be part of the Force of the Future initiative, apply more flexibility to joint duty management and joint education by removing some of the highly restrictive gates.
7. Approve another round of BRAC using an improved process. As difficult as this is, and as unpopular, DOD needs to get rid of its excess facilities. Despite earlier BRAC rounds, DOD believes the excess to be in the range of 20 percent. Carrying those unneeded facilities costs billions of dollars every year.
8. Reauthorize and revise the A-76 process. Congress should lift the moratorium on A-76 Public-Private Competitions. But even before the moratorium, we had many governmental commercial operations and depots that were protected by the A-76 process. In brief, contractors bidding for work had to report and account for the fully-burdened costs of their work force, but in general the government did not—giving it an advantage in such competitions. At the very least, if the moratorium is lifted, the playing field for such competitions needs to be leveled. As an inherently OMB function, over the years they have written rules and regulations that decidedly favor the government. Therefore, fewer and fewer A-76 studies were done and potential contractors did not want to waste money and time bidding on something where the “fix was in.” Congress did not want to take any chances on outsourcing, so the ban went into effect.
9. Eliminate duplications. There are numerous places in the Pentagon where we have significant duplications of effort. An obvious place is in the overlaps that exist between OSD and the Joint Staff. For example, there is overlap between

OSD Policy and J-5 on the Joint Staff, as well as other areas including J-1, J-6, and J-8. In addition, there is the common view that the formal requirements process takes too long. Accordingly, eliminating the JROC should be considered as it adds a significant burden to the process and produces little of value with its highly bureaucratized and complex JCIDS process. All the personnel and paper work and bureaucracy associated with these activities should be deleted. Creating the JROC was an aspiration of the Goldwater-Nichols Act, but in my view it would be one of those areas where, as John Hamre mentioned, we just did not quite get it right despite serious efforts by recent Vice-Chairmen to improve it.

10. Reduce management layers. Between OSD, the Joint Staff, Service Secretariats, Military staffs, the Combatant Commanders and their staffs, and the various standing groups and committees, such as the JROC and the Command Action Groups, there are far too many management layers populated by well-meaning officials and officers who feel they have a major role in any issue—large or small. In general, with such rich staffing there is a natural tendency towards micro-management where macro-management is required. As stated earlier, the trend in the private sector, and one quite visible in the major players in the defense industry, is towards small corporate staffs that provide the oversight and guidance that can only come from the top, but a transfer of basic management authority to line units. On the battlefield the services have learned that modern conflict requires that authority, and responsibility, be pushed down to lower levels. They call it “powering down.” It needs to be practiced more widely in the Pentagon. At a minimum, we ought to put a statutory limit on the number of Deputy, Under, and Assistant Secretaries in OSD and in the services, and collapsing the service staff would remove some duplication. Any increases must be offset by decreases.
11. Carefully examine business best practices. In so many ways, the Department of Defense is a unique organization. It is, by far, the largest department of government. Defense infrastructure costs are essentially larger than the GDP of all but forty countries. But, there are private firms that also have large scale operations, such as Wal-Mart, diverse international operations, such as Exxon, and extensive supply chains supporting highly distributed product lines, such as Trader Joe’s. The DOD needs to learn from these organizations, which have to compete in the global economy, keep costs low, and deliver products “on time and on cost.” Several years ago a senior Army general asked his head logistician what was the order-to-ship time for a repair part. The logistics officer proudly announced it had been reduced to 15 days, to which his superior replied, “General Motors’ time is 15 hours. So why can’t we do that?” Although the incentive structures between the public and private sectors are much different, performance objectives in similar functions should produce positive results.
12. Revise the executive branch and Senate processes for recruiting, confirming, and appointing personnel for key management positions. One of the major tenets of the Packard Commission, in addition to streamlining the decision processes, reducing layers, and eliminating paperwork and regulations, was recruiting and confirming personnel who had extensive experience running large, complex organizations and technical programs for the key management positions in the Department. We need to remove all the disincentives for personnel with those qualifications to serve.

CONCLUSION

I want to close by reiterating that none of my comments are meant as criticism of the dedicated, patriotic people who come to work every day across the Department of Defense with the intention of doing their part to keep the country safe. One senior officer recounted that on September 12, 2001, hundreds of military and civilian employees reported to work at the Pentagon even though the building was still on fire. They went to their offices to salvage what they could, gather up classified materials that had been scattered about by the explosion, and essentially, as we say in the military: “Charlie Mike—Continue Mission.” We are all proud that such people serve the nation. And this dedication is mirrored in the Congressional staffs as well.

I applaud the Committee for taking a hard look at this problem. As I mentioned, the growth in defense infrastructure has been quite similar and continuous through both Republican and Democratic administrations. The tendency has always been to add rather than subtract. And as we have added more staff, more layers, and more infrastructure, we have slowed the decision-making process, expanded the number

of players, and made the overall system more risk-averse at a time where we need to allow the assumption of more risk. We need to reverse the process. The test for making infrastructure reductions should not be “beyond a reasonable doubt” as it is today, but a “preponderance of the evidence.” We need to take some risks to make reductions, recognizing that some may not stand the test of time. But if we wait for certainty, we will have waited too long and imperiled our war fighting forces as they continue to decrease.

We must distinguish between working hard and working well. And with the fiscal pressures we face, with the strategic challenges erupting all around us, with the operational demands accumulating on the force, we can no longer afford the luxury of a growing imbalance between what we must field operationally and what we field managerially. We need to generate more units—more combat power—from our military end-strength and the fiscal resources associated with it, not less. And today we are fielding less.

Thank you very much for offering me the opportunity to share my views with you.

Chairman MCCAIN. Thank you.

Mr. Spencer.

**STATEMENT OF RICHARD V. SPENCER, FORMER MEMBER OF
THE DEFENSE BUSINESS BOARD**

Mr. SPENCER. Chairman McCain, Ranking Member Reed, distinguished members of the committee, I’m really invigorated to be here to testify before the Senate Armed Service Committee addressing the topic of managing the DOD.

My testimony today is based on my time in the private service—sector, but, more recently, 6 years on the Defense Business Board [DBB], most recently as vice chairman.

You have asked what primary attributes make an outstanding organization sustainable. In a recent task completed by the DBB 2 years ago, we interviewed about 24 Fortune 250 CEOs who had led critical turnarounds for their respective companies. In the clear supermajority of cases, they stated that their success was based upon laser-like focus on the mission of the organization.

When it comes to the subject of enhancing the operation of the Department of Defense, my point of view is concentrated on one thing: the mission. The mission of the Department of Defense is to provide the military forces needed to defer a war and to protect the security of our country. The Department is charged to protect the citizens of the United States of America. The Department is not an entity to support full employment nor a petri dish for managerial or social experimentation. And today it certainly cannot afford to be all things to all people as it strives to support its missions.

When corrective or construction actions are applied within the Department, we must keep the mission clearly in focus. Recent studies have shown there are numerous operational areas within the DOD where equal, if not better, external solutions can be provided more effectively and more efficiently, but they will involve heavy lifting and, in many cases, unsavory political decisions. From my point of view, fortitude and leadership are the two most important ingredients needed to enhance the operation of the DOD.

As an early outsider attempting to understand the building and its attendant issues of an ecosystem so immense in size, diversity, and span, it was akin to drinking from a fire hydrant. One walked away with an appreciation for the organization’s communications systems, neurosystems, digestive and equally important immune systems. What impressed me the most, both historically and in the present, is the core competency of the Department’s ability to solve

problems associated with its mission. Since inception, the Department has been tasked with the excruciating and amazing goals—daunting goals. In the early years, they were trailblazers, providing unique successful solutions for their organization that was similar to none. But, therein lies the rub today. Progress in the private sector has increased at a logarithmic rate. The solutions that were applied inside the building, in many cases, were immortalized, with no call for current benchmarking or impact assessment. And, as the private sector became equally as good, if not better, industry-specific problem-solvers, there was little ability in the building, nor cultural inquisitiveness, to compare core competencies.

Cases in point. The commissary system was a solution to provide basic consumables to bases and posts that were off the beaten path. DOD [Department of Defense] education was a solution for dependent education during the days of segregation. DLA [Defense Logistics Agency] was borne from a diverse cabal of buyers and distributors of resources. Maintenance depots, created to repair unique systems. Research labs, personnel management, the cases are numerous. That was then. This is now.

Rather than attempt to boil the ocean, let's look at a few example of actions that can be taken internally and externally:

You heard, earlier this month, that one should not expect candlestick-makers to develop electricity. In many cases, external forces are needed to motivate or—for organizations to change. There are few example of groups that have voluntarily downsized themselves or self-selected to cease doing business. This committee and the Congress have the ability to provide some elegantly clean solution to certain issues at hand while freeing resources to be used more—on more meaningful initiatives within the DOD.

Here are some topics to consider:

Depot maintenance. The uniqueness of depot-maintained equipment has devolved to the sum of the standardized systems: the engine in a tank, the transmission in a tug. Let those organizations having expertise in the systems provide the needed maintenance. The mission of the DOD is security, not repair.

Commissaries. The attachment that was circulated to you all in the Washington Post had a response from one retailer who was asked if they could provide a sustainable solution for the commissary networks in CONUS [Contiguous United States]. Here is an example of an organization with a well-developed core competency being able to offer an equal, if not better, service more efficiently than the existing system. The mission of the DOD is defense, not retailing.

Defense Logistics Agency. Arguably one of the better-run organizations in the DOD, but there's room for improvement. The DBB group addressing DOD logistics interviewed a multitude of organizations that were highly dependent upon their supply chain: retailers, manufacturers, assemblers. And their responses were constant. Supply-chain management is a critical contributor to the value of the enterprise. As an example, upon restructuring their supply chain and instituting strategic sourcing, IBM believes their logistical efficiency adds \$16 billion in the value to the—of their enterprise while providing a competitive advantage over others in their industry. In every case, we saw there was one person ulti-

mately responsible for the organization's logistics. The DOD should strive for the same efficiencies and have a chief logistic officer combining both the acquisition and distribution resources under one command. The mission of the DOD is to deter war, not to maintain the status quo.

DOD Education Activity [DODEA] in CONUS. It can be said that DODEA CONUS is the largest school district in the country. It has served its purpose well. But, is it needed now? The argument has been put forward that there would be mutual benefit from having military families integrated with their civilian counterparts in communities. The mission of the DOD is security, not education.

BRAC. Anytime the DOD needs to dispose of assets, it should be considered and acted on appropriately. It is the right thing to do. The DOD mission is to protect citizens of the United States, not provide local employment.

Let me quickly address what I believe is one of the largest internal issues within the Department. Successful organizations state that the quality of their employees is the driver for their performance. Human capital is a critical component of success. The DOD, still using the 1950 departmental title of "Personnel," needs to address this issue in earnest. I don't want to steal any thunder from my colleague from CVS, who is an expert in the area, but we do owe it to the Department to put a light on the topic.

On the civilian side, we need to adopt meaningful management performance measurement tools and educate managers on how to use those tools in order to craft a high- performance government service and senior executive service cadre. To quote a hard-charging GS-14 we interviewed, How can the building compete for the best and brightest when the strategy for long-term success and promotion is, "Just don't die"?

On the uniformed side, P&R [Personnel and Readiness] needs to provide the tools and technologies, such as performance-based benefits optimization, to the services so they have the ability to understand and react to the needs of the servicemember on a realtime basis, just as it's done in the private sector today.

These topics are simply the tip of the iceberg. We must move the conversation to action in order for the Department to effectively and efficiently support their mission.

I stand by to assist in any way.

[The prepared statement of Mr. Spencer follows:]

PREPARED STATEMENT BY RICHARD SPENCER

Chairman McCain, Ranking Member Reed, distinguished members of this committee, I am invigorated to testify before the Senate Armed Services Committee addressing the topic "Managing the DOD".

Upon graduating from a liberal arts college with a degree in economics in 1976 I entered the Marine Corps and spent six and a half years on active duty. I then transitioned out and entered the private sector building a career that was focused on finance and operations. In February of 2008, after regular prodding from fellow Marine and friend Sen. Jim Webb, I found myself in the SecDef's Conference room as a member of the Defense Business Board. The following six years proved to be one of the most exciting and educational experiences to which I have been exposed. I was involved with task group assignments ranging from logistics to technology to personnel. I was "lucky" enough to chair reviews of the uniformed members benefits and retirement systems. The outcomes range the full gambit from success to silence, but in every case the conversation was started, and as this committee hearing proves, the conversation continues.

You have asked what primary attribute makes outstanding organizations sustainable. In a recent task completed by the DBB two years ago we interviewed about 20 Fortune 250 CEO's who had lead critical turn arounds for their respective companies. In the clear super majority of cases they stated that their success was based upon a laser like focus on the mission of the organization. When it comes to the subject of enhancing the operation of the Department of Defense my point of view is concentrated on one thing: the mission. The mission of the Department of Defense is to provide the military forces needed to deter war and to protect the security of our country. The Department is charged to protect the citizens of the United State of America. The Department is not an entity to support full employment, nor is it a petrie dish for managerial or social experiments, and today it certainly cannot afford to be all things to all people as it strives to support its mission. When corrective or constructive actions are applied within the Department we must keep the mission clearly in focus. Recent studies have show that there are numerous operational areas within the DOD where equal if not better external solutions can be provided more effectively and more efficiently, but they will involve heavy lifting and in many cases unsavory political decisions. From my point of view fortitude and leadership are the two most important ingredients needed to enhance the operation of the DOD.

As an early outsider, attempting to understand "The Building" and the attendant issues of an ecosystem so immense in size, diversity and span was akin to drinking from a fire hydrant. One walked away with an appreciation for the organization's communication, neuro, digestive and equally important immune systems. What impressed me the most, both historically and presently, is the core competency of the Department's ability to solve problems associated with it's mission. Since inception the Department has been tasked with the execution and support of daunting goals. In the early years they were trail blazers, providing unique, successful solutions for their organization that was similar to none. But therein lies the rub today. Progress in the private sector increased at a logarithmic rate. The solutions, in many cases, were immortalized with no call for current benchmarking or impact assessment, and as the private sector became equally as good if not better industry specific problem solvers there was little ability in the Building nor cultural inquisitiveness to compare core competencies. Cases in point: the Commissary system was a solution to provide basic consumables to bases and posts that were off the beaten path, DOD Education was a solution for dependent education during the days of segregation, DLA was born from a diverse cabal of buyers and distributors of resources, maintenance depots created to repair unique systems, research labs, personnel management the cases are numerous. That was then, this is now.

Rather than attempt to boil the ocean lets look at a few examples of actions that can be taken internally and externally. You heard earlier this month that one should not expect candlestick makers to develop electricity. In many cases external forces are needed to motivate organizations to change. There are few examples of group's that have voluntarily downsized themselves or self selected to cease doing business. This committee and the Congress have the ability to provide some elegantly clean solutions to certain issues at hand while freeing resources to be used in more meaningful initiatives within the DOD. Here are some topics to consider:

Depot Maintenance—The uniqueness of depot maintained equipment has been devolved to the sum of the standardized systems (the engine in a tank, the transmission in a tug). Let those organizations having expertise in the systems provide the needed maintenance. The mission of the DOD is security not repair.

Commissaries—The attachment is a response from one retailer who was asked if they could provide a sustainable solution for the Commissary network in CONUS. Here is an example of an organization with a well developed core competency being able to offer an equal if not better service more efficiently than the existing system. The mission of the DOD is defense not retailing.

Defense Logistics Agency—Arguably one of the better run organization in the DOD community, but there is room for improvement. The DBB task group addressing DOD Logistics interviewed a multitude of organizations that were highly dependent upon their supply chain (retailers, manufacturers, assemblers) and their responses were constant; supply chain management is a critical contributor to the value of the enterprise. As example, upon restructuring their supply chain and instituting strategic sourcing IBM believes their logistical efficiency adds \$16B in value to the enterprise while providing a competitive advantage over others in their industry. In every case we saw that there was one person ultimately responsible for the organization's logistics. The DOD should strive for the same efficiencies and have a Chief Logistics Officer combining both the acquisition and distribution of resources under one command. The mission of the DOD is to deter war not retain the status quo.

DOD Education Activity (CONUS)—It can be said that DUODENA (CONUS) is the largest school district in the country. It has served its purpose well, but is it needed now? The argument has been put forward that there would be mutual benefit in the having military families integrated with their civilian counterparts. The mission of the DOD is security not education.

BRAC—Any time the DOD is need to dispose of assets it should be considered and acted on appropriately. It is the right thing to do. The DOD mission is protect the citizens of the United States not provide local employment.

Let me quickly address, what I believe is, one of the largest internal issue within the Department. Successful organizations state that the quality of their employees is the driver for their performance. Human capital is a critical component of success. DOD, still using the 1950 departmental title of Personnel, needs to address this issue in earnest. I do not want to steal any thunder from my colleague from CVS who is an expert in this area, but we owe it to the Department to put a light on topic. On the civilian side we need to adopt meaningful management performance measurement tools, and education managers on how to use the tool in order to craft a high performance GS and SES cadre. To quote a hard charging GS-14 we interviewed "How can the Building compete for the best and brightest if the strategy for long term success and promotion is "Just Don't Die"? On the uniformed side P&R needs to provide the tools and technology, such as performance based benefits optimization, to the services so they have ability to understand and react to the needs of the service member on a real time basis just as the private sector does today.

These topics are simply the tip of the iceberg. We must move the conversations to action in order for the Department to efficiently and effectively support their mission. I stand by to assist in any way possible.

Chairman MCCAIN. Thank you.

Ms. Bisaccia.

STATEMENT OF LISA G. BISACCIA, EXECUTIVE VICE PRESIDENT AND CHIEF HUMAN RESOURCES OFFICER, CVS HEALTH CORPORATION

Ms. BISACCIA. Thank you. Chairman McCain, Ranking Member Reed, and distinguished members of the committee, thank you for the opportunity to testify today.

Chairman MCCAIN. Would you correct my pronunciation, please?

Ms. BISACCIA. "Bizotchia."

Chairman MCCAIN. "Bizotchia." Thank you very much.

Ms. BISACCIA. Thank you.

It's an honor to be able to speak to you about some of the organizational and operational best practices at CVS Health, and our hope is, it will may—it may provide some key learnings as you consider reform of the Department of Defense.

As our company has grown from a regional drugstore to a fully integrated national pharmacy healthcare provider, we've learned valuable lessons about how to make a complex organization nimble and effective.

To give you a glimpse into how our company developed into the diverse enterprise that it is today, let's consider where we began. In 1963, we started out selling name-brand health and beauty merchandise at discount prices when brothers Sid and Stanley Goldstein opened our first store in Lowell, Massachusetts. In 1967, we began building trusted relationships with patients when we opened our first CVS pharmacy in Rhode Island, where we are still headquartered today.

In addition to our 7,900 retain drugstores, today CVS Health brings together CVS/Caremark, our pharmacy benefit management business; MinuteClinic, our 1,000 walk-in retail clinics; Omnicare, our senior pharmacy care business; and our expanding specialty pharmacy services. In all, we employ more than 215,000 colleagues,

with major hubs in Scottsdale, Arizona; Irving, Texas; and Northbrook, Illinois; in addition to our home in Rhode Island. We work in almost every State represented here today.

It's worth noting that CVS Health is a proud employer of veterans following their service, as well as those still serving in the National Guard and Reserve. We recognize the value of military service and know that our veterans' skills and experience are unparalleled. And, as Senator Reed noted, earlier this year we were honored to receive the Secretary of Defense Employer Support Freedom Award, the highest honor the Department gives to employers for outstanding support of employees who are National Guard and Reserve members.

As we think about the drivers behind our success, we know the quality of our workforce, including our colleagues who are veterans, has been an important driver of that success. What have been some of our other key lessons learned? First, developing a culture around our company's purpose. Our president and CEO, Larry Merlo, made this concept real for all of our colleagues when he championed our purpose, which is helping people on their path to better health. This simple purpose, just eight words, has had the power to unite our colleagues behind a common cause. Our purpose has permeated our organization, improved colleague engagement, which, in turn, improves all of our business outcomes. Embracing our purpose from the top down has been an example of the type of leadership we prioritize in career development for our colleagues, which is another core principle for us.

Cultivating a pipeline of leaders who can inspire is woven into our business processes. We hold our current leaders responsible for coaching the next generation of talent. And we've created programs to develop those leaders and keep them engaged in their careers at CVS Health. With more than 50 development and training programs focused on career advancement, we've made producing high-quality leaders a long-term investment. We use coaching, mentoring, and classroom programs to hone problem-solving, strategic thinking, and leadership capabilities for the next generation of CVS Health leaders.

As we've grown, a third fundamental lesson has been the value of adopting an enterprisewide viewpoint. Seeing ourselves as one pharmacy innovation company rather than as separate businesses under one roof has helped us take advantage of the synergies in our business, and has helped us to innovate. For example, when two of our lines of business came together, it gave us a different perspective on our plan members, and we were able to deliver what they want: the choice of receiving their maintenance medications by mail or picking them up at any of our CVS pharmacy retail locations for the same price. Although there were significant logistics to work out on the back end, creating our maintenance choice program was the successful result of an enterprise wide mindset that pioneered a new way to serve our customers.

At CVS Health, we deeply value purpose, leadership, and enterprise thinking. And I hope that there are ways that these lessons can benefit this committee as you consider the best ways to motivate, develop, and inspire the men and women who serve our country at the Department of Defense.

Thank you, Mr. Chairman. And I'm happy to answer any questions.

[The prepared statement of Ms. Bisaccia follows:]

PREPARED STATEMENT BY LISA BISACCIA

Chairman McCain, Ranking Member Reed, and distinguished Members of the Committee, thank you for the opportunity to testify today.

It is an honor to be able to speak to you about some of our organizational and operational best practices that may provide some key learnings as you consider reform of the Department of Defense.

As our company has grown from a regional chain drug store to a fully integrated national pharmacy health care provider, we've learned valuable lessons about how to make a complex organization nimble and effective. To give you a glimpse into how our company has developed into the diverse enterprise it is today, consider where we began.

In 1963, we started out selling name-brand health and beauty merchandise at discount prices, when brothers Sid and Stanley Goldstein opened our first store in Lowell, Massachusetts.

In 1967, we began building trusted relationships with patients when we opened our first CVS/pharmacy in Rhode Island, where we are still headquartered today.

In addition to our 7,900 retail drugstores, today CVS Health brings together: CVS/caremark, our pharmacy benefit management business; MinuteClinic, our 1,000 walk-in retail clinics; Omnicare, our senior pharmacy care business; and our expanding specialty pharmacy services.

In all, we employ more than 215,000 colleagues, with major hubs in Scottsdale, Arizona; Irving, Texas and Northbrook, Illinois, in addition to our home in Rhode Island. We work in almost every state represented here today.

It is worth noting that CVS Health is a proud employer of veterans following their service, as well as those still serving in the National Guard and Reserve. We recognize the value of military service and know that our veterans' skills and experience are unparalleled.

Earlier this year CVS Health was honored to receive the Secretary of Defense Employer Support Freedom Award, the highest honor the department gives to employers for outstanding support of employees who are National Guard and Reserve members.

As we think about the drivers behind our success, we know the quality of our workforce—including our colleagues who are veterans—has been an important driver of success.

What have been some of our other key lessons-learned? First, is developing a culture around our company's purpose.

Our President and CEO Larry Merlo made this concept real for all our colleagues when he championed our purpose which is "helping people on their path to better health."

This simple purpose—with just eight words—has had the power to unite our colleagues behind a common cause. Our purpose has permeated our organization and improved colleague engagement, which in turn improves our business outcomes.

Embracing our purpose from the top down has been an example of the type of leadership we prioritize in career development for our colleagues, which is another core principle for us.

Cultivating a pipeline of leaders who can inspire is woven into our business processes. We hold our current leaders responsible for coaching the next generation of talent. And we've created programs to develop those leaders and keep them engaged in their careers at CVS Health.

With more than 50 development and training programs focused on career advancement, we've made producing high-quality leaders a long-term investment. We use coaching, mentoring and classroom programs to hone problem solving, strategic thinking and leadership capabilities for the next generation of CVS Health leaders.

As we've grown, a third fundamental lesson has been the value of adopting an enterprise-wide viewpoint. Seeing ourselves as one pharmacy innovation company, rather than as separate businesses under one roof, has helped us take advantage of the synergies in our business model and innovate.

For example, when our two lines of business came together, it gave us a different perspective on our plan members and we were able to deliver what they want: the choice of receiving their medications by mail, or picking them up in any of our CVS/pharmacy locations for the same price.

Although there were significant logistics to work out on the back end, creating our Maintenance Choice program was the successful result of an enterprise-wide mindset that pioneered a new way to serve our customer.

At CVS Health, we deeply value purpose, leadership and enterprise thinking, and I hope that there are ways these lessons can benefit this Committee, as you consider the best ways to motivate, develop, and inspire the men and women who serve our country at the Department of Defense.

Thank you, Mr. Chairman. I'll be happy to answer any questions.

Chairman MCCAIN. Thank you very much.

You know, one of the things that confounds some of my constituents when I tell them is that we've never been able to get an audit of the Department of Defense. I guess I have two questions. One, isn't that a fundamental requirement if—for reform? And how do we get it? Do we have to go to Silicon Valley? And, second, which is connected to that, How do we get—how do we motivate qualified people to leave very well-paying, comfortable positions in private industry and come and be part of the Department of Defense? Without them, I'm not sure we can successfully implement many of the reforms that are advocated here.

I guess we'd begin with you, David.

Mr. WALKER. Thank you, Mr. Chairman.

Well, as Richard mentioned, I think the mission of the Defense Department is to protect the national security interests of the United States. And I think the people in the Defense Department have been focused on that, first and foremost. And, quite frankly, they haven't been focused as much with regard to economy, efficiency, effectiveness, and accountability, including with regard to financial management. They've taken it more seriously within the last several years. They've made more progress within the last several years than they did, you know, for the decade prior to that. At the same point in time—

Chairman MCCAIN. I've only got 5 minutes, now, David.

Mr. WALKER. Sure.

[Laughter.]

Mr. WALKER. At the same point in time, they do not have—they have thousands of nonintegrated legacy information systems that do not communicate with each other, they do not have adequate internal controls. And you touched on a very important point. They don't have an adequate number of people within the Department of Defense who have the requisite knowledge and experience to know what needs to be done and to get it done. Do you need contractor assistance? Absolutely. But, you need a certain number of people within the Department who have the relevant experience, who can manage it on a day-to-day basis.

One of the things I mentioned in my testimony is, the Secretary has the authority to appoint people for term appointments. And I think that, in the area of financial management, as an example, information technology being another, you should use that authority to try to take people who have had successful business careers—for example, partners in international accounting firms who may have auditing experience and financial management experience, who have made money, and who want to spend a period of time—let's say 3 years to 5 years—to serve their country. I think there are supplies of people like that, that could be tapped to be embedded within the Department of Labor—pardon me—Department of

Defense. And I think that that's something that needs to be pursued much more aggressively than it has been in the past.

Chairman MCCAIN. Thank you.

General?

General PUNARO. Mr. Chairman, on the "How do you get good people in government in these top positions?"—I believe you could recruit a Dave Packard or Norm Augustine if you told them, "We're going to bring you in, you're going to run this \$48 billion logistics enterprise called DLA"—

Chairman MCCAIN. You know—go ahead, but—I think you could get the head guy, but what about others that—you know, you need more than—

General PUNARO. Well, if you—

Chairman MCCAIN. Go ahead.

General PUNARO. Mr. Chairman, if you get the head guy, and you give them—allow them to put a lot of their assets in a true blind trust, which I believe you could do, have different divestiture rules and things like that, a more speedy vetting process in the executive branch, they would be able to bring in other people below the levels to do the same kind of things. But, the most important thing would be, they have to understand they're going to be able to have a meaningful job and make meaningful reforms. And I truly believe you would motivate people like that to come in. There's too many disincentives now.

Chairman MCCAIN. What about the audit?

General PUNARO. On the audit, I mean, you've got to the audit expert right here. I know the Department is struggling with that.

Chairman MCCAIN. For 15 years.

General PUNARO. Right. And they have not been even able to get the Statement of Budgetary Resources audited. And when Peter Levine testified before this committee, I think he gave the honest answer that he was very skeptical that the Department would be able to meet their internal deadlines. And I think the Congress has just got to keep that unrelenting pressure on them.

Chairman MCCAIN. Doesn't that mean bringing in some outside organization, like a good, crack outfit in Silicon Valley, to try to tackle it themselves? I don't—obviously, internally, it hasn't worked.

General PUNARO. The external audit firms that audit the for-profit companies have tremendous amount of expertise and could be brought to bear to help the Department, in my judgment.

Chairman MCCAIN. Mr. Spencer.

Mr. SPENCER. I would echo both David and Arnold's comments. Having simply been exposed for my first time, coming on the Defense Business Board, the disclosures and the—which, at the Defense Business Board, aren't nearly as onerous, but, I mean, we have to streamline the ability for private sector to come into the system. They're out there. The people are out there. They want to help. We've been wandering around, looking for candidates on the Board. They are there. When they look at what is encumbering to enter the system, they shy away.

Chairman MCCAIN. And the audit?

Mr. SPENCER. The audit, we talked a little bit about this earlier. I think a streamlined way is just to do the actual consolidated

audit. We're working on building up to the final audit, which is the way it is done in the private sector. But, I think, for the matter of expedience, what you really want as a tool is the audit of the consolidated entity, and that's what should be audited, without getting into too much technical jargon in auditing. But, we're spending so much time and money working our way up—you can do a build-up and then audit the actual consolidated entity. And it is needed for control and management.

Mr. WALKER. Mr. Chairman, as a CPA [Certified Public Accountant]—

Chairman MCCAIN. I've got to—

Mr. WALKER.—could I come back on that real quick?

Chairman MCCAIN. I've got to go to Ms. Bisaccia, and then—

Mr. WALKER. Sure.

Chairman MCCAIN. We'll come back.

Mr. WALKER. Yes, sir.

Chairman MCCAIN. Thank you.

Ms. BISACCIA. So, what we have found at CVS Health, although we are a private company that certainly has more compensation levers to pull than the government might, we have found that the motivators that really drive change in our organization are not compensation, but, in fact, are much more intrinsic: the desire for public—professional development, the desire to be part of something bigger than yourself to align with a purpose and make a difference and make an impact, the desire to have full accountability for something and to own something. So, what we encourage with our executives and with our emerging leaders is to feel accountable for enterprise results while delivering on your local portfolio. And we stress, in fact, the need to align yourself with the company's purpose and connect it to your work.

In terms of the audit, we are a metric-driven company. It is not just financial, it's operational; it's people results, as well. And our leaders are only successful if they own all their metrics, if they know their numbers, if they're able to speak to their whole portfolio of numbers, and, more importantly, explain any variances and do something about them. So, what that has required is a significant investment in measurement tools, including outside support from big-four accounting firms and other partners. But, the ownership is internal.

Chairman MCCAIN. Very quickly, David.

Mr. WALKER. Thank you, Mr. Chairman.

As a CPA, I know a little bit about auditing. I believe that one of the things that needs to be considered is to look at auditing the consolidated financial statements of the DOD rather than individual services and rather than the individual fourth-estate entities. You have to have a comprehensive audit plan that looks vertically at the organizations, horizontally at the line items and the systems. But, if you approach it this way, then, (a) you're going to eliminate a lot of intragovernmental activities; secondly, you're not going to have to define reporting entities; thirdly, the level of materiality is going to be much higher with regard to the work the auditors have to do. And I think that it would be easier to accomplish, and we'd be able to free up resources for performance management, cost accounting, internal controls, the things that, quite

frankly, are most important in order to accomplish the objectives of the Department.

Chairman MCCAIN. Senator Reed.

Senator REED. Well, thank you very much.

It strikes me that the Department of Defense today is the—an industrial model, and we're in a post-industrial age. And it was quite effective in the '50s, you've pointed out. And so, how do we sort of make that transition? The—my sense—and again, the industrial model is hierarchical. And, guess what? The military is hierarchical. It's a lot different.

So, starting with Ms. Bisaccia, you know, How do—you have, I would assume, a much more sort of flat organization, the ability to work around, versus the military. So, you might comment, and then everyone else can comment, Is that one of the big problems we're facing, even if we change some rules of this hierarchy?

Ms. BISACCIA. At CVS Health, what we found is, we moved from a pharmacy drugstore chain that had a very hierarchical model, in terms of vice presidents, regional managers, district managers—that, once we expanded our business commitment and once we came more diverse, we needed to look horizontally as well as vertically, and we needed to realize that the key to success as an enterprise was collaboration and shared resources, that we could no longer count on owning everything we needed to get our particular portfolio done, that, in fact, we needed to share resources across the enterprise and frequently make difficult decisions about what to prioritize. And, in fact, some businesses found that their needs had to be subordinated to those initiatives which benefited the enterprise. It's a difficult process. It goes beyond budget. But, what we have focused on is what's best for the company as a whole and then, as a leadership team, aligning behind that, in terms of making the decisions to support those priorities.

Senator REED. Mr. Spencer—I'll go right down the line—Mr. Spencer, please. And—

Mr. SPENCER. I think you—

Senator REED.—I have one other question.

Mr. SPENCER.—you hit the nail on the head, Senator. If you were to just take a look at one probably big lever that you could really change the organization over across the river, performance metrics on the civilian side. The military has had it for years. The fitness report system. Yes, it has some flaws, but it works. Yes, there's a performance management system on the civilian side, but I think there needs to be a retool of that and an education of the managers on how to use that. If you take the old adage of Jack Welch, every single manager ought to have a list in his back—his or her back pocket anytime, having the A, B, and C players, because, at any one time, you want to challenge the A's, you want to nurture the B's up to A's, and you probably want to get rid of the C's. We have to start doing that actively in the organization. It's going to cause, I think, more energy to be focused in the appropriate places, and get the right people in there.

Senator REED. Thank you.

General.

General PUNARO. We're talking about DOD significantly improving its management chain of command. And many times, critics

will say, "Well, wait a minute. It's not a business." Correct. And every business—world-class business practice is not applicable to government or DOD, but many are. And let me list them. And I would say the staff could look at, "Here are the world-class business practices that are applicable. Assess where DOD is today, and then say, What's the application?"

Focus on core functions. That is a world-class business practice that ought to be put into DOD. Today, they have a diffused work effort. If you did that, they would define and focus on core functions, and you would divest other activities.

Flat, flexible structures. All—everything in business now is flat. DOD is layered and rigid with their 28 layers. So, you would de-layer and consolidate. This is tough, because you're going to get rid of a lot of principal deputies and deputy deputies and deputies to the deputies.

In companies today, you have widely shared information and knowledge, and they don't do that in the Department, so you need a powerful CIO [Chief Information Officer]. I believe you need to get rid of some of the unders and bring back the Assistant Secretary for Command, Control, Communication, Computers, and Cyber to have that kind of cross. And you need performance goals. They don't have them.

And finally, every business has tight controls over overhead personnel. And, as we've seen, DOD does not have that. They can't even tell you with precision how many people they have in overhead. So, you have to establish an effective overhead control system.

Senator REED. Mr. Walker, please.

Mr. WALKER. There are way too many organizations. When I was Comptroller General, I had the good fortune of being able to participate in the Capstone program for flag officers. One of the things I was shocked to find out, as an example, is, in order to activate and deploy 25 members of the Guard and Reserve, over 20 units within the Pentagon had to sign off on that. So, way too many organizations, way too many layers. As General Punaro said, there are 28 layers in the Defense Department. We had eight at GAO [Government Accountability Office]. And we have to have much more from the standpoint of performance metrics, outcome-based performance metrics that we are holding people accountable for. So, it's layers, players, and hardened silos. That's what we have to do.

Senator REED. Let me just quickly follow up, if the Chairman will allow, for one question to you, Mr. Walker. Sometimes I get the impression that, you know, we look across to the river, and it's their problem, but many times it's our problem. The way we do budgets, for example, it looks cheaper to hire lots of contractors than to hire one civilian long-term with pension benefits and other benefits. Would it be useful for us to look the way we sort of do the budget or give them credit, in terms of to incentivize them, to bring more full-time government employees, rather than hiring contractors left and right to do the problem? That's—

Mr. WALKER. I do think that you have to look at how you keep score. I do think that we have to have an understanding as what is inherently governmental, what should be done by the government, and what could be done by the private sector. I agree with

General Punaro that we ought to revitalize the A-76 process. I also agree that we need to look at fully absorbed cost accounting. Okay? We have to have a level playing field. What is it costing for an outside contractor? Frankly, what is it costing for a government worker, including pensions——

Senator REED. Right.

Mr. WALKER.—retiree healthcare benefits——

Senator REED. Right.

Mr. WALKER.—and all these other things. So, how we keep score matters, and the way we keep score now does not facilitate sound decisionmaking, in my view.

Senator REED. Thank you.

Thank you, Mr. Chairman.

Chairman MCCAIN. Senator Lee.

Senator LEE. Thank you, Mr. Chairman.

Thanks, to all of you, for appearing today and offering your helpful testimony. I want to thank the Chairman for holding this hearing, which covers an important topic, one that we need to address from time to time.

You know, there's no question that the Department of Defense needs to be reformed so that we can prepare it to address 21st century realities. And this includes a different security situation that existed 30 years ago, certainly. It also includes, you know, the need to address fiscal and economic realities, realities that many experts today believe present national security threats in and of themselves.

Mr. Walker, I'd like to speak—like to ask you some questions first. You spoke, in 2008, about the striking similarities between America's current circumstances and the circumstances that led to the decline of the Roman Empire. Now, it's a pretty big assertion. And you backed it up by analyzing a number of factors that you think warrant the comparison. You mentioned, I believe, that we're experiencing declining moral values and political civility domestically, and an overextended military in foreign lands, combined with fiscal irresponsibility by the central government. And you identified all of those as characteristics displayed by the late Roman Empire, and characteristics that we can see within the United States today.

Can you elaborate on what some of the precipitating factors are, specifically with regards to having an overextended military abroad that can lead to a country's decline? And tell us a little bit about how the overextension of our military might lead to some of the mismanagement problems that we're experiencing today.

Mr. WALKER. Senator, I think what I said was that we had a decline in moral and ethnical values, we had fiscal irresponsibility by the central government, we had an inability to control our borders, and we had an overextended military around the world. I think those factors are relevant, and I think they're a reality.

Senator LEE. Have we solved all those problems since——

Mr. WALKER. Well, first, I think we have to understand, in order to stay strong militarily, in order to be the leading nation around the world, you have to be strong economically. And if you don't put your financial house in order, then all those aspects—the military will suffer, our position in the world will suffer, our economy and

job opportunities will suffer. So, we have to put our finances in order.

I think the issue is, we have assumed a disproportionate responsibility for global security in the United States, in part because somebody has to lead, and thank God it's the United States; in part because others have not done their part and others have cut back on their allocation to the military, and they've been relying upon the United States to assume a disproportionate share. And I think that's something that obviously has to be looked at, because the type of security challenges that we face today are diffused, they are global, they do not respect geopolitical boundaries, and we need a collective effort in order to be able to effectively solve it. At the same point time, as the Chairman and others have said, the United States must lead, because there's nobody else to fulfill that role.

Senator LEE. Now, in 2008, you appeared in a documentary called "IOUSA." You talked about some of the threats we might face, some of the crises we might face as our national debt continues to rise. At the time, significantly, our national debt was \$8 trillion. It's funny how we can look back on that now and say "only \$8 trillion," because, of course, that's a staggering sum of money. But, since then, our debt has significantly more than doubled. And so, other than facing possible insolvency, sooner rather than later, what consequences, specifically to our national security, do you project from this trend if we stay on our current path?

Mr. WALKER. Just to reiterate, if we don't put our finances in order, then everything is going to suffer, including national security. Let me give you something that I think most people don't know. Discretionary spending, which includes national defense, includes all of the express and enumerated responsibilities envisioned by our Nation's founders for the Federal Government. All of them. National security, homeland security, foreign policy, *et cetera*. That's what's getting squeezed. It's down to 32 percent of the budget. Thirty-two percent of the budget. Sixty-eight percent is mandatory spending. A hundred years ago, only 3 percent was mandatory spending. So, you know, we—we've lost control of the budget. We're spending more and more on consumption, more—less and less on investment, more and more on non-constitutionally specified responsibilities, less and less on the ones that are. And that's not sustainable. It's absolutely not sustainable.

At the same point in time, as we've testified in this hearing, there is a tremendous amount of waste with regard to overhead and management practices within the Defense Department. And so, we need to have an adequate allocation of the budget to defense. At the same point in time, we need to improve the economy, efficiency, and effectiveness of the resources that are being allocated to the Defense Department at the present point in time.

Senator LEE. That's a great point. I like your point about the comparison with 100 years ago. And another thing that goes along with that is, 100 years ago, we were spending only 2 or 3 percent of our Nation's GDP on the Federal Government. And so, not only has the pie grown, it's grown—

Mr. WALKER. Two percent. A hundred years ago, the U.S. Government was 2 percent of GDP. Now we're—you know, now we're about 21 percent of GDP, so it's 10 and a half times bigger. A hun-

dred years ago, we controlled 97 percent of spending, Congress did, every year, now it's 38, going down. It's out of control.

Senator LEE. Well said. I see my time is expired. Thank you, Mr. Walker.

Thank you, Mr. Chairman.

Chairman MCCAIN. We all yearn for those golden days of yesterday.

[Laughter.]

Mr. WALKER. It's not too late, Senator.

Chairman MCCAIN. Senator Manchin.

Senator MANCHIN. Thank you, Mr. Chairman.

Thank all of you for being here.

And I think you agree, the same as that—when I first came, Admiral Mullens, we were asking—Joint of Chiefs of Staff are sitting where you all—and we asked—the question was asked by somebody on the panel, “What’s the greatest challenge the United States faces, the greatest challenge we face around the world?” And, you know, we were waiting to hear some military, terrorist attack, and on and on and on. And Admiral Mullen put it quite clear and succinctly. He says, “The defense of our Nation is the greatest challenge we face.” And I think you all seem to agree to that, that we’re in serious challenges here.

I’ll ask a simple question, basically. Is there enough money in the system? We put around \$600 billion in defense. Is there—is that enough money to defend this country, to keep our people safe and defend the homeland? And what we seem to have a inability to do is to legislate good management. I don’t know how you can do that. So, my point is this. If there’s enough money—and they don’t think there is enough money, the way they’re managing now—will they change their management practices, since we can’t seem to do it through legislation? Do you think it will change? Will it hit a crisis to where we’re—basically have to change? So, we can start, Mr. Walker, with you, if you don’t mind.

Mr. WALKER. Thank you, Senator.

First, the government is a monopoly. It doesn’t face competition. And therefore, it doesn’t have the same type of competitive pressures that forces it to be economical, efficient, effective, to innovate, to seek continuous improvement. I do believe that, absent other contingent operations, which we have some—

Senator MANCHIN. Sure.

Mr. WALKER.—now, we may have others in the future, that there are adequate resources. But, I do think you have to think about the fact that the—that national security is fundamental, that only the Federal Government can do that, and whether or not, frankly, there ought to be some minimum allocation of a percentage of GDP to defense.

Senator MANCHIN. Well, what we hear, if I don’t—I’m sorry to interrupt—what we hear is, basically, sequestering is choked, and basically, everybody, Democrats and Republicans, want to do away with sequestration. Now, I understand, because we all want to keep the homeland safe. We’ll do whatever we can to defend this great country.

With that being said, is \$600 billion enough? What is the figure? Has anyone looked and seen what it would take, if it was efficiently

managed, to run this Department of Defense to keep us safe? That's what we—I would hope that somebody at—you all, at your stature, could be able to do that, or look and see, and say, "No, you're still 20 billion short," or, "You have more than enough money, if it was managed properly."

General PUNARO. Well, Senator, as the Chairman pointed out, we are at historically high spending levels. We are in constant—FY16 [fiscal year 2016] constant dollars, \$100 billion—at \$600 billion, \$100 billion higher than the previous lows. We're roughly spending at the same peak as the Reagan buildup. And yet, we—our warfighting forces are 40–50 percent smaller. And the problem is, there's so much of it chewed up in overhead.

You've got three big problems in the Department of Defense that's gobbling up our warfighting forces. You have, basically, the unsustainable, long-term, fully burdened cost of personnel, which includes the retired force, and we certainly don't want to change anybody's benefits. Everybody would have to be grandfathered. But, we all know, when Congress deals with the grand compromise on entitlements, it's going to look forward, it's going to take 20 to 30 to 40 years to fix it. The same thing happens in defense. The acquisition system, we spend \$400 billion a year on goods and services, supplies, and equipment, and about the only polite thing you can say, "We spend more, we take longer, we get less." Now, the committee's made a lot of reforms here.

And then you have the massive overhead, which we have to get under control. If you look at the Army, for example—and they're not making all the right decisions in the Department—from 2010 to 2017, the Active end strength's going to go down by 20 percent, from 567,000 to 450,000. Whether you agree with that, or not, the problem is, they're going to reduce the Active combat brigades by 30 percent. So, when they're reducing the end strength of the Army, instead of taking it out of the overhead, they're taking it out of the combat side. So, I believe—

Senator MANCHIN. Who's making those decisions?

General PUNARO. Well, the leadership in the Department of Defense. It's not the Congress. And they come up with the budget, and they are allocating—they are keeping too much in the tail, and there's too little on the combat side.

And I believe—Albert Einstein had a quote, and I don't know if I'm getting it just right. He said, "You can't solve problems with people who created them." This committee has a history, going all the way back to the creation of the defense establishment after World War II, the amendments in '56, Goldwater-Nichols acquisition reform. It's going to have to have to come from this committee. The Department cannot reform itself internally. It is just too, too difficult for them. So, the reform—

Senator MANCHIN. Do you believe there's enough money in the system if we managed it properly?

General PUNARO. At \$600 billion, and in the FYDP [Future Years Defense Program] that the administration requested over the next 5 years, if they could get control of the overhead, if they could get the reforms and the acquisition, if they could start containing—

Senator MANCHIN. I mean—quickly, but, basically, you're saying yes?

General PUNARO. I'm saying yes.

Senator MANCHIN. How about you, Mr. Spencer, very quickly?

Mr. SPENCER. I'd say yes, Senator. And in just sort of a quick aside, if you take the study that we did on the Fortune 250 companies that faced massive turnarounds, looking into the black hole, the first thing the management did when they came in was cut 20 percent. And we kept going back and looking at the records, and it was 20 percent across the board. We said, "Why?" They said it was a great place to start. And, at the end of the day, it was probably too little. There has to be some event or external efforts, as General Punaro said, to get the organization going.

Senator MANCHIN. Ms. Bisaccia, yes or no, \$600 billion?

Ms. BISACCIA. I'm not in a position to comment. I've—

Senator MANCHIN. Okay.

Ms. BISACCIA.—had no experience with Department of Defense. However, I would say, if you believe that leadership is the key element necessary to drive change, I can't think of a better reservoir of leadership than our Armed Forces. So, it seems to me that, given uniformity around the mission, our leaders can lead through the necessary changes.

Senator MANCHIN. And very quickly, Mr. Walker.

Mr. WALKER. Yes, with the requisite reforms. However, those reforms will take time. I've publicly said it before, that I believe that if the overhead was 25 percent lower in the Pentagon, we'd be 50 percent more productive.

Senator MANCHIN. So, by lifting the budget caps and the sequestering basically going away, that's not going to be the answer to—

Mr. WALKER. I think—

Senator MANCHIN.—better management.

Mr. WALKER. I think you have to look at the top line, you have to look at how you're allocating the money. And I come back to something that General Punaro said. I do think you have to end up forcing change with regard to overhead and the administrative functions. I do think you need to figure out what you have, you have to benchmark it, you have to put caps on it, and you have to force people to drive that down. That's what's not happening. It's got to be forced to be driven down.

Senator MANCHIN. Thank you. My time's up. I appreciate it.

Senator REED [presiding]: On behalf of the Chairman, let me recognize Senator Rounds.

Senator ROUNDS. Thank you, sir.

In doing just the review for this hearing today, the Congressional Research Service provided us with a list of some of the overall reforms that have been proposed in just the—well, since 1983. It began with the Grace Commission, the 1985 defense organization, The Need for Change, the Packard Commission in 1986, ending with the 2014 Quadrennial Report, the QDR. There were 24 different organizational reform proposals that have been made, ending, as General Punaro pointed out, with a grand total of 28 layers of bureaucracy now found within the Department.

My question for you is this. And I'll begin with Mr. Spencer. You've suggested, specifically, areas that could be looked at for efficiencies. Is it possible to take them, department by department or

location by location—depot maintenance, commissaries, Defense Logistics Agency, DOD Education Activity and so forth—is it possible to take one and separate it out and actually reform it, proving that it is not only doable, but it is desirable within the Department to actually make change based upon the mission that that particular part of the organization is responsible for?

Mr. SPENCER. Senator, I'd say yes to your question, in one area: Department of Defense education. Ironically, the largest school district in North America is not hamstrung like any of the school districts in public America. You could actually probably put dollars saved from commissary realignment, depot realignment, BRAC, whatever, and make it an institution that was extraordinary for recruiting purposes, for retention purposes. That would be one area where I'd say you could. The others that are on my list, I would say that that does not fall into the mission of the Department of Defense.

Senator ROUNDS. When you say it "does not fall into the mission of the Department of Defense," do you mean that they are incapable of making the changes internally? Is that what you're saying? Or are you saying that they should be separated out?

Mr. SPENCER. They should be separated out. It's not a core function.

Senator ROUNDS. But, nonetheless, it is critical for the operation of the entire—for the mission of defending the country, correct?

Mr. SPENCER. Certainly is, but there are more organizations that can do it more effectively and more efficiently.

Senator ROUNDS. But, should there not be some sort of an oversight or an area within the Pentagon responsible for seeing that they get accomplished? As an example, depot maintenance, the maintenance activities for there, isn't there some place within the Pentagon that should have the organizational responsibility to see that it gets done?

Mr. SPENCER. Yes.

Senator ROUNDS. So—

Mr. SPENCER. The actual tank getting fixed, yes.

Senator ROUNDS. So, if we take that as one area, which is the mission, to get the tank fixed, can we separate out that particular mission, the maintenance mission, pull it apart, and say, "Let's dissect this, let's fix it, let's put it back in and prove that this particular operations within the Pentagon could be made more efficient," and use that as a sample that could be used in other areas, as well, similar to, as you've suggested, with the educational aspects?

Mr. SPENCER. I see where you're headed, Senator, but I come back to private sector. If it is not in your core competency wheelhouse and there are better providers out there that do it, you access the most efficient path you can, because your mission is not aligned with that. Yes, it's a subsupport of it, but somebody else can do it better and more effectively. Why waste resources on doing that, when you can apply it to your direct mission?—would be my response.

Senator ROUNDS. When we look at making reforms, when—if we've looked back at it and we've got 24 different reform proposals that have occurred since 1983, have any of them actually worked?

Is there anything in them which has actually worked? Can we list an example of where they've been successful?

General PUNARO. Well, I would say the Goldwater- Nichols reforms, which tremendously changed the operational chain of command in the military pioneered by this committee, worked. I would say there's very little on the management side that you could point to from all the various commissions. I do think you've got a kernel of really great idea, in that you could take two or three of these areas that you've talked about and create a pilot program. For example, we have 18 maintenance depots in the Department of Defense as part of their \$170-billion-a-year logistics enterprise. Why not take one of those organic depots and run a pilot program where outside enterprise could come in, keep it right where it is, and run it on the base? Let's take a DOD-dependent school. There are a lot of local school districts that could come in and run that school system on the base and see if it could be run more efficiently than the government is running it. With a commissary, for example, you could take the Marine Corps commissary at Camp Pendleton, as General Jim Jones was willing to do in 1998, when he was the Commandant, and bring in a Walmart or a Costco and let them run it, and see if it would be more efficient. And then you could—and then you would have some data, and then you could deal with some of the emotional arguments that you run into when people say, "Well, they can't do it." So, test it out. So, as you look at these management reforms, which are going to be very tough and very hard, do some pilot programs and test out your proof of concept, and then decide if you want to take it to a broader set. So—but, I do think, in all these areas that are not core to the Department, these are the ripe areas for these kind of pilot programs.

Senator ROUNDS. Thank you.

Thank you, Mr. Chairman.

Chairman MCCAIN [presiding]: Could I just comment? We kicked that idea around about the commissary, and I can tell you, we have a PR [public relations] challenge. We—the hornet's nest that we ignited. So, we'll have to go back. Maybe pilot programs are the best way to address that issue. There are, as I understand it, 15,000 employees, and—

General PUNARO. Mr. Chairman, spot on. And I think the messaging ought to be, "We're not trying to get rid of the benefit, we're not trying to get rid of the commissary in their locations. We're trying to reduce the taxpayer subsidy." So, give the troops and the families and the retirees the same benefit they have today, but if you run it and manage it more efficiently—you know, but the way the headlines come out, the bumper sticker is; "We're trying to close the commissary." So, you're right, we've got to change the packaging.

Mr. WALKER. Mr. Chairman, I would respectfully suggest you've touched on one of the important four-letter words in politics, and that is "jobs." And part of the question is; Can this be done more economically, more efficiently, and more effectively? And, if so, what does that mean with regard to the number of employees you're going to have? And that's—

Chairman MCCAIN. Right.

Mr. WALKER.—you know, that's the elephant in the room. You know, if you——

Chairman MCCAIN. Well, it—it's more than that in this issue.

Mr. WALKER. Yes, sir.

Chairman MCCAIN. It's the perception that we are taking away from our—particularly our retirees, not to mention Active Duty——

Mr. SPENCER. Mr. Chairman, can I add something here, though? Having chaired the—lucky enough to chair the DBB Task Force on Modernization of the Military Retirement System.

Chairman MCCAIN. You were lucky?

[Laughter.]

Mr. SPENCER. Thank you, sir. One of the VSOs [Veterans Service Organizations] was nice enough to publish my home phone number, and I took 127 phone calls. I kept a log on this. And I actually wanted to speak to the people. And once you got the expletives out of the way and realized that I wasn't a communist agent trying to defer any sort of benefit, you could speak to——

Chairman MCCAIN. That took a while.

Mr. SPENCER. It took a while. It took a while. You could speak to everybody. And if you started rationalizing and saying, as an example, "You have one dollar to spend on your benefits. Your healthcare costs 50 cents, your retirement costs 33 cents, your commissary costs 26 cents, and you add it up and you have \$1.70 of expenses and a dollar to spend," there was a great rational answer at the end of the day. There was an understanding. I think that if, in fact, this committee and Congress wants to sit and provide a preference-based selection with the information available, you can scale this monster.

Chairman MCCAIN. Well, I appreciate your confidence.

Senator King.

Senator KING. Thank you.

Your discussion of the 28 layers and the Deputy Under Secretary—40 years ago, I sat in one of these seats. I was a staff member here in the Senate and was once called upon to set up a hearing; called OMB, asked for a witness from the administration. The fellow said, "We will send you the Deputy Under Secretary of Such-and-Such." My question was, "Who is this person? I don't know about the titles?" The fellow gave an answer, which, if I ever write a book about Washington, will be the title. He said, "He's at the highest level where they still know anything."

[Laughter.]

Senator KING. Unfortunately, I'm keenly aware that I'm above that level today.

[Laughter.]

Senator KING. I think one thing we haven't talked about today is the President. I don't mean this particular President, I mean Presidents in general. One of the problems, it seems to me, is that people that we elect President generally are politicians, and politicians generally don't think much about management. This has to start with the President, it seems to me, a President who cares about the management issues.

One of Lincoln's greatest unappreciated qualities was as a manager. When he was—when he became President, there were 16,000 members of the United States Army. By the end of the Civil War,

they had scaled up to over 2 million people that fought on the Union side in the Civil War. Think of that as a management challenge. But, it occurred because Lincoln cared about it and put people in a position and required results, in terms of everything from making buttons to bullets to railroad ties.

So, I would like just a quick reflection, Mr. Walker, on the role of the President in this process. I think we can lob ideas here, but the person who's in charge at the other end of Pennsylvania Avenue, it seems to me, has an enormous role to play, if they choose to play it.

Mr. WALKER. I agree, Senator. When you're hiring a President, you're really looking for three things, in my view. You're looking for the Chief Executive Officer [CEO] of the largest, most complex, most important entity on the face of the Earth, the U.S. Government, which has got a lot of challenges, some of which we're talking today; secondly, the Commander in Chief of the U.S. military; and thirdly, the leader of the free world. But, I also think you have to understand that, in order for them to discharge their CEO responsibilities, they've got to have good people.

Senator KING. Absolutely.

Mr. WALKER. They've got good people with the right skills in the right position for a requisite amount of time. And I think, when you look at presidential appointments, Senate confirmation, for example, there's three kinds of jobs. There are policy jobs, there are operational jobs, and there are oversight jobs. And you want different kinds of people in those jobs. And I would respectfully suggest, as I did for the CMO [Chief Management Officer] position and the sub-CMO positions, that you need statutory qualification requirements, that we need to be thinking about term appointments with performance contracts for those jobs that are operational jobs. They are not policy. They may be political appointees, but they are operational jobs.

Senator KING. But, I would suggest if the oversight from the White House is more about policy and politics than it is about running the enterprise—I mean, there's a reason it's called “the administration.” But, in many cases—and again, I'm not pointing the finger at the—this particular President, but it's just not in our political culture to care too much about how the structure at the Pentagon functions.

Let me move on for a minute. Data and metrics. The fact that you were saying that there's an argument about how many people work in the Secretary of Defense's office is unbelievable—I mean, that we don't have—we can't possibly make good decisions if we don't have data. Would you concur?

General PUNARO. Absolutely, Senator. I go back to when I was serving on the committee. We couldn't get the data. When Secretary Cohen asked me to chair a task force in 1997, Doc Cook, the legendary mayor of the Pentagon, “Doc, how large is OSD?” “Oh, Arnold, we've only got about 2,000 people.” Well, Jim Locher and Rhett Dawson and others were on that task force. We went around and counted the names on the doors, we counted the computers, we counted the badges. There was another 1,300 more than they admitted. And Secretary Gates, when he—in 2010, when he tried to downsize, they couldn't get the accurate baseline. If you look at the

defense-wide headcounts that are in the Defense Manpower Requirements Report, today the Office of the Secretary of Defense, with military, civilian, and contractors: 5,273. You could argue that the Office of the Inspector General, which is 1,823, comes under OSD. You could argue that the Pentagon Force Protection—

Senator KING. Well—

General PUNARO. So, the problem is, GAO has said they don't have reliable data. Now, Peter Levine, the new DCMO [Deputy Chief Management Officer], former staff director of this committee, he's working this really, really hard right now. And in all the years I've been looking at this and doing this, he's the first senior Pentagon official that has admitted, "You know, Arnold, I'm not sure we have accurate data. I'm going to try to get the accurate data." Before, they'd just stonewall you. So, maybe there's going to be—but, the committee is going to have to put pressure on it and mandate and get the information.

Senator KING. You just answered my last question, which was, How is Peter doing? And isn't he in the position that you were defining at the beginning? And it sounds like he's manfully trying to get a handle on that.

General PUNARO. He is, but that is a tough—that whole management operation is really tough, because the old Washington Headquarters Services, they have succeeded, you know, for 50 years, in stonewalling a lot of information. And so, he's having to dig it out with a pick and shovel.

Senator KING. Thank you, Mr. Chairman.

Chairman MCCAIN. Senator Ernst.

Senator ERNST. Thank you, Mr. Chair.

And thank you very much, to our witnesses, for being here today.

Effective management of government programs is—especially in the DOD, is something that I have taken great interest in since I have come to the Senate. And I've found out that there really are no government-wide standards, especially when it comes to program management, whether it's in the DOD or some of our other departments. And I do believe they need to be more in tune with what is going on in the private sector. And there's a study—it was done by Accenture, a group out there—that says the U.S. Government could save as much as \$995 billion by 2025 by increasing public-sector efficiency by just 1 percent. And that, again, is across the government. And that includes improving program management practices.

And so, this is a great topic for today. And I'm glad to have the discussion on it. I would like some feedback from the panel. Mr. Spencer, I'll start with you. But, it's my understanding that the Federal Government spends around \$530 billion in procurement. And when we talk about procurement, a lot of that discussion is really focused on the \$177 billion that we spend on DOD weapon systems acquisition. And this type of procurement for tangible goods—so, out of that \$530 billion—for the tangible goods, only about 45 percent of that is on items in the acquisition program. The other—another 45 percent is spent on service contracts and those types of things, not actual goods that you receive. And then another 10 percent, or the remaining 10 percent, is spent on R&D [research and development] for future acquisition programs. So, the

Defense Acquisition Workforce Improvement Act only applies to those goods that are tangible in nature. And so, it leaves those service contracts out.

So, with that said, what is your assessment of the effectiveness of the Defense Acquisition Workforce Improvement Act and it's providing a standardized program management outcomes across all of DOD in the acquisition portfolio? Do you think it's something that could be improved?

Mr. SPENCER. Definitely. I think that it's a terrific step forward. When one looks at how the government, let alone the DOD, acquires, there are different pockets and different channels for which things are acquired. We do need to set standards. It sounds like a simple answer, but you have to take it across the board. There—it has to be a unified leadership demand that the standards are applied whether contracting services, whether hard goods purchased, whatever the case may be. It sounds very simple. It's—as I think I said in my testimony earlier, there's heavy lifting that has to be done. But, that would be one of the things to do, would be to force the standards across all purchasing areas within the building, at least.

Senator ERNST. Thank you.

Controller General Walker?

Mr. WALKER. The scope should be expanded. There's a lot of contracting that doesn't deal with goods. It also—it deals with services. We have to understand what are our goals, what are our objectives, what are our metrics, what are our measurement systems. And that applies both to, you know, defense weapons acquisitions, as well as a range of services.

Part of the problem in the weapons acquisition, in my experience, has been—is that people have a dream about what they would like. That dream keeps on changing, so the requirements keep on changing. Every time the requirements change, that means it takes longer, it costs more money. And the other thing that we talked about earlier is personnel. We have people that stay in positions for 2-year periods of time automatically, rather than wait until a major milestone has been achieved. That is tremendously costly with regard to money as well as timing on these projects.

Senator ERNST. Yes, General.

General PUNARO. I would step it back to broader issue that Senator King brought up, which is management. The Office of Management and Budget needs to emphasize more on the management side and less on the budget micromanagement. But, the biggest change we—that would affect what you're talking about—because 55 percent of DOD's spend now is on services—would be a reform in the Congress in going to a 2-year budget. So, the first year—because the Congress and the Pentagon are drowning in budget details. Everything is just tied to these microbudget details. Not as much oversight and management occurs, either in the executive branch or in the Congress. So, the first year, you would deal with the budget request; the second year, you would do detail oversight on the management side. You'd have much more time to basically bring in witnesses that could basically have a back-and-forth. And so—and, in terms of the broader management, the Eisenhower Cabinet—I mean, he basically believed in true Cabinet line officers,

as opposed to the kind of micromanagement that we've seen White Houses do today. So, the—so, you really aren't going to get to the bottom line until you go to this broader construct.

Mr. WALKER. May I jump in quickly?

Senator ERNST. Yes.

Mr. WALKER. I strongly endorse the concept of a biennial budget. I'm 64 years old. I know that may be hard to believe, but I am. [Laughter.]

Mr. WALKER. And the fact of the matter is, Congress has passed timely appropriations and budget bills four times in my lifetime. We spend a tremendous amount of time—and most of the States have gone to biennial budgeting. I think it's something we need to consider, as well as the separation between the capital budget and an operating budget, and to focus not on deficits and debt, but debt as a percentage of the economy. That's what matters.

Senator ERNST. All very good points.

Thank you, Mr. Chair.

Chairman MCCAIN. We thought you were older.

Senator HIRONO.

Senator HIRONO. Thank you, Mr. Chairman.

Mr. Walker, you just mentioned today, just now, that we should separate out the capital budget from the operating budget. Can you talk a little bit more about what that would do and what that would involve?

Mr. WALKER. Whether you talk about critical infrastructure, whether you talk about weapon systems acquisition, there's a difference between trying to be able to acquire things that have multigenerational benefit that end up—benefit society broadly over an extended period of time. Most States have capital budgets and operating budgets. Most corporations have capital budgets and operating budgets. And that's why I'm saying you have to be careful. Sometimes people want to play games to say, "Well, this is really a capital item, this is really an investment, it's really not an expenditure, so I should have more flexibility." That's why I'm saying one of the things that you do is focus on debt-to-GDP [gross domestic product]. When you do that, when you focus on debt-to-GDP, which has gone from 31 percent in 1980 to—pardon me, 30—to 54 percent in 2000 to 103 percent today, when you count what we owe Social Security and Medicare, we've got to get that down to about 60 by '20 to 2035. Let's use best practices from the private sector. Let's look to the States. And I think they would tell you, you need separate budgets for that.

Senator HIRONO. Yeah, I've often wondered why it is that we don't separate out these budgets, because, in the States, it's—the capital budgets are usually called the capital improvements budget [plans], CIP. That's a totally different way to look at long-term debt, et cetera. And so, why do you think we have not adopted that at the Federal level?

Mr. WALKER. Well, it's before—

Senator HIRONO. With any—

Mr. WALKER.—it's before my time, but, you know, our budget process is—it's a cash-based—and it's focused on 1 year at a time. And I think some people have been concerned that you might lose control of spending if you have a separate, you know, capital budg-

et from an operating budget, "Let's just put it all together." But, again, that's what I'm saying.

Senator HIRONO. Oh.

Mr. WALKER. If we focus on debt-to-GDP, it's—have specific targets, triggers, and enforcement mechanisms on debt-to-GDP, that's the way to manage that problem. Private sector and States separate it. States have 2-year budgets. We ought to learn from the States.

Senator HIRONO. Well, do the other panelists also agree that we should separate out these two budgets?

General PUNARO. I agree.

Senator HIRONO. Mr. Punaro?

Mr. SPENCER. Completely.

Ms. BISACCIA. Seems like good management to do so, yes.

Senator HIRONO. We probably need to figure out how to get there, because to make this kind of a—what I would consider a really reasonable, fundamental change in how government operates and how we make decisions around here would be very challenging, but one that I particularly would be interested in.

Going to a larger question, what do you think are the most important areas for the committee to begin with as we consider reforming the defense organization? For example, would you recommend—and any of the panelists can respond—first, addressing the culture and leadership issues, or would you look at organization and processes first?

General PUNARO. I'll—

Senator HIRONO. Mr. Punaro.

General PUNARO.—start. The—

Senator HIRONO. General.

General PUNARO.—culture is too hard. You can't start there, because you don't—we don't know what we have. I think you—you know, the basic—we have to, basically, get the basic information. How big is the DOD infrastructure? How much does it cost? What is the size that you want it to have? How are you going to get the really good top managers to come in that can drive cultural change? And, once you get on top of that, then I think you could focus on organization and culture. But, until we, basically, know what we have and what we're spending, you can't deal with any of those other—they are—those are the most important issues: leadership and cultural change. But, until you get the fundamentals, you can't really deal with the other.

Mr. SPENCER. I think that—in my testimony, I talked about internal and external forces at work. You all hold the external acts. There are things that you can do. Totally am sympathetic and understand that some of them are going to be, as I said, politically unsavory. But, you have the ability to force the issue. You also have internal activities that can happen, such as providing performance metrics for management. So, I think you can do them, actually, simultaneously.

Chairman MCCAIN. Senator Sullivan.

Senator SULLIVAN. Thank you, Mr. Chair.

Appreciate panelists on a very important topic.

I want to drill down a little bit more on the tooth-to-tail ratio issue and just get a sense—you know, General Punaro, you talked

a lot about it in your testimony, what the Army's trying to do, in terms of their reduction of its Active Duty Force, which, as you mentioned in your testimony, seems to be taking a very significant hit on the trigger-pullers versus the tail part of the Army. But—and then, if you look at charts internationally, where we stand as a military compared to other militaries in the world, we have a very large tail, relative to the tooth element, relative to other countries, almost every other country in the world.

You hear some people, though, argue that the reason our military is so effective is because we're so good a logistics, and we're so good at other aspects of, kind of, the tail component of the military. How can—can you help us kind of tackle that issue? Our—is our military so effective because we have such a large tail? Or should we be looking historically, say, World War II, where I think the ratio was a lot less than it is today? And we obviously had a pretty darn effective military back then. How do you suggest we think about this? Because I think it's a critically important issue, and your testimony really drills down on it.

General PUNARO. I mean, I think you have to look at what makes our military the finest military in the world. It's really three things. And it is high quality people, it is constant and realistic training, and it is giving the troops the cutting-edge technology so they're never in a fair fight. Logistics is important. It's a discriminator that we have, vis-a-vis other countries. And a lot of logistics is not tail. There's a lot of combat logistics that I would put on the forces side. So, when I talk about the 40 percent of the Department that's infrastructure, a lot of the logistics is combat logistics.

So, the problem is—you know, I have a cartoon that I drew up years ago called, "Where is Private Waldo?" So, today you have 1.2 to 1.3 million Active Duty personnel, roughly 220,000 forward deployed, including troops in the Middle East and in Afghanistan. So, you have to ask yourself the question, What is the other 1 million doing? And 330,000, and particularly a sizable number in the Army, are working in inherently commercial activities: laundry, retail, clerks, finance. These are jobs—and these are our most expensive personnel, the Active Duty military—that either a defense civilian or a contractor could do. And so, the problem in the Department, when you're talking about tooth-to-tail, is, we have too—we have so many people, defense civilians, in military that's in—part of the tail that really is not fundamental to warfighting.

Senator SULLIVAN. So, how would—

General PUNARO. Part—yeah.

Senator SULLIVAN. So, General Milley has talked about trying to—as the Army is looking to draw down—to kind of make sure that the warfighters are the last elements of the reduction that the Army is undertaking. However, as your testimony points out, that's certainly not the case, that's not what they're doing.

General PUNARO. That's right.

Senator SULLIVAN. How can this committee help the service chiefs and others focus in a way that does maintain the trigger-pullers and warfighters as the last troops that need to be cut, versus the guys who are doing laundry and other things, as you mentioned?

General PUNARO. I think you're going to have to do authorized end strengths in the overhead area, just like you do for Active personnel in Guard and Reserve. For example, the committee authorizes, let's say, 450,000 Active Duty Army. That means, on September 30th of each year, the Army's authorized end strength has to be within one-half of 1 percent above or below that authorized number.

Senator SULLIVAN. And should that look at not only—

General PUNARO. And so—

Senator SULLIVAN.—authorized numbers, but the number of BCTs [brigade combat teams], to make sure there's a heavy tooth element?

General PUNARO. Well, what I would do—the way I would do is, I'd come at it the other way. I would say that the Army can only have so many people in the institutional Army. You would legislate end strengths for overhead, headcounts, things of that nature, in layers, and then, when they see they can't have as many—they—when they see they can't have a battalion of soldiers guarding prisoners at Fort Leavenworth, they're going to then put those soldiers back into the combat side. So, the way you control it is by controlling the overhead and not letting them have the tail grow at the expense of the forces, and they—and then they're going to say, "Okay, holy smokes, we've got 50,000 soldiers that we can't put in the institutional Army. Let's create, you know, 5 more combat brigades." I think that's the way to do it.

You're never going to—you're never going to get there by encouraging them. Warren Rudman, when he was here in the Senate, from New Hampshire, on the Appropriations Committee, working with the Armed Services Committee, was a fanatic about tooth-to-tail and going after it and just encouraging the Department to do a better job of putting more in combat and less in tail—has not proven to be a successful model.

Senator SULLIVAN. Mr. Walker?

Mr. WALKER. The Defense Department really has a subset of the same problem the Federal Government has with regard to the budget. You've got out-of-control overhead cost. That's what's eating things alive. That's why your end strength is going down. Your overhead's out of control. Just like if—the Federal Government, as a whole, our mandatory spending costs are cutting into discretionary spending, which you are all the express enumerated responsibility. So, you have to have limits. You have to have limits. You also have to have the right people in the right job for the requisite period of time who are responsible for driving this change. We don't have that now. And that's what I tried to focus on with regard to my testimony.

Senator SULLIVAN. Thank you.

Thank you, Mr. Chairman.

Chairman MCCAIN. Senator McCaskill.

Senator MCCASKILL. You know, I—one of the things I find ironic about this hearing is that one of my pet peeves at all of these hearings—and it's particularly true with the subcommittee hearings—is, usually the first two rows behind the witnesses are all people from the Pentagon. In one hearing of a subcommittee, I said—I asked the audience how many of them worked at the Pentagon,

and almost every seat in the hearing room, hands went up. I said, "You know you can get this on TV." And it's a symptom of a Deputy Deputy Deputy Dog, General, that—I mean, when you have a three-star come to the Hart Building, it takes four SUVs to bring one three-star. There is this culture that you're not really important unless you've got a really big posse at the Pentagon. And I don't know how to get at that.

I was really interested, General, in your recommendation that we statutorily limit the number of Deputy Deputy Deputy Dogs that are going to be in the Office of the SECDEF [Secretary of Defense], of the Secretary of Defense. And have you actually put a pen to paper as to what that should be? How would we specifically limit that? Because I believe that that might be one of the most important things we could do to strengthen our military.

General PUNARO. Well, there's—I agree with you, and I agree the entourage syndrome is alive and well in Washington. And it's a leadership issue. And I think Joe Dunford is going to be talking to a lot of these senior generals about perks and things of that nature.

But, there's two ways to get at the problem you said. One would be working with the Department of Defense. I believe Secretary Carter is very reform-minded. He is on acquisition, on the Force of the Future. And I know he would like to get control of these management headquarters and get agreement on what—how big is the Office of the Secretary of Defense? How—you know, and what size should it be? Then you could put the mandatory caps in.

Another way of doing it—and I would say this has been my experience when I served on the committee, because it was always hard to find somebody that was willing to do something like that in a cooperative way—I believe Ash Carter is different, so I would try that first—is, let's say we believe OSD should be 3,000, and let's say they say it's 5,000, but we don't really know. So, put the cap at 3,000. They'll scream and holler and say, "Holy smokes, that's too small." You'll then get the right number. But, you're going to have to legislate caps for OSD, the Joint Staff, the combatant commanders, and the management headquarters to be able to get control of the overhead.

Senator MCCASKILL. As we cut the money under the budget constraints, none of those have gone away, right?

General PUNARO. The——

Senator MCCASKILL. We've reduced end strength, but not the Deputy Deputy Deputy Dogs.

General PUNARO. There's too many ways—the money is too fungible. Cutting money doesn't do—will not cut the headcount. I mean, when Secretary Gates eliminated the Joint Forces Command, people believed that we eliminated the Joint Forces Command in July of 2010. The 2,000 military serving in the Joint Forces Command were added to the roster of the Joint Staff.

Senator MCCASKILL. Right.

General PUNARO. All the defense civilians were just put in other locations. The only thing we got rid of were the contractors. Now, we don't have that headquarters, so there's—the shell game—the Chairman—I saw something dealing with the Air Force, where they were taking credit. Now, I didn't look into the details on this, so—but, whatever it is, the problem is, the Defense Department,

over the years, not unique to any one administration, they are the duty experts at, "Hey, we just cut this defense agency," and then you look over here, and, "Oh, my God, they just created a brand-new field activity that doesn't count against that total."

Senator McCASKILL. Right.

General PUNARO. That's why I'm for these firm end caps. The Department won't like this. Maybe members of the committee won't like this. We don't like to try to have to micromanage in this area. But, to get control of it, I think—

Senator McCASKILL. It may be—

General PUNARO.—you're going to have to do it.

Senator McCASKILL.—necessary, yeah.

I'm not going to have time to get to all the contractor stuff, but obviously this is something I'm spending a great of time on, and I worry a little bit—I know my dad peeled potatoes in World War II, and I know we shouldn't have anybody, an expensive warfighter, peeling potatoes, but we know that LOGCAP [U.S. Army's Logistics Civil Augmentation Program], at least the first two or three versions, were a disaster, in terms of costs, in terms of handling costs. And so, I don't want us to lose sight of the fact that, while we move these functions to a civilian force, a contractor force, that we lose sight of the fact of the kind of money we've wasted on bad contracting practices. I just want to get that on the record, because we've spent an awful lot of time trying to dig deep on that issue.

General PUNARO. You have to have—that's why David Walker and all of us here believe you've got to bring in these world-class business managers and manage these contracts. You all created the Wartime Contracting Commission. They made a lot of good recommendations. But, again, you've got to bring—these are businesses. LOGCAP—

Senator McCASKILL. Right.

General PUNARO.—is a business enterprise. You need people that know how to run business. There are very, very few people in government that know how to manage a business.

Senator McCASKILL. Finally, just briefly—and if you want to answer this for the record, because I know I'm almost out of time, but—

Chairman MCCAIN. No, please go ahead.

Senator McCASKILL. I want to talk about the audit. David, should we—it's almost like the systemwide audit is the bright, shiny object. And the amount of resources and time we're trying to get—this systemwide financial audit, I might add—we are not, probably, putting the time into performance-based audits. And as a fellow auditor, both of us understand that the real gold is in performance audits, in terms of figuring out how much wasted payroll there is at the Pentagon. Are we getting distracted by the effort to synchronize systems across various branches for the financial audit? And should we, in fact, refocus on how many performance audits are actually going on at DOD, and how much are we consuming them and using the information in them?

Mr. WALKER. As you know—you having been the State auditor for Missouri, myself having been Comptroller General—the fact is, internal controls are the most important thing. In addition, having

effective cost accounting systems with full cost accounting is important. In addition, understanding what you have, where it is, what condition it's in, and then performance metrics, those are the most important things.

Peter Levine—I've spent some time with Peter recently—Peter recognizes that he needs to spend more time on controls, on cost accounting, and on performance management. I agree with that. I think we have to reassess where they are with regard to the financial statement audit. As I mentioned before, my personal view is, you need a plan, a matrix plan that talks about organizations and line items, focused on getting an opinion on the consolidated DOD financial statements, rather than the sub-entities.

I would also respectfully suggest that, once we have clean opinions on all major U.S. departments and agencies, then I think we have to think about whether or not we need to have opinions on the financial statements of individual departments and agencies, and we focus on the consolidated, which GAO [Government Accountability Office] would lead, and they would end up working with the inspector generals and contract out with private sector, independent public accountants, as appropriate, so we could discharge our responsibility to the taxpayers with regard to what's happening with their resources, but we can spend a lot more time and money on exactly what you're talking about.

Senator McCASKILL. Right.

Mr. WALKER. Let's talk about performance audits—what's working, what's not working—so we can focus economy, efficiency, effectiveness, and continuous improvement.

Senator McCASKILL. Thank you.

Thank you, Mr. Chairman.

Chairman MCCAIN. I thank the witnesses. And the—

Senator KING. Mr. Chairman? Mr. Chairman?

Chairman MCCAIN. Senator King.

Senator KING. Very quickly, I just wanted to mention that Senator Enzi and a number of us have a bill on biennial budgeting. And, in fact, we had a hearing at the Budget Committee, just last week. So, that's under very active consideration. And on the performance audit question, my favorite way to approach that is, ask two question: Does it work, and how do you know? And that's something that we don't do frequently enough.

Thank you, Mr. Chairman.

Chairman MCCAIN. General Punaro mentioned the Air Force exchange I had with the Secretary of the Air Force, who volunteered, twice, that they had reduced the size of the headquarters by 10 percent, I believe it was, ahead of the years they were supposed to. And finally, I asked her, "Well, how many jobs were eliminated?" Zero. So—

And again, I still, frankly, am challenged by this requirement to get particularly Silicon Valley as well as other wise people into the Department of Defense. And I agree with you, there's a certain number out there that were—are just patriotic Americans. But, that's in spite of the system that they would be joining, not because of. And so, I'm hoping we can work out some better way of incentivizing people of the kind of talents we need in this Informa-

tion Age, and the cyber challenge that we're facing to serve the government.

So, I thank you for this very important hearing.

General Punaro?

General PUNARO. Mr. Chairman, I wanted to add one thing. In one of my other recommendations for reform in the Congress is to collapse the authorizing and appropriation committee and have the Senate Armed Services Committee authorize and appropriate in the same bill. That's a serious recommendation. It goes with biennial budgeting.

And, number two, on the Goldwater-Nichols, I think we need to go back to giving the Chairman and the Vice Chairman a 4-year tour instead of two 2-years, like we set it up. I'm very worried—and I've studied this and looked at it over time. I've talked to Senator Nunn, Senator Warner, Jim Locher, and others. I worry that the Chairman—I'm not pointing fingers at any one particular one—we're losing—they're losing their independence. And it—fundamental to this committee has always been that, when a military person is asked their professional views, independent of the administration in power, they give them. But, because we set it up so they have to be reconfirmed, I really worry about that. And I hope you will take a serious look at that.

Chairman MCCAIN. I think that's an excellent point. We recently had the Secretary of Defense come before this committee and refuse to confirm something that had—an event, of going inside the 12-mile limit, which was widely reported—television, radio, and print media—refusing to confirm that. Later, in the New York Times, it said that they didn't want him to confirm it because it would irritate the Chinese over climate change. We have come a long, long way since my earliest days here on this committee. As much as I admire the Secretary, I find that kind of thing absolutely unacceptable.

I thank you witnesses today. I thank you for being here. And this, again, contributes enormously to what we will really make a serious effort, hopefully, and I believe optimistically, that we will be working with the Secretary and others as we try to implement these reforms. But, we will implement these reforms, with or without the Secretary of Defense.

This hearing is adjourned.

[Whereupon, at 11:27 a.m., the hearing was adjourned.]

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR JONI ERNST

LACK OF OCCUPATIONAL SERIES FOR PROGRAM MANAGEMENT

1. SENATOR ERNST. What role does the lack of a core occupational series for program management and a lack of a holistic program management framework rooted in industry standards and practices play in all acquisition outcomes?

According to the Defense Acquisition Workforce Human Capital Initiative PowerPoint on Program Management from March 31, 2015—only a quarter of Program Managers are identified with OPM's 0340 job series. Moreover, the job description for the 0340 job series states, "There are no individual occupational requirements for this series." Similarly the same presentation shows that there are engineers, IT, contracting professionals and others all fulfilling the role of Program Manager. How you are certain these individuals have the necessary credential to successfully manage an acquisition program from start to finish?

Major General Punaro did not respond in time for printing. When received, answer will be retained in committee files.

Mr. Spencer did not respond in time for printing. When received, answer will be retained in committee files.

Mr. Walker did not respond in time for printing. When received, answer will be retained in committee files.

RETENTION AND GROWTH OF PROGRAM MANAGERS:

2. SENATOR ERNST. Information from the Defense Acquisition Workforce Human Capital Initiative PowerPoint on Program Management from March 31, 2015, also shows that of the “experienced” PM’s ... 45 percent are eligible for retirement within 10 years and 17 percent are already eligible for retirement. What is DoD doing to ensure there is an experienced workforce and talent pipeline that is ready to keep up with the growing complexity and demand of defense acquisition and where is that talent pool going to come from?

Major General Punaro did not respond in time for printing. When received, answer will be retained in committee files.

Mr. Spencer did not respond in time for printing. When received, answer will be retained in committee files.

Mr. Walker did not respond in time for printing. When received, answer will be retained in committee files.

