

**POTENTIAL BUDGETARY EFFICIENCIES ACHIEVED
THROUGH IMPROVEMENT TO MANAGEMENT
AND PLANNING PROCESSES WITHIN DEPART-
MENT OF DEFENSE PERSONNEL PROGRAMS**

HEARING

BEFORE THE

SUBCOMMITTEE ON
PERSONNEL

OF THE

COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

ONE HUNDRED EIGHTEENTH CONGRESS

FIRST SESSION

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JULY 26, 2023
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Printed for the use of the Committee on Armed Services



Available via: <http://www.govinfo.gov>

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U.S. GOVERNMENT PUBLISHING OFFICE

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CONTENTS

JULY 26, 2024

	Page
POTENTIAL BUDGETARY EFFICIENCIES ACHIEVED THROUGH IMPROVEMENT TO MANAGEMENT AND PLANNING PROCESSES WITHIN DEPARTMENT OF DEFENSE PERSONNEL PROGRAMS	1
MEMBERS STATEMENTS	
Statement of Senator Elizabeth Warren	1
Statement of Senator Rick Scott	4
WITNESS STATEMENTS	
Mosher, David E., Assistant Director for National Security, Congressional Budget Office	7
Roark, Michael J., Deputy Inspector General, Evaluations Component, De- partment of Defense, Office of Inspector General	15
Field, Elizabeth, Director, Defense Capabilities and Management, Govern- ment Accountability Office	20
Questions for the Record	57

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WEDNESDAY, JULY 26, 2023

UNITED STATES SENATE,
SUBCOMMITTEE ON PERSONNEL,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The Subcommittee met, pursuant to notice, at 4:03 p.m., in room 106, Dirksen Senate Office Building, Senator Elizabeth Warren (Chairman of the Subcommittee) presiding.

Subcommittee Members present: Senators Warren, Blumenthal, Kaine, Scott, and Budd.

OPENING STATEMENT OF SENATOR ELIZABETH WARREN

Senator WARREN. This hearing will come to order. Good afternoon. I want to welcome our witnesses for today's Personnel Subcommittee hearing, and I want to offer a very special thank you to Ranking Member Scott for helping on this Committee and doing it on rather short notice.

Also, for our other Members for joining us as we examine opportunities to save money at the Pentagon. Members of Congress, and this Committee in particular, have a responsibility to root out waste and price gouging in Pentagon spending.

We owe it to the men and women of the military who rely on us to fund the equipment activities they need to defend us, and we owe it to the taxpayers who foot the bill. I don't think it will be a surprise to anybody when I tell you, we have a lot of work to do on this front. This year, the Department of Defense requested \$842 billion in funding.

Just last month, negotiators had barely agreed as part of the bipartisan deal to lift the Nation and avoid default on the Nation's debt, to limit this year's Department funding to only 100 percent of the amount that the Department actually requested in the budget. While the defense industry howled that \$842 billion was simply not enough.

Now, some of my colleagues have already pledged that by the end of the year they will pass a supplemental budget to give the Department of Defense more money and are currently drawing up plans for billions more in spending. If another huge supplemental

is approved by Congress, the total could be the largest Pentagon budget since World War II.

I support funding our military so that it can do its job to keep Americans safe. I support making sure that servicemembers have the pay and benefits they deserve and the high quality equipment they need to do their work safely.

I support adequate resources for the whole Department of Defense to operate without cutting corners. I support ensuring that Ukraine has the support it needs from the United States to resist Russia's illegal war.

But reports from Pentagon watchdogs and budget experts, both inside and outside Government, have repeatedly shown that there are serious problems at the Department of Defense (DOD) with wasting taxpayer dollars.

Reports from the Government Accountability Office (GAO), the Department of Defense Inspector General, the Special Inspector General for Afghanistan Reconstruction, the Congressional Budget Office (CBO), the Cost Assessment and Program Evaluation Office, I have now run out of fingers, and the Pentagon's own auditors have all identified billions and billions and billions of dollars that do nothing more than line the pockets of giant defense contractors, often with little or no oversight from the Pentagon.

When the Department of Defense comes to Congress to ask for more money, we should be asking why they aren't putting in place a few basic oversight tools to stop defense industry price gouging.

Before DOD gets another dollar, they need to put checks in place to stop paying \$1,500 for a medical device that can be purchased at Wal-Mart for \$192, and just stop paying \$1,800 for vaccines that everyone else pays \$125 for. Pentagon officials themselves estimate that savings just from tightening up our practices in hiring contractors, just that one area alone, would be about \$44 billion over 10 years.

Before we provide more money to the Pentagon, DOD needs to explain to the American people why it is failing to implement basic safeguards regularly employed by both families and businesses. This hearing will focus on a few of the key findings from budget experts. I appreciate their willingness to appear as witnesses.

They have identified cost savings across the Pentagon's work. But because this is the Personnel Subcommittee, we are going to focus today on issues of waste related to how DOD buys personnel related goods and services.

I will note as a measure of how little congressional oversight there has been, and how determined Senator Scott and I are to reel this back in, that this is only the second time in the last 15 years that the Inspector General (IG) has been invited to testify before this Committee. Before turning to our witnesses, let me briefly highlight two key problems in this Subcommittee's jurisdiction that clearly require congressional oversight.

First, DOD fails to prevent price gouging by private defense contractors, period. There is no real dispute about this. One report after another from independent Inspector General has documented that DOD contracting officers agree to pay excessive prices without asking companies for justifications and that companies delayed or refused to provide cost data when requested.

Without that pushback, the U.S. taxpayer is just a sitting duck for defense industry price gouging. By now, most people know that over-the-top price gouging occurs on spare parts and weapons systems. Earlier this year, I called out Boeing for its failure to provide basic cost data for almost 11,000 items.

In other examples where that price data has been made public, we learned that Boeing charged the Army \$71, \$71 for a pin that should have cost \$0.04. In another case, they charged nearly \$1,700 for a ramp gate roller assembly that DOD could have purchased for \$8—\$1,700 for \$8 item.

A recent investigation by 60 Minutes found that even after adjusting for inflation, we are paying seven times more for each missile we send to Ukraine than we paid in the 1990's. But price gouging isn't limited to spare parts and weapons systems. It also happens when DOD is paying for health care.

This week I wrote a letter to the Defense Health Agency (DHA) highlighting pricing on health care items. For example, DOD was paying \$1,500 for breast pumps that Wal-Mart sold for less than \$200. The agency was paying over \$1,800 for vaccines that could be purchased for \$125. Multiply that price gouging by the high volume of purchasing in the military, and it is clear that taxpayers are getting seriously ripped off.

Another way that taxpayers get gouged is through its contractor workforce. Our Nation's defense is often supported through contractors who feed our troops, house our military families, transport needed equipment, and perform a wide range of tasks that in past years were either done by Active Duty military or by civilian employees.

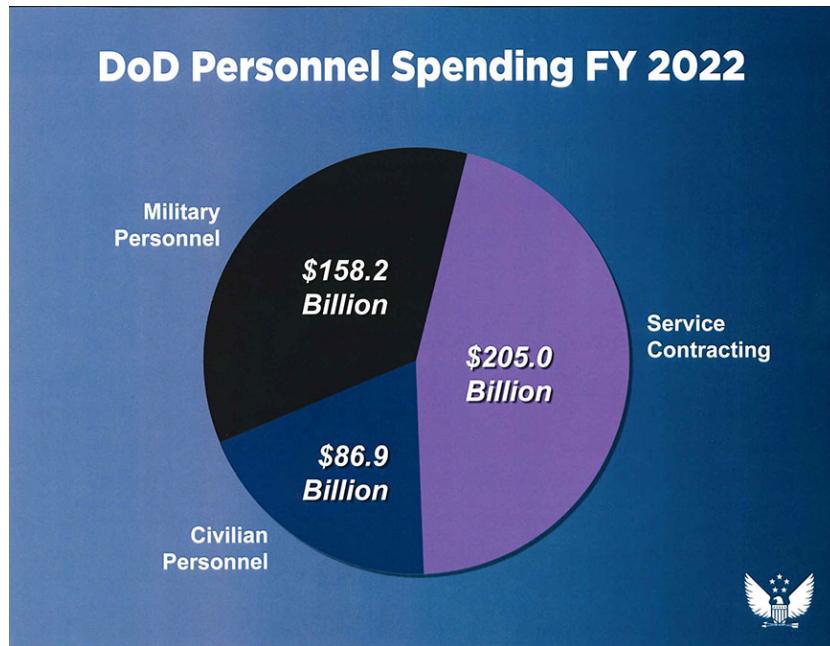
Over the past quarter century, DOD spending on service contracts has more than doubled, reaching over \$205 billion in fiscal year 2022. This has created a huge industry of military contractors, turning them into billion dollar businesses. But in many cases, hiring a contractor cost more than simply paying a Federal employee to perform exactly the same function.

At a minimum, DOD should be examining each contract to make certain the prices are reasonable and that the work cannot be done directly by Federal employees for a whole lot less money. But that is not what is happening. Instead of carefully reviewing each Government contract, the GAO has determined that DOD does not even know how many contractors it has and does not effectively analyze long term costs.

DOD has failed to safeguard taxpayer money, and it has opened the door to price gouging by Government contractors. It is DOD's job to stop these rip offs. As I noted earlier, this hearing will focus on cost savings and the jurisdiction of this Subcommittee. We will also primarily focus today on places where DOD can use authorities it already has.

But let me be crystal clear, if the Pentagon wants more funding this year, above 100 percent of their budget request that has already been fulfilled by Congress, then Congress should at a minimum give DOD more access to cost and pricing data from contractors, tie any increases in upfront payments to contractors to requirements that they deliver goods and services on time, remove a requirement in current law that military services must send Con-

gress pricey wish lists for extra spending on top of their annual budget requests, require contractors to disclose changes in average prices and gross margins, and require any DOD component that fails to pass an audit to return 1 percent of its budget back to Treasury.



For many of these proposals, bipartisan legislation already exists to make these changes. If other Senators want to dump more money into the Department of Defense on top of fully funding the budget they already have, then they should also support including these commonsense measures to fight back against price gouging.

So, I am pleased that we are here to talk about this, and I call on Ranking Member Scott for an opening statement.

STATEMENT OF SENATOR RICK SCOTT

Senator SCOTT. First off, thanks for being here. I want to thank Chairwoman Warren for doing this. You know, I am a business guy, so you have to invest to get what you want done, but you sure as heck don't want to waste any money. The easiest way to spend money on something is through savings. It is a lot easier than have to come up with new capital or borrow more money, whatever you are doing.

I want to thank Chairwoman Warren for doing this, and we have talked about doing another hearing in, I think, September, we want to hear from other Members if they have anything they want to talk about. But there has to be a hell of a life savings here, right?

The Department Defense is the Nation's largest employer. Over 2 million people serve in our military in either an Active or Reserve capacity. We have another 824,000 people who work as DOD civil-

ian employees. An additional 800,000 people support the DOD through contract mechanism. That is a lot of people.

Between military personnel, civilian employees, contracted labor, nearly 50 percent of the total defense budget is spent on the DOD workforce, which in fiscal year 2023 equates to more than \$400 billion.

They are Americans. It is not just money in numbers.

They are serving our country, and I think every one of them probably feels like they have a good, important mission to get done. Each one of them is the reason why the work of this Subcommittee is so important. There has been plenty of talk in Washington that have excused the waste and inefficiencies of the Department of Defense, saying, oh gosh, it is a big place. I don't know if you can really do this there.

I think most of us think that is pretty ridiculous. We all have to do it in our homes. We have to do it in our businesses. Our families are doing it every day, especially at a time where we are seeing ridiculous inflation. So, I think that we can figure this out, and there are ways to save a lot of money. I used to be in business at one time. I ran the seventh biggest U.S. employer. We had to do it every day.

We had to keep coming up with efficiencies. None of our customers says, "I want to give you more money." None of our shareholders said, "we would like you to give us less of a return." So, we had to constantly come up with this. As a matter of fact, in some of the manufacturing companies I had, by contract, by written contract, every year I had to cut 2 percent of my price—my cost, by contract.

Every year I was required to get 2 percent productivity gains or make less money, and nobody wanted to get paid less, nobody wants to make less. You just had to do it. It is all doable.

I just want to thank you guys for what you do. I have only been up here 4½ years, but I think every one of your agencies actually is a real help to what we do in our jobs.

The report you put out, the information you put out is actually very helpful to me. I think the DOD is in desperate need of real, thorough, and consistent audits. I can't imagine not doing an audit, a thorough audit. In the private sector, when you have an audit and there is anything in the audit that says "we need to fix it," you have to fix it, you have to fix it.

Your shareholders are going to hold you accountable, and you are not going to keep your job if you don't go through that audit and try to eliminate as many, if not all of the problems before the next audit, not in 5 years. The next audit, you had to try to get anything that was in there, and you had to get a clean audit, or if you are the CEO, you would not have a job.

I think we have got to make sure that—this is a lot of money. We want to have a lethal military. We want to support our military. But it has got to be done where we don't waste any dollars.

This is not about cutting spending. It is about spending money efficiently and making sure that whatever we spend, it means we are going to take care of our servicemembers and we are going to have the most lethal force possible, so hopefully nobody ever wants to do anything against us.

I don't think it's a hard concept. I think we all do it every day in our life. The more efficiencies we can find—either we can save money for the taxpayers of this country, or we can make bigger investments to make sure we have a better military. I don't think any of us want to slow down our investments in defense, but also understand that we shouldn't be doing things that we don't get a return on.

We ought to be hell bent on getting that done. We also have to understand that it is getting harder and harder to recruit in the military, so everybody there is more and more important. If you look at it, just like in companies, we are spending more dollars training people now than at any time. When my dad went in, he was an ace in the Airborne.

They just sent him to the front lines. I don't know how much training he got. I got a little bit, and then swabbed the decks, cleaned the latrines a lot. Today, I think they are getting a lot more training than when I got when I was in. In a perfect world, our servicemembers would be used exclusively for military-specific tasks.

But some jobs need to be done, and the uniformed servicemember is the only person available to do it. But I agree with Chairman Warren, we use a lot of civilians, and it just can't cost as much money.

You come up here and you see how many companies have just been created by provide services to sometimes it is our Federal Government, sometimes it is just our military. The margins on this stuff, I mean, we didn't make margins in the business I was in that were like this.

We have got to make it easier for our servicemembers abroad to find fulfilling work for their supporting spouses. I was just traveling, and we had one individual that was telling me that she had a very well-trained husband and couldn't get a job where they were.

There is some crazy rule that was preventing—when I was Governor of Florida, we tried to, and I am sure Senator Kaine did the same thing, you are trying to make your State the most military friendly State, and so you figure out how do you wave everything you can so all the spouses can get a job because it has a big impact on these, the ones that serve there, but also their livelihood every day. We can't pay exorbitant salaries for our military.

A lot of their spouses have to make a decent income to survive. I recently heard—so this was just about the spouse, I guess there is—with some of the individuals overseas, they apply through USA Jobs. It is difficult that they can't get jobs overseas to do telework in the United States. Some of the stuff just doesn't make any sense.

We got to make this all easier. I think we have got to do a review of all of our laws governing Federal civil service. We want to make sure that it works like the private sector. You want to be able to hire people when you want to hire them as quickly as you can, but you want to be able to hold people accountable.

If you can't hold people accountable, then unfortunately you end up with the bad actors, not with the best employees. No one wins in that situation. I think both Republicans and Democrats have

proposed things over—just even since I have been up here, to try to make that better, but often there is some special interest to try to prevent that. Hopefully we can go through all these things.

I think this is going to be a good hearing, but I think there is more to be done to try to find efficiencies and force these efficiencies so we can make sure we make good investments. Thanks for being here. Thanks for what you do because your reports are really good.

Senator WARREN. Thank you very much. Terrific opening statement. I also want to say thank you to our witnesses for appearing and thank you for your work. We are going to have one panel today that is composed of Government watchdogs and budget experts.

Mr. David Mosher, the Assistant Director for National Security for the Congressional Budget Office, is with us. Mr. Michael Roark, who is Deputy Inspector General for the Evaluations Component of the Department of Defense Inspector General, and Ms. Elizabeth Field, the Director for Defense capabilities and Management at the Government Accountability Office. Thank you all again for appearing today.

Mr. Mosher, you are recognized for 5 minutes for an opening statement.

STATEMENT OF DAVID E. MOSHER, ASSISTANT DIRECTOR FOR NATIONAL SECURITY, CONGRESSIONAL BUDGET OFFICE

Mr. MOSHER. Thank you very much, Senator. Thank you, Senator Scott and the committee for inviting me to come testify. I appreciate the opportunity to talk a little bit about reducing DOD's compensation costs.

The size of DOD's compensation budget actually is not very well defined. I know we have a nice pie chart there, and the challenge is like, what is that \$205 billion number? It is not well-defined.

It is better defined on the military side and on the civilian compensation side, but definitely in the biggest hole and is the biggest uncertainty is service contractor workforce, and that is because DOD really collects and publishes very incomplete data about that workforce. DOD's total workforce consists of three types of labor, military personnel, both full time and part time, Federal civilians, as well as service contractors.

DOD refers to this is their total force. It is something you try to manage and balance and get the right capabilities to the right needs. Compensation for the three types of labor is largely found in the military personnel account, as well as the operations and maintenance (O&M) account, although there is some—operation and maintenance—although there is some in the research and development (R&D) account as well.

I am focusing on service contract labor, and just to be clear here, these are contractors who are personnel who are hired by private companies under service contracts awarded expressly to augment civilian and military personnel within DOD. Service contractors provide a wide range of activities.

As you alluded to, Senator Warren, you can't go to a military base without running into a large number of service contractors doing very important functions. So just to be clear, though, I am not talking about people who are hired by companies who produce

goods and weapons that the Department buys. I am focusing on that other group. How big is DOD's workforce? We actually don't know.

We know that DOD plans to have at the end of this year about 2.2 million full time personnel, 1.4 on the military side and about 800 million on the civilian side. But there is no centralized accounting for the service contractors, and estimates range widely from sort of 250,000 was the number that the Congressional Research Service (CRS) published a year or two ago, to numbers that are two to three times that amount.

But we don't know, and on that higher end, it rivals the duty civilian workforce in size. What is the cost of DOD's workforce? Again, we don't know. We can't get all the pieces of it. Roughly one-third of annual—DOD's annual budget is devoted to compensation for military and civilian personnel working directly for the Department.

That is about \$279 billion in 2023. If you include service contractors, that number could be, as Senator Warren suggested, close to half of DOD's annual budget. We can't be more precise in—precisely because we do not get data from DOD that allows us to do that, in the same way that we get very good data about military personnel and civilians.

DOD, for example, reports that the budget authority for service contracts in 2022 was about \$95 billion. But Office of Management and Budget (OMB) data indicates this number could be as high as \$274 billion. This is for the contract dollars, not necessarily the labor costs.

I will get to that in a moment. We have looked, CBO, throughout the years at reports at how to reduce DOD's compensation costs by changing policies mostly. A good example of that is our options for reducing the deficit budget volume we reduce—we produce every 2 years. I have highlighted some of those in my written testimony.

But savings from that for these kinds of policy changes would be roughly \$1 to \$3 billion for each of those a year over 10 years, which is 1 to 2 percent of DOD's compensation budget for the military.

Small changes, but those compound over time with pay raises, etcetera, that can grow into larger savings. We haven't been able to look at that for service contractors. One other thing I want to note and a very important piece of compensation for the military are veterans benefits.

They are essential to how DOD recruits and retains staff. It is an important promise that we make to our servicemen and women. The Department of Veterans Affairs (VA's) budget requests this year, just for some context, was \$320 billion. So, it is the highest it has ever been for 2024—about twice the size of DOD's military compensation budget. CBO's options, we do options looking at that, we have come up with options that range from about \$1 billion a year on average, to more than \$25 billion a year if you make some policy changes.

So, what would be the value of more comprehensive data on service contractors? First, I think, and my colleagues from GAO can go into this at great length much better than I can, but it helps the

Department manage its workforce, understand where the costs are and then what the important things are.

It also provides some transparency so that if we make changes, DOD makes changes in personnel policy where it wants to, say, cut military personnel or civilians, that you don't see costs grow up in service contracts in a way that you can't anticipate. If you can't track numbers, it is hard to follow that, and of course, it helps with congressional oversight, which is a very important one.

We have some specific suggestions about how to do that in our about changes we would like to see in the way DOD reports data to the Congress, and that would help with us in our analysis and understanding the service contractor workforce. That concludes my remarks, and I want to thank you for the opportunity, and welcome your questions.

[The prepared statement of Mr. Mosher follows:]



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TESTIMONY

Approaches to Reducing the Department of Defense's Compensation Costs

David E. Mosher
Director of National Security Analysis

Before the Subcommittee on Personnel
Committee on Armed Services
United States Senate

Chairwoman Warren, Ranking Member Scott, and Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss approaches to reducing the Department of Defense's (DoD's) compensation costs.

Summary

Some components of DoD's compensation budget are clear, including the military personnel accounts, health care costs for active-duty and retired military personnel, and compensation for DoD's civilian workforce. But other components are less clear, including some smaller noncash elements of military compensation and, in particular, the size and cost of DoD's workforce of service contractors.

In biennial reports and other studies requested by the Congress, the Congressional Budget Office regularly analyzes and presents a range of policy options that would reduce spending across the federal government. Among those options are some that address DoD's compensation costs. CBO has examined several ways that DoD could reduce those costs by changing the size of military forces while still meeting the goals of national security strategy.¹ CBO has also reported on ways to lower such costs without changing the size of military forces.

None of those options address the size or cost of DoD's service contractor workforce. Although CBO has done preliminary analysis of the costs associated with service contractors, a full analysis is not possible using the incomplete data that DoD provides to the Congress. Comprehensive data from DoD would allow CBO to supply the Congress with information about the scope and cost of the department's large workforce of service contractors—which could prove to nearly rival the size of DoD's federal civilian workforce. Such data could also help DoD manage its total workforce.

Components of DoD's Compensation Costs

DoD's total labor force (which it calls its total force) consists of three types of labor: military personnel (divided into full-time and part-time personnel), federal civilians, and service contractors. Compensation for the three types of labor is spread across several categories of

DoD's budget, but most of the compensation is recorded in the military personnel account and the operation and maintenance (O&M) account.

The term "contractor" can mean many things. In this case, contractor describes service contract labor—that is, personnel hired by private companies under service contracts awarded expressly to augment DoD's military and civilian workforce.² (The service contractors discussed here are thus separate and distinct from the individuals employed by companies to produce weapons and provide other goods to DoD.) Service contractors provide a wide range of services that are not inherently military or governmental. They are assigned specific tasks that could be performed by military or civilian personnel, including administrative support, equipment maintenance, lawn maintenance, food services, installation security, and analytic support.

Size of DoD's Workforce

The size and cost of DoD's military and civilian workforces are documented in the department's budget, although it is a challenge to identify all the components of military compensation because they are not recorded in one place. The size and cost of the service contractor workforce, however, are poorly documented.

By the end of 2023, DoD expects to have 2.2 million full-time employees, including 1.4 million active-duty military personnel and 0.8 million civilian personnel. There is no centralized accounting for the number of service contractors, but estimates range from 0.25 million to roughly two or three times that number.

Size of DoD's Compensation Budget

Roughly one-third of DoD's annual budget is devoted to compensation for military and civilian employees working directly for the department—about \$279 billion in 2023.³ Appropriations for military personnel amount to \$172 billion of that total, including cash pay for active-duty personnel and reservists, and DoD's contributions for retirement benefits. (That total excludes the health

1. Congressional Budget Office, *Illustrative Options for National Defense Under a Smaller Defense Budget* (October 2021), www.cbo.gov/publication/57128.

2. Heidi M. Peters, *Defense Primer: Department of Defense Contractors*, Report IF10600, version 12 (Congressional Research Service, January 17, 2023), p. 1, <https://tinyurl.com/kbkfypnv>.

3. Department of Defense, Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY 2024 (Green Book)* (May 2023), Tables 6-1 and 6-14, <https://tinyurl.com/3m4sctm6>.

Table 1.

Options to Reduce DoD's Personnel Costs

Billions of Dollars

	Change in Spending Over 10 Years	
	Discretionary Outlays	Mandatory Outlays
Cap Increases in Basic Pay for Military Service Members ^a	-22.4	6.7
Replace Some Military Personnel With Civilian Employees ^b	-18.5	6.6
Reduce the Basic Allowance for Housing to 80 Percent of Average Housing Costs ^c	-14.7	-3.7

Data source: Congressional Budget Office.

The estimates in this table are for the 2023–2032 period and were developed in relation to CBO's spring 2022 baseline budget projections. The baseline projections against which future proposals would be measured have changed. Thus, future estimates of the budgetary effects of these options would differ from the estimates presented here.

DoD = Department of Defense.

a. For details about this option, see www.cbo.gov/budget-options/58657.b. For details about this option, see www.cbo.gov/budget-options/58658.c. For details about this option, see www.cbo.gov/budget-options/58666.

care costs in the O&M budget for active-duty personnel and their families and for retired service members who are not yet eligible for Medicare. It also excludes the costs of a variety of smaller family support programs.) Civilian compensation accounts for the remaining \$107 billion.

Those totals omit the cost of compensation for service contractors. Including that cost would increase the total cost of compensation to between one-third and one-half of DoD's annual budget; CBO cannot develop a more precise estimate at this time. Still, small adjustments to slow the annual growth of compensation costs could compound into large savings over time, given the size of DoD's compensation budget.

CBO's Analysis of Approaches to Reducing DoD's Compensation Costs

CBO regularly produces reports describing DoD's compensation policies and providing illustrative examples of ways for the department to reduce its compensation costs. Every two years, CBO produces a series of updated budget options that provide examples of alternative policies or procedures to reduce spending across the federal government, including spending by DoD and the Department of Veterans Affairs (VA).⁴ Those options are

4. In 2022, CBO produced two such volumes describing options that would lead to larger and smaller reductions in the deficit, respectively. See Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions* (December 2022), www.cbo.gov/publication/58164, and *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions* (December 2022), www.cbo.gov/publication/58163.

typically based on analyses contained in more comprehensive research reports that describe the changes in policy that would result in the estimated savings and the consequences of pursuing each policy.

CBO has examined options that would generate savings in DoD's military and civilian compensation budgets. However, CBO has not been able to examine options that would limit DoD's costs for service contractors, because the data for that portion of DoD's labor force are incomplete. Three recent policy options directly relate to savings in the cost of DoD's military personnel (see Table 1). Each would save between \$1 billion and \$2 billion a year, on average, over 10 years—roughly 1 percent of the department's military compensation budget each year.

DoD's expenditures for military health care in 2021 amounted to roughly \$52 billion, or about 7 percent of its budget that year.⁵ DoD has worked to find savings in health care programs without reducing the quality of care.⁶ CBO has examined several policy options that could further reduce DoD's health care costs (see Table 2). Each would save between \$1 billion and \$3 billion a year, on average, over 10 years.

5. Defense Health Agency, *Evaluation of the TRICARE Program: Fiscal Year 2022 Report to Congress* (February 2022), p. 3, <https://tinyurl.com/2esdaw2a>.

6. *Ibid.*, p. 4.

Table 2.

Options to Reduce DoD's Health Care Costs

Billions of Dollars

	Change in Spending Over 10 Years	
	Discretionary Outlays	Mandatory Outlays
Introduce Enrollment Fees in TRICARE for Life ^a	0	-15.6
Introduce Minimum Out-of-Pocket Requirements in TRICARE for Life ^a	0	-32.6
Modify TRICARE Enrollment Fees and Cost Sharing for Working-Age Military Retirees ^c	-11.4	1.8

Data source: Congressional Budget Office.

With one exception, noted below, the estimates in this table are for the 2023–2032 period and were developed in relation to CBO's spring 2022 baseline budget projections. The baseline projections against which future proposals would be measured have changed. Thus, future estimates of the budgetary effects of these options would differ from the estimates presented here.

TRICARE for Life is a supplement to Medicare for military retirees and their Medicare-eligible family members. Beneficiaries who are eligible for TRICARE are automatically enrolled in TRICARE for Life, and there are no enrollment fees (although beneficiaries must pay their premium for Medicare Part B, which covers physicians' and other outpatient services).

DoD = Department of Defense.

a. For details about this option, see www.cbo.gov/budget-options/58645.b. For details about this option, see www.cbo.gov/budget-options/58646.c. The estimates are for the 2019–2028 period and were developed in relation to CBO's spring 2018 baseline budget projections. For details, see www.cbo.gov/budget-options/2018/54763.

CBO has also examined options that would limit the growth in compensation for federal civilian employees, including reducing the annual across-the-board adjustment to their pay and increasing their contributions to the retirement system.⁷ Because those options would apply to the entire federal workforce and not just DoD's employees, the amount of savings they would generate is not directly comparable with the previously mentioned savings in the cost of military personnel. (DoD's civilian employees account for more than one-third of the total federal civilian workforce, excluding the Postal Service.)

Though not a direct cost to DoD, veterans' benefits support the department's mission to recruit and retain high-quality personnel and are an important part of military compensation. Those benefits are provided largely by VA, whose total funding request (including mandatory and discretionary funding) in the President's 2024 budget was \$320 billion (more than one-third the size

of DoD's total budget).⁸ CBO and the staff of the Joint Committee on Taxation have examined several policy options to lower the cost of veterans' compensation (see Table 3 and Table 4). Savings from those options range from less than \$1 billion a year to as much as \$25 billion a year, on average, over 10 years.

Implications of DoD's Incomplete Data on Service Contractors

Attempts to estimate the size and cost of DoD's workforce of service contractors are hampered by known shortcomings in the data the department provides to the Congress in its budget documentation.⁹ Those shortcomings are evident when DoD's data are compared with data from other sources. For example, DoD reports that its budget authority for service contracts in 2022 was

7. Congressional Budget Office, "Reduce the Annual Across-the-Board Adjustment for Federal Civilian Employees' Pay," in *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions* (December 2022), www.cbo.gov/budget-options/58672, and "Increase Federal Civilian Employees' Contributions to the Federal Employees Retirement System," in *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions* (December 2022), www.cbo.gov/budget-options/58710.

8. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2024: Public Budget Database* (March 2023), <https://tinyurl.com/yckyw2r4>. VA's funding is listed under budget subfunction codes 701–705; DoD's funding is listed under budget subfunction code 051.

9. Government Accountability Office, *Service Acquisitions: DOD's Report to Congress Identifies Steps Taken to Improve Management, but Does Not Address Some Key Planning Issues*, GAO-21-267R (February 22, 2021), www.gao.gov/products/gao-21-267r.

Table 3.

Options to Reduce Costs of Veterans' Compensation

Billions of Dollars

	Decrease (+) in the Deficit Over 10 Years
Means-Test VA Disability Compensation for Veterans With Higher Income ^a	-253
Include VA's Disability Payments in Taxable Income ^b	-161
Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings ^c	-7 to -48
End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security ^d	-9 to -47
Reduce VA's Disability Benefits for Veterans Who Are Older Than the Full Retirement Age for Social Security ^e	-15

Data source: Congressional Budget Office.

The estimates in this table are for the 2023–2032 period. The baseline budget projections against which future proposals would be measured have changed. Thus, future estimates of the budgetary effects of these options would differ from the estimates presented here.

VA = Department of Veterans Affairs.

- The estimate was developed in relation to CBO's spring 2022 baseline budget projections. For details, see www.cbo.gov/budget-options/58631.
- The estimate was prepared by the staff of the Joint Committee on Taxation. For details, see www.cbo.gov/budget-options/58695.
- The estimate was developed in relation to CBO's spring 2022 baseline budget projections. For details, see www.cbo.gov/budget-options/58655.
- The estimate was developed in relation to CBO's spring 2022 baseline budget projections. For details, see www.cbo.gov/budget-options/58653.
- The estimate was developed in relation to CBO's spring 2022 baseline budget projections. For details, see www.cbo.gov/budget-options/58654.

about \$95 billion.¹⁰ DoD acknowledges that its estimates do not include all data on funding for service contracts, but the amount of funding omitted appears to be large: In its object class analysis published annually with the President's budget, the Office of Management and Budget (OMB) has indicated that the funding obligated by DoD for service contracts in 2022 was roughly \$274 billion.¹¹

Implications for Workforce Management

The lack of accurate data about service contractors has practical implications for DoD's ability to manage its workforce. For example, to control costs or realize savings, DoD might seek to reduce the labor costs associated with lower-priority missions by moving military personnel to other missions, replacing those personnel with lower-cost civilian personnel, or eliminating some positions altogether.¹² DoD could also opt to fill the

positions with service contractors, but the resulting costs or savings may not be apparent in the absence of complete data. Providing transparency about its service contractors would help DoD make decisions with more complete information. Transparency would also help ensure that costs were not simply shifted from military and civilian personnel to service contractors and that costs of personnel changes were more easily tracked.

Implications for the Information That CBO Provides to the Congress

Compensation of DoD's service contractors is an active area of research at CBO and other Congressional support agencies, but such analysis is limited by shortcomings in the relevant data.¹³ Moreover, those shortcomings diminish CBO's ability to project the costs of DoD's plans. For example, in CBO's annual projections of the 15-year costs of those plans, one of the most important elements is funding in the operation and maintenance account. Indeed, O&M funding is the largest single component of DoD's budget and accounts for most of the projected growth in that budget.

In previous years, CBO included compensation for service contractors funded under O&M in the category

10. Department of Defense, Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Defense Operation and Maintenance Overview Book* (May 2023), p. 160, <https://tinyurl.com/3m4sctm6>.

11. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2024: Object Class Analysis* (March 2023), p. 9, <https://tinyurl.com/yzkj8c>. That total reflects amounts for object classes 25.1 through 25.8.

12. Congressional Budget Office, *Replacing Military Personnel in Support Positions With Civilian Employees* (December 2015), www.cbo.gov/publication/51012.

13. Heidi M. Peters, *Defense Primer: Department of Defense Contractors*, Report IF10600, version 12 (Congressional Research Service, January 17, 2023), p. 1, <https://tinyurl.com/kbkfypnv>.

Table 4.

Options to Reduce Federal Costs of Veterans' Health Care

Billions of Dollars

	Change in Spending Over 10 Years	
	Discretionary Outlays	Mandatory Outlays
End Enrollment in VA Medical Care for Veterans in Priority Groups 7 and 8 ^a	-121	40
Increase Prescription Drug Copayments for All Veterans ^b	-27.4	0

Data source: Congressional Budget Office.

The estimates in this table are for the 2023–2032 period and were developed in relation to CBO's spring 2022 baseline budget projections. The baseline projections against which future proposals would be measured have changed. Thus, future estimates of the budgetary effects of these options would differ from the estimates presented here.

VA = Department of Veterans Affairs.

- a. For details about this option, see www.cbo.gov/budget-options/58671.
- b. For details about this option, see www.cbo.gov/budget-options/58670.

“Other O&M” (along with miscellaneous activities), which the agency has projected to grow according to historical trends. To better understand the different sources of growth in DoD's O&M budget, CBO began in 2023 to include a separate analysis of compensation for service contractors in its projections of DoD's funding.¹⁴

Using the limited data available in DoD's budget documentation for 2023, CBO developed a rough estimate of the amount of contractor compensation in the department's 2023 budget request. CBO used the number of full-time-equivalent contractors reported in the budget documentation for O&M and estimated a rate for their compensation on the basis of pay rates for DoD's civilian employees.¹⁵ Using that method, CBO estimated that proposed funding for contractor compensation under O&M service contracts in 2023 was between \$40 billion and \$50 billion. (The range of that estimate reflects, in part, the uncertainty in the difference between compensation costs for contractors and civilian employees.)¹⁶

Using the midpoint of \$45 billion (which amounts to 15 percent of DoD's total request for O&M funding in

2023) to illustrate the scale of the change, CBO estimates that moving contractor compensation into its own category would reduce the size of the Other O&M funding category from 59 percent to 44 percent of total O&M funding. Making that change would also allow CBO to project those two budgetary components separately. However, CBO's estimate is limited by the data on service contractors identified in DoD's budget documents, which the department acknowledges are incomplete. CBO's estimate therefore probably understates the size of DoD's service contractor workforce—and it may significantly underestimate it if OMB's estimates of the size of DoD's budget authority spent on service contracts are correct.

Making the Cost of Compensation for DoD's Service Contractors Transparent

Making information about DoD's workforce of service contractors transparent would help the department's leaders make and enforce management decisions, allowing them to track changes in the composition of the workforce. Such transparency would also improve the Congress's understanding of DoD's total workforce.

Currently, personnel data that DoD reports in the Future Years Defense Program (FYDP) do not include the number of full-time-equivalent contractor positions, identified by program. DoD's documentation also lacks a breakdown of the costs of service contracts into categories of compensation and noncompensation.

14. For a detailed description of that analysis, see Congressional Budget Office, *Long-Term Implications of the 2023 Future Years Defense Program* (January 2023), p. 12, www.cbo.gov/publication/58579.

15. Data are aggregated from the fiscal year 2023 O&M justification books for the military services and defensewide organizations.

16. Congressional Budget Office, *Long-Term Implications of the 2023 Future Years Defense Program* (January 2023), p. 12, www.cbo.gov/publication/58579.

Thus, DoD could immediately improve the data it supplies to the Congress by:

- Reporting, in the FYDP manpower database, the number of service contractors that the department employs, in the same way the number of civilian personnel is reported there, and by
- Creating budget displays for data on service contractors in the O&M overview book similar to the displays (called the Civilian OP-8 displays) the department uses to present data on its civilian workforce. The displays could provide the same metrics that are currently provided for civilian personnel, as well as the aggregate size and average cost of service contracts, including the labor and nonlabor components of those contracts.

F. Matthew Woodward helped prepare this testimony. David Arthur and Edward G. Keating provided comments. Mark Doms and Jeffrey Kling reviewed the testimony, Scott Craver edited it, and Casey Labrack created the tables and prepared the text for publication. The testimony is available at www.cbo.gov/publication/59375.

Senator WARREN. Thank you very much. Thank you for being with us, Mr. Mosher. Mr. Roark, you are recognized for 5 minutes.

STATEMENT OF MICHAEL J. ROARK, DEPUTY INSPECTOR GENERAL, EVALUATIONS COMPONENT, DEPARTMENT OF DEFENSE, OFFICE OF INSPECTOR GENERAL

Mr. ROARK. Good afternoon, Chairman Warren, and Ranking Member Scott, and distinguished Members of the Subcommittee. Thank you for inviting me to appear before you today to discuss our important oversight work on Department of Defense healthcare.

Today, I will discuss three reports: two reports where we identified that additional procedures were needed to contain healthcare costs, and one report that showed that the DOD effectively implemented procedures to control costs.

In April 2018, we issued a report on TRICARE payments for breast pumps and replacement parts. In December 2014, public law authorized the Defense Health Agency (DHA) to pay for manual and standard electric breast pumps and replacement parts.

However, the DHA did not implement maximum reimbursement rates for standard electric breast pumps and replacement parts. Instead, DHA paid the amount that suppliers billed, unless TRICARE regional contractors had negotiated a rate with suppliers. We determined that the DHA overpaid \$16.2 million for breast pumps and replacement parts for TRICARE beneficiaries in 2016.

Specifically, DHA overpaid for over 91 percent of breast pumps and nearly 57 percent of replacement parts. We made two recommendations to address the deficiencies we identified. Specifically, we recommended that the DHA only use suppliers that have entered into agreements and have fixed reimbursement rates to provide breast pumps and replacement parts.

We also recommended the DHA recoup payments from the suppliers that billed excessive amounts for breast pumps and replacement parts. In August 2019, we issued a report on TRICARE payments for various healthcare services and equipment.

Specifically, we focused on claims for which the DHA paid the amount the provider billed, or also known as paid as billed, for items with high claim costs such as vaccines, contraceptive systems, compression devices, oral appliances for the treatment of sleep apnea, charges for the installation of durable medical equipment, and costs associated with obtaining stem cells that were provided to beneficiaries in the TRICARE regions in 2017.

We determined that the DHA regularly paid more than pricing benchmarks for services and equipment where it did not establish or use existing TRICARE maximum allowable reimbursement rates. For example, the DHA paid \$3.1 million more than pricing benchmarks for 65 percent of vaccines.

We identified examples of the DHA paying more than pricing benchmarks for other items such as durable medical equipment and costs associated with obtaining stem cells. For example, the DHA paid one supplier as much as \$5,000 a month to rent a vascular compression device, while two other suppliers rented the same device for only \$700 a month.

We made a total of seven recommendations to DHA, including identifying the reasons why TRICARE region contractors were not using the existing maximum allowable reimbursement rates, reviewing opportunities to implement maximum allowable reimbursement rates, periodically reviewing those rates, and updating TRICARE policy.

We also recommended that the DHA recoup overpayments and seek voluntary refunds from TRICARE providers where the DHA paid more than pricing benchmarks. Finally, in September 2020, we issued a special report on the actions the DHA took to control costs for healthcare claims associated with COVID-19, including eliminating co-payments and cost shares for COVID-19 diagnostic testing, clarifying access to behavioral health services via telehealth, and implementing temporary TRICARE regulation changes in response to COVID-19.

As a result, managed care support contractors deferred or manually paid claims pending system and pricing updates and created dashboards to share information and perform data analytics on health care claims related to COVID-19.

The DHA also implemented other initiatives to monitor that COVID-19 claims were paid and tracked properly, and that potentially fraudulent COVID-19 related services were identified.

Through these actions, the DHA reduced the risk of medical providers exploiting the pandemic for personal gain and possibly preventing improper payments before they could occur. This concludes my statement, and I would be happy to answer any questions you may have.

[The prepared statement of Mr. Roark follows:]

PREPARED STATEMENT BY MICHAEL J. ROARK

Good afternoon Chairwoman Warren, Ranking Member Scott, and distinguished Members of the Subcommittee. Thank you for inviting me to appear before you today to discuss our oversight work on the Department of Defense (DoD) health care.

Providing for the health and well-being of Service members and their families is critical to DOD recruitment, retention, and readiness. The annual DOD OIG DOD top management and performance challenge reports have consistently highlighted

the important challenges facing DOD health care, including rising health care costs. For example, in 2020, the DOD OIG reported that the DOD must reduce vulnerabilities for health care fraud within the Military Health System and control rising health care costs. In 2021, the DOD OIG reported that the DOD faced challenges, such as fraud, acquisition reforms, and payments for health care services with limited or no cost controls.

One of the leading contributors to increasing health care costs is fraud. Health care fraud continues to be one of the top investigative priorities for the DOD OIG's Defense Criminal Investigative Service (DCIS). DCIS investigations span the spectrum of health care fraud, to include pharmacy services, TRICARE, public health, medical facilities, medical practitioners, health care kickbacks, and pharmaceutical fraud. DCIS is primarily responsible for most TRICARE related fraud investigations, and currently has an investigative case count of over 600 cases up from 565 cases in fiscal year 2022.

The DOD OIG also conducts audits and evaluations to provide oversight of DOD health care. Today I will discuss three audit reports, two reports where we identified that additional procedures were needed to contain health care costs, and one report that showed that the DOD effectively implemented procedures to control costs.

TRICARE PAYMENTS FOR BREAST PUMPS AND REPLACEMENT PARTS

On April 25, 2018, we issued a report on TRICARE payments for breast pumps and replacement parts.¹ The objective of this audit was to determine whether the DOD paid reasonable prices for standard electric breast pumps and replacement parts from suppliers in the TRICARE program.

In December 2014, Public Law authorized the Defense Health Agency (DHA) to pay for manual and standard electric breast pumps and replacement parts.² The DHA implemented a policy, effective December 19, 2014, allowing beneficiaries to obtain either one manual breast pump or one standard electric breast pump per birth event. This policy also permitted beneficiaries to receive breast pump replacement parts, including tubing, adapters, bottle caps, shields, bottles, and locking rings, as necessary for up to 36 months.

The DHA reimburses medical procedures, services, and supplies using various reimbursement methodologies to establish maximum reimbursement rates to ensure that payments are reasonable. A TRICARE maximum allowable reimbursement rate is the payment ceiling for reimbursement to providers. However, the DHA did not implement maximum reimbursement rates for breast pumps and replacement parts. Instead, the DHA paid the amount that the suppliers billed for the breast pumps and replacement parts, unless the TRICARE regional contractor had a negotiated rate with the suppliers.

We determined that the DHA overpaid for standard electric breast pumps and replacement parts for TRICARE beneficiaries in the three TRICARE regions in 2016. Specifically, the DHA overpaid for:

- 54,006 of 59,241 breast pumps (91.2 percent); and
- 380,911 of 671,112 replacement parts (56.8 percent).

This occurred because the DHA did not require contractors for the three TRICARE regions to use only suppliers that had fixed reimbursement rates for breast pumps and replacement parts. As a result, we calculated that the DHA overpaid \$16.2 million for standard electric breast pumps and replacement parts provided to TRICARE beneficiaries in all three TRICARE regions in 2016.

We made two recommendations to address the deficiencies we identified. We recommended that the DHA Director use only suppliers that have entered into agreements that have fixed reimbursement rates to provide standard electric breast pumps and replacement parts throughout all TRICARE regions. We also recommended that the DHA Director review and pursue appropriate action, such as recouping any overpayments from the suppliers that billed excessive amounts for breast pumps and replacement parts. Both recommendations are closed.

¹ DOD OIG Report No. DODIG-2018-108, "TRICARE Payments for Standard Electric Breast Pumps and Replacement Parts," April 25, 2018.

² Public Law 113-291, "Carl Levin and Howard P. 'Buck' McKeon National Defense Authorization Act for 2015," December 19, 2014.

TRICARE PAYMENTS FOR HEALTH CARE SERVICES AND EQUIPMENT

On August 20, 2019, we issued a report on TRICARE payments for various health care services and equipment.³ The objective of this audit was to determine whether the DHA paid higher prices than necessary for TRICARE health care services and equipment where it did not establish or use existing TRICARE maximum allowable reimbursement rates.

We focused on claims for which the DHA paid the amount the provider billed (paid-as-billed) for vaccines and contraceptive systems, such as human papillomavirus (HPV) vaccines and intrauterine devices; compression devices; oral appliances for the treatment of obstructive sleep apnea; charges for the installation of medical equipment; and costs associated with obtaining stem cells that were provided to beneficiaries in the TRICARE North, South, and West Regions in 2017. We selected those services for review because of their high claim costs.

We determined that the DHA regularly paid more than other pricing benchmarks for services and equipment where it did not establish or use existing TRICARE maximum allowable reimbursement rates. Specifically, the DHA paid more than other pricing benchmarks for vaccines, contraceptive systems, compression devices, oral appliances, costs associated with the installation of medical equipment, and stem cell acquisition provided to TRICARE beneficiaries in the three TRICARE regions in 2017. For example, the DHA paid more than other pricing benchmarks for 70,248 of 107,953 vaccines (65 percent), and 1,341 of 5,450 contraceptive systems (25 percent).

This occurred because the DHA did not:

- use existing TRICARE maximum allowable reimbursement rates or other industry pricing benchmarks to pay TRICARE claims for vaccines and contraceptive systems;
- identify services and equipment that were paid at prices that exceeded other pricing benchmarks;
- define in TRICARE guidance what would constitute an excessive payment for TRICARE services and equipment, and provide instructions to its TRICARE contractors to identify and limit these charges; or
- consistently revise TRICARE reimbursement methodology to align with Medicare reimbursement methodologies when paying for TRICARE services and equipment.

As a result, of the \$18.1 million reimbursement that we reviewed, the DHA paid \$3.9 million more than other pricing benchmarks for vaccines and contraceptive systems provided to TRICARE beneficiaries in the three TRICARE regions in 2017.

We also identified examples of the DHA paying more than other pricing benchmarks for durable medical equipment, and costs associated with obtaining stem cells. While we were unable to quantify the total magnitude, the examples showed that the DHA paid excessive prices and continues to waste funds on other services and equipment that are paid-as-billed. For example, the DHA paid a supplier as much as \$5,000 per month to rent a vascular compression device while two other suppliers rented the same device for approximately \$700 per month.

Finally, DHA policy requires beneficiaries in certain TRICARE categories to pay cost shares for equipment. Therefore, TRICARE beneficiaries will continue to pay higher out-of-pocket costs if the DHA does not establish or use existing TRICARE maximum allowable reimbursement rates. For example, DHA policy requires beneficiaries in certain TRICARE categories to pay a 20-percent cost share for durable medical equipment. TRICARE beneficiaries paid costs of \$1,000 when a TRICARE supplier billed \$5,000 for the vascular compression device rental discussed earlier. This \$1,000 cost share far exceeded the prices offered by two other DME suppliers that rented the same device for approximately \$700.

We made a total of 7 recommendations to the DHA Director:

- identify the reasons why TRICARE region contractors did not use existing TRICARE maximum allowable reimbursement rates, take immediate actions to confirm that TRICARE claims for vaccines and contraceptive systems are paid using the TRICARE maximum allowable reimbursement rates, and recoup overpayments;

³DOD OIG Report No. DODIG–2019–112, “Audit of TRICARE Payments for Health Care Services and Equipment That Were Paid Without Maximum Allowable Reimbursement Rates,” August 20, 2019.

- determine whether TRICARE region contractors applied TRICARE maximum allowable reimbursement rates to health care services, other than just vaccines and contraceptive systems;
- determine whether the DHA should adopt vaccine manufacturer rates as reported by the CDC when reimbursing TRICARE claims for vaccines, and if adopted, regularly update rates to stay current with the vaccine manufacturer rates;
- conduct annual reviews to identify health care services, supplies, and equipment for which TRICARE paid higher prices, and establish and implement new TRICARE maximum allowable reimbursement rates accordingly;
- revise TRICARE policy to incorporate wording regarding reasonable cost and being a prudent buyer similar to the related clauses in 42 Code of Federal Regulations (CFR) 405.502 and Centers for Medicare and Medicaid Services Publication 15-1, “Provider Reimbursement Manual”;
- revise TRICARE reimbursement methodologies to align with the Medicare program, and establish an annual process to identify recent changes to Medicare reimbursement methodologies; and
- seek voluntary refunds from TRICARE providers where the DHA paid more than other pricing benchmarks identified in this report. As of March 2023, 6 recommendations were closed, and one recommendation is resolved, but open.

DHA CONTROLS IMPLEMENTED TO CONTROL COSTS FOR TRICARE COVID-2019 RELATED SERVICES

On September 3, 2020, we issued a special report on the actions the DHA took to control costs for health care claims in the first year of the coronavirus disease-2019 (COVID-19) pandemic.⁴

The DHA issued several letters to the managed care support contractors (MCSCs) providing guidance on claims processing for COVID-19 related claims. The letters included clarifying guidance and various new requirements for the MCSCs to implement related to:

- eliminating co-payments and cost shares for COVID-19 diagnostic testing;
- clarifying access to behavioral health services via telehealth;
- eliminating co-payments and cost shares for COVID-19 serology testing; and
- implementing temporary TRICARE regulation changes in response to COVID-19.

As a result, the MCSCs deferred or manually paid claims pending system and pricing updates and created dashboards to share information and perform data analytics on health care claims related to COVID-19. The DHA also implemented other initiatives. For example, the DHA:

- established work groups to monitor and address COVID-19 issues related to DOD healthcare;
- updated the pricing system and instituted special processing codes to ensure COVID-19 claims are paid and tracked properly; and
- added parameters to the annual risk registry that allows the DHA to monitor and track potential fraudulent COVID-19-related services.

Through these actions, the DHA took steps to reduce the risk of medical providers exploiting the pandemic for personal gain and possibly prevented potential improper payments before they could occur. With the elimination of co-payments and cost shares and the expansion of telehealth and behavioral management services, the DHA provided more flexibility for providers and beneficiaries during the COVID-19 pandemic, which enabled beneficiaries to receive the care they needed.

This concludes my statement and I would be happy to answer any questions you have.

Senator WARREN. Thank you, Mr. Roark. Ms. Field, you are recognized for 5 minutes.

⁴DOD OIG Report No. DODIG-2020-125, “Special Report: Controls Implemented by the Defense Health Agency to Control Costs for TRICARE Coronavirus Disease-2019 Pandemic Related Services,” September 3, 2020.

STATEMENT OF ELIZABETH FIELD, DIRECTOR, DEFENSE CAPABILITIES AND MANAGEMENT, GOVERNMENT ACCOUNTABILITY OFFICE

Ms. FIELD. Thank you. Chairwoman Warren, Ranking Member Scott, and Members of the Subcommittee, thank you for inviting me to testify on GAO's work regarding the many challenges and opportunities that DOD faces related to personnel management.

With a total of almost 3 million Active Duty servicemembers, Reservists, and civilians, not to mention countless contracted personnel, the Department of Defense is one of the Nation's biggest employers.

That also means that DOD's workforce is one of its biggest cost drivers. In determining personnel requirements, the charge to defense officials is clear, use the least costly mix of personnel while ensuring the workforce is sufficiently sized and comprised of the appropriate mix of military, civilian, and contractor personnel with the right skills to carry out the mission. I want to emphasize that first part, the using the least costly mix.

As you know, the Federal Government is on an unsustainable long term fiscal path. At the end of fiscal year 2022, debt held by the American public was about 97 percent of GDP. Moreover, the fiscal year 2022 Federal budget deficit was the fourth largest in U.S. history. As the largest single category of discretionary spending, the defense budget deserves scrutiny.

At the same time, we know that ensuring DOD can carry out its mission is vitally important. The military services are today facing what some have called the greatest recruiting challenge in a generation, all while we encounter increasingly complex and bold threats from China, Russia, and non-State actors.

Through our work at GAO, we have identified obstacles that can hinder defense officials' ability to strike the correct balance between efficiency and effectiveness in shaping their workforce: things like unreliable data, overly complicated hiring mechanisms, arbitrary staffing cuts, and antiquated Department processes.

We have also identified ways in which DOD could potentially cut costs by better managing its resources. In an organization as large and complex as DOD, it can be hard to appreciate what these challenges and opportunities really look like, so I would like to briefly offer one example.

The military health system relies on more than 240,000 Active Duty, Reserve, civilian, and contractor personnel to provide both operational medical care in support of war and contingencies, and to provide beneficiary care to about 9.4 million eligible people. In 2018, we identified weaknesses in DOD's approach to managing its workforce for both operational medical care and beneficiary care.

For example, we reported that in determining medical personnel requirements for operational care, the Army, Navy, and Air Force were relying solely on military personnel, even though civilian and contractor personnel had been used in operational settings. We also found that the Military Departments were not considering the full cost of Active personnel compared to Reservists.

This is significant because Reserve forces are generally less costly than similar Active component units. In terms of beneficiary care at military medical treatment facilities, or MTFs, we reported that

DOD faced numerous challenges implementing its planned workforce mix but had not developed a strategic workforce plan for managing them.

For example, we found that DOD had not clearly determined how it planned to mitigate the effect of military personnel deployments on MTF operations. In one instance, we learned that due to overlapping deployments, eight of nine general surgeons at a military hospital were deployed at the same time, leading to a gap in coverage.

We also found that DOD had not developed a sound strategy for addressing vacancies in civilian positions, a problem that has led some MTFs to discontinue providing certain medical care due to patient safety concerns or to backfill positions with military personnel, which can be unnecessarily costly and erode morale.

We further reported in 2018 that in planning for the transition of MTFs from the military Departments to the then new Defense Health Agency, DOD had not validated headquarters level personnel requirements or conducted a comprehensive review that considers the least costly mix of personnel.

Although DOD concurred with the many recommendations we made, the Department has yet to fully implement them. Doing so, especially now that the MTF transition has occurred, is even more important for ensuring that DOD strikes that difficult balance between ensuring medical readiness and providing sound patient care on the one hand and cutting unnecessary costs on the other.

In fact, GAO has estimated that DOD could save millions of dollars by implementing some of these recommendations. Thank you, and I look forward to your questions.

[The prepared statement of Ms. Field follows:]



United States Government Accountability Office

Testimony
Before the Subcommittee on Personnel,
Committee on Armed Services,
U.S. Senate

For Release on Delivery
Expected at 4:00 p.m. ET
Wednesday, July 26, 2023

DEFENSE WORKFORCE

Opportunities for more Effective Management and Efficiencies

Statement of Elizabeth A. Field, Director, Defense
Capabilities and Management

and

Suzanne M. Perkins, Assistant Director, Defense
Capabilities and Management

GAO Highlights

Highlights of GAO-23-106966, testimony before the Subcommittee on Personnel, Committee on Armed Services, U.S. Senate

Why GAO Did This Study

DOD is one of the of the nation's largest employers. It employs a military workforce of about 2.1 million service members and about 770,000 civilian employees. Additionally, DOD obligated \$205 billion for contracted services in fiscal year 2022.

Careful consideration must be paid to the necessary size and skillset of DOD's workforce. Prior cuts resulted in unintended consequences of significant imbalances in terms of skills and retirement eligibility.

This statement summarizes GAO's prior work on (1) DOD's challenges in managing its workforce and (2) opportunities GAO has identified for DOD to be more effective and efficient in managing its workforce to achieve its mission.

This statement is based on GAO's body of work on DOD's management of its workforce, related GAO high risk areas, and efficiencies. To perform that work, GAO reviewed DOD documentation, analyzed data, interviewed DOD officials, and assessed DOD's efforts against relevant criteria.

What GAO Recommends

In prior work on which this testimony is based, GAO recommended actions to obtain and use better information, improve strategic workforce planning, and measure performance. DOD has implemented many of these recommendations, but the remaining recommendations would help DOD effectively manage its workforce and achieve efficiencies.

View GAO-23-106966. For more information, contact Elizabeth A. Field at (202) 512-2775 or FieldE1@gao.gov.

July 26, 2023

DEFENSE WORKFORCE

Opportunities for more Effective Management and Efficiencies

What GAO Found

The Department of Defense (DOD) faces considerable challenges in the management of its workforce. To effectively do so, DOD must determine the appropriate and cost effective mix of military and civilian personnel and contracted services needed to achieve its mission. However, DOD has struggled to do this and GAO has identified obstacles that DOD faces in effectively managing each component of its workforce. For example:

Recruiting and Retaining Military Personnel Has Been Challenging.

Ensuring a sufficient number of qualified military personnel is a matter of national security. DOD must balance recruiting new members and retaining already trained service members. However, GAO has identified three challenges: (1) the lack of reliable recruitment and retention-related data; (2) the limited use of goals, plans, and strategies; and (3) the lack of monitoring of plans and strategies for effectiveness.

Civilian Personnel Management Has Lacked Quality Information to Inform Decisions.

GAO has found similar challenges in DOD's management of its civilian workforce, and has made numerous recommendations for DOD to better track data, develop and use strategic workforce plans, and monitor the effectiveness of its efforts to address challenges. For example, GAO reported in 2018 that the Defense Health Agency had not developed a strategic workforce plan to guide its efforts to address challenges experienced by the military departments in executing an appropriate and efficient workforce mix at its Military Medical Treatment Facilities.

Management of Contracted Services Faces Challenges in Workforce Data and Realizing Savings.

GAO has identified many challenges in DOD's information about the contractors supporting the department's work, including not having an accurate inventory of contracted services and using those data in its decisions. As a result, identified workforce gaps contributed to GAO designating several DOD programs as high risk, including DOD's Contract Management.

Without improved workforce planning based on higher quality information, DOD's ability to determine the appropriate mix of its workforce and ensure the effectiveness of each component of its workforce will continue to be hindered.

GAO has identified opportunities for DOD to be more efficient, resulting in considerable cost-savings. In GAO's June 2023 annual report on duplication, fragmentation and overlap in government programs, GAO identified 95 open recommendations to DOD, some of which GAO has estimated could result in billions of dollars of cost savings, if implemented. Within the workforce area specifically, GAO has found that DOD's efforts to achieve efficiencies are consistently hindered by data availability or reliability issues, unreliable cost estimates, and a lack of baselines and associated performance metrics to measure effectiveness and gauge success. More broadly, GAO recently estimated that if all open recommendations to DOD were implemented, the financial benefits could range from an estimated \$8 billion to \$100 billion, with a median estimate of \$36 billion. Implementing GAO's recommendations could allow for decision making based on better information and for DOD to gain efficiencies.

United States Government Accountability Office

Chairwoman Warren, Ranking Member Scott, and Members of the Subcommittee:

Thank you for the opportunity to discuss our work regarding the Department of Defense's (DOD) challenges in managing its personnel workforce. DOD is one of the largest and most complex organizations in the federal government, and it is consequently one of the nation's largest employers. DOD's total workforce consists of three main components: military personnel (including the active military and the reserve and guard forces), civilians, and contractor personnel providing support to the department.

The active military and reserve and guard forces are charged with implementing the National Military Strategy and performing military essential functions in support of DOD's various missions. DOD's civilian workforce performs a wide variety of responsibilities, including providing care for active duty personnel, their dependents, and wounded service members; managing financial accounting systems; and providing mission-essential combat-support functions that traditionally had been performed by the uniformed military, such as logistics support, maintenance of weapon systems and facilities, and carrying out cyber and intelligence efforts. In addition, a key component of this workforce provides deployable civilian experts during overseas military operations. Augmenting the military and civilian workforces, DOD has relied on contractors both overseas and in the United States to perform many of the same functions as civilian employees, including management support, communication services, base operations support (e.g., food and housing), weapon systems maintenance, and intelligence.

Effective management of DOD's workforce is critical both for achieving the department's mission and controlling costs to make the best use of the significant investment the American taxpayers make annually in the department. DOD reported that it requested over \$800 billion for fiscal year 2024.¹ For that same fiscal year, DOD requested about \$170 billion for military personnel costs² and about \$102 billion for certain civilian

¹Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Defense Budget Overview: United States Department of Defense Fiscal Year 2024 Budget Request* (Mar. 2023).

²The estimated \$170 billion for military personnel costs does not include the cost of certain retiree health benefits.

personnel costs.³ DOD has a military workforce of about 2.1 million service members and a civilian workforce of about 770,000 employees.⁴ Additionally, DOD obligated about \$205 billion on contracted services—such as information technology support and maintenance of defense facilities—in fiscal year 2022.⁵

Our testimony today provides information on DOD's management of its personnel workforce. Specifically, we will summarize (1) our prior work that identifies DOD's challenges in managing its workforce and the associated recommendations we have made to improve DOD's efforts and (2) opportunities we have identified for DOD to be more effective and efficient in managing its workforce to achieve its mission.

This statement is based on our body of work issued from 2013 through 2023 addressing DOD's management of its workforce, related GAO identified high-risk areas, and efficiencies that can be achieved. To perform the work upon which this testimony is based, we reviewed DOD documentation, analyzed DOD data, interviewed DOD officials, and assessed DOD's efforts against relevant criteria. More detailed information on our objectives, scope, and methodology for that work can be found in the issued reports listed at the end of this statement.

We conducted the work on which this testimony is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

³Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY 2024* (May 2023).

⁴GAO, *DOD Financial Management: Additional Actions Needed to Achieve a Clean Audit Opinion on DOD's Financial Statements*, GAO-23-105784 (Washington, D.C.: May 15, 2023). See also GAO, *DOD Civilian Workforce: Actions Needed to Analyze and Eliminate Barriers to Diversity*, GAO-23-105284 (Washington, D.C.: June 21, 2023). Federal civilian employees, including at DOD, work in a variety of jobs, with different education or experience requirements, skills, and functions. The General Schedule (GS) federal pay system covers the largest group of white-collar employees—i.e., those in professional, technical, administrative, and clerical positions, according to OPM. The Federal Wage System covers trade, craft, or labor (i.e., blue-collar) positions. About 62 percent of DOD's civilian employees in fiscal year 2021 were in the GS pay plan, and more than 15 percent in Federal Wage System pay plans, according to our analysis of DOD's data. The remainder of DOD's employees were in more than 60 other pay plans, including those that are specific to the military departments, the DOD acquisition workforce, or other organizations or occupational functions.

⁵The DOD obligation amount is based on data from Federal Procurement Data System-Next Generation.

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

DOD Has Experienced Considerable Challenges in Personnel Management over the Last Decade

To effectively manage DOD's workforce, careful consideration must be paid to the necessary size and skillset of the total workforce. Past downsizing efforts of the federal workforce resulted in unintended consequences, as prior cuts were not oriented toward shaping the makeup of the workforce, resulting in significant imbalances in terms of shape, skills, and retirement eligibility. For example, DOD reduced its civilian acquisition workforce by almost 50 percent from September 1989 to September 1999. We found that the department's efforts were hampered by incomplete data and the lack of a clear strategy for avoiding the adverse effects of downsizing and minimizing skills imbalances. Eleven consecutive years of downsizing produced serious imbalances in the skills and experience of the highly talented and specialized civilian acquisition workforce, putting DOD on the verge of a retirement-driven talent drain.⁶ DOD has since taken needed steps to increase the size and skills of its acquisition workforce.⁷

Mission-critical skills gaps specific to federal agencies and across the federal workforce pose a high risk to the nation. They impede the government from serving the public in a cost-effective manner and achieving desired results. As such, we added Strategic Human Capital Management to our High-Risk List in 2001.⁸ Agencies often experience skills gaps because of a shortfall in a talent management activity, such as workforce planning or training. Government-wide skills gaps have been identified in fields such as human resources, science, technology, engineering, mathematics, cybersecurity, and acquisitions.⁹

Our prior work has identified skill or workforce gaps within DOD's civilian workforce that have been contributing factors to our designation of certain programs as high-risk. For example, within the DOD Weapon Systems

⁶GAO, *Human Capital: Additional Steps Needed to Help Determine the Right Size and Composition of DOD's Total Workforce*, GAO-13-470 (Washington, D.C.: May 29, 2013).

⁷GAO, *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, GAO-23-106203 (Washington, D.C.: Apr. 20, 2023).

⁸GAO-23-106203.

⁹GAO-23-106203.

Acquisition high-risk area, we found that DOD lacks the workforce needed to support large-scale production and testing of hypersonic weapons as well as sufficient staff with the required expertise in software development.¹⁰ Further, within the DOD Business Systems Modernization high-risk area, we found that DOD needs to determine next steps for identifying skills gaps and other resource gaps associated with its efforts to manage DOD's portfolio of business systems.¹¹ Similarly, we identified Ensuring the Cybersecurity of the Nation as a high-risk area for which DOD shares responsibility, and we found that staffing gaps—the difference between the number of personnel authorized and the number of personnel staffed—existed in some active-duty military cyber career fields from fiscal years 2017 through 2021.¹²

We have identified challenges in DOD's approach to effectively managing each component of its workforce, generally associated with the need for better information and data, workforce planning, and assessing the effects of steps taken to address challenges.

DOD Has Struggled to Determine the Appropriate Mix for its Military, Civilian, and Contractor Workforces as well as the Critical Functions Necessary to Achieve Its Missions

Two key aspects for effective management of DOD's workforce are determining the appropriate mix of military, civilian, and contractor workforces and determining the functions that are critical for the department to achieve its missions. Ten years ago, we reported that the department was hampered in making more informed strategic workforce mix decisions, which we noted was crucial to meeting DOD's congressional mandate to manage its total workforce.¹³ Specifically, DOD had not (1) included an assessment of the appropriate mix of its military, civilian, and contractor personnel capabilities in its strategic workforce plan or (2) updated relevant policies and procedures to reflect statutory requirements. As a result, we recommended in May 2013 that DOD revise existing workforce policies and procedures to address the

¹⁰GAO, *Hypersonic Weapons: DOD Should Clarify Roles and Responsibilities to Ensure Coordination across Development Efforts*, GAO-21-378 (Washington, D.C.: Mar. 22, 2021) and *Weapon Systems Annual Assessment: Challenges to Fielding Capabilities Faster Persist*, GAO-22-105230 (Washington, D.C.: June 8, 2022).

¹¹GAO, *Business Systems Modernization: DOD Has Made Progress in Addressing Recommendations to Improve IT Management, but More Action Is Needed*, GAO-20-253 (Washington, D.C.: Mar. 5, 2020).

¹²GAO-23-106203 and GAO, *Military Cyber Personnel: Opportunities Exist to Improve Service Obligation Guidance and Data Tracking*, GAO-23-105423 (Washington, D.C.: Dec. 21, 2022).

¹³GAO-13-470.

determination of the appropriate workforce mix and identification of critical functions. Since that time, DOD revised the relevant instruction in 2017 for administrative purposes, but did not include revisions to address our recommendation.¹⁴

Second, DOD components were to use inventories of contracted services to estimate contractor full-time equivalents (FTEs) for workforce planning and budget submissions, but we found in 2013 that the contractor FTE estimates had significant limitations and did not accurately reflect the number of contractor personnel providing services to DOD.¹⁵ At that time, we recommended that DOD include an explanation in annual budget exhibits of the methodology used to project contractor FTE estimates and any limitations of that methodology or the underlying information to which the methodology is applied. DOD has not implemented this recommendation.

About a decade later, DOD still has not determined how it might collect information needed to help make informed decisions. In October 2020, DOD issued a report to Congress that, among other things, described continued limitations with inventory of contracted services data. The DOD report discussed the department's recent transition to the government-wide system that other federal agencies use to collect data for their inventories of contracted services, and explained that this transition is intended to reduce the burden of data collection for defense contractors and improve compliance. However, as we reported in February 2021, DOD's report did not discuss how it plans to use these data to inform decision-making and workforce planning, key issues our work has identified in the past.¹⁶

DOD Faces Considerable Challenges Recruiting and Retaining Military Personnel

Ensuring the United States has a sufficient number of qualified active-duty military personnel is a matter of national security. To maintain its active-duty levels, DOD must balance recruiting new members and retaining already trained service members. However, DOD is facing its most challenging recruitment environment in 50 years. For example, DOD

¹⁴DOD Instruction 1100.22, *Policy and Procedures for Determining Workforce Mix* (Apr. 12, 2010) (incorporating change 1, effective Dec. 1, 2017).

¹⁵GAO-13-470.

¹⁶GAO, *Service Acquisitions: DOD's Report to Congress Identifies Steps Taken to Improve Management, but Does Not Address Some Key Planning Issues*, GAO-21-267R (Washington, D.C.: Feb. 22, 2021).

reported in March 2022 that the Army met 72 percent of its recruiting goal for fiscal year 2022. Moreover, losing personnel can be costly for DOD. In some career fields, DOD makes substantial investments both in terms of the length of time and cost of training personnel. For example, the cost to train some cyber professionals is estimated at \$220,000 to \$500,000 over a period of 1 to 3 years.¹⁷

Our body of work on DOD's efforts to recruit and retain military personnel has identified challenges in the following three key areas: (1) the lack of reliable recruitment and retention-related data; (2) the limited use of goals, plans, and strategies; and (3) the lack of monitoring of plans and strategies for effectiveness. We recently issued a National Security Snapshot that provides an overview of this body of work and highlights important recommendations for improving recruitment and retention, as well as ensuring efforts taken are cost effective.¹⁸ For example, among many other things, we have recommended that:

- The Army, Navy, and Air Force should incorporate data on civilian pay for comparable occupations to guide retention bonus determinations for enlisted medical personnel;¹⁹
- The Air Force should analyze staffing levels by officer grade to target retention bonuses to the appropriate pilot communities;²⁰
- Navy should evaluate the effectiveness of the Surface Warfare Officer career path, training, and policies;²¹ and
- DOD should routinely assess the effect of non-monetary incentive approaches on retention, such as assignment flexibility and educational opportunities.²²

¹⁷GAO-23-105423.

¹⁸GAO, *National Security Snapshot: DOD Active-Duty Recruitment and Retention Challenges*, GAO-23-106551 (Washington, D.C.: Mar. 28, 2023).

¹⁹GAO, *Defense Health Care: Actions Needed to Define and Sustain Wartime Medical Skills for Enlisted Personnel*, GAO-21-337 (Washington, D.C.: June 17, 2021).

²⁰GAO, *Military Personnel: Collecting Additional Data Could Enhance Pilot Retention Efforts*, GAO-18-439 (Washington, D.C.: June 21, 2018).

²¹GAO, *Navy Readiness: Actions Needed to Evaluate and Improve Surface Warfare Officer Career Path*, GAO-21-168 (Washington, D.C.: June 17, 2021).

²²GAO, *Military Compensation: Additional Actions Are Needed to Better Manage Special and Incentive Pay Programs*, GAO-17-39 (Washington, D.C.: Feb. 3, 2017).

DOD has taken some actions to address these recommendations. However, as of March 2023, each of them had not been fully implemented. For example, the Navy concurred with our recommendations and established a project to examine the Surface Warfare Officer career path and related policies and held Senior Officer focus groups to understand their perspectives and generate ideas for future Surface Warfare Officer career path initiatives. Implementation of these recommendations will require completion of evaluations and codifying new or revised processes.

DOD Lacks Data, Plans, and Assessments of Its Actions to Inform Civilian Personnel Management

Our work has also identified similar challenges to effective management of the civilian workforce. For example, these challenges include the need for DOD to:

- **Better collect and track personnel data.** We have found that DOD sometimes has incomplete and inaccurate personnel data regarding the workforce that supports certain programs, which hinders DOD's ability to assess gaps in overall capabilities and make decisions about the workforce.²³ For example, in October 2019, we found that the Marine Corps had not identified or reconciled differences between its internal civilian personnel data compared to data submitted in the annual budget request, and that without updated guidance and improved data, Congress and DOD leadership may not have sufficient and appropriate information to make informed planning decisions.²⁴ As of July 2023, the Marine Corps has not implemented our recommendations to update guidance and reconcile data.
- **Develop and use strategic workforce plans.** In November 2018, we found that the Defense Health Agency had not developed a strategic workforce plan to guide its efforts to address challenges experienced

²³GAO, *Defense Space Systems: DOD Should Collect and Maintain Data on Its Space Acquisition Workforce*, GAO-19-240 (Washington, D.C.: Mar. 14, 2019).

²⁴GAO, *Civilian Personnel: Additional Guidance and Consistent Data Reporting Could Help Improve the Marine Corps' Budget Management*, GAO-20-148 (Washington, D.C.: Oct. 16, 2019). The Marine Corps manages its civilian personnel based on dollar amounts—not full-time equivalent (FTE) workload like the other military services—through an approach called Manage to Payroll. Specifically, while the Marine Corps requests a certain number of FTEs each year as required by policy, the Marine Corps distributes the funds it receives to its commands by dollar amount and not based on the FTEs requested.

by the military departments in executing an appropriate and efficient workforce mix at its Military Medical Treatment Facilities.²⁵

- **Assess the effectiveness of steps taken to address workforce challenges.** In December 2018, we found that the military services did not know the effectiveness of actions they had taken to address depot maintenance workforce gaps, because they had not assessed the results of these actions in helping the depots hire, train, and retain skilled personnel—including determining whether the actions were cost effective. We recommended that the services assess their hiring, training, and retention programs, but as of 2022, these recommendations remained unimplemented.²⁶

DOD has implemented the recommendations we made in other reports similarly focused on specific civilian career fields and workforces, thus making improvements in effective management of the civilian personnel workforce in those areas. For example:

- In 2021, we found that the Army Corps of Engineers had not ensured that its top management set the overall direction and goals of workforce planning; for example, top management had not updated the Corps' strategic human capital plan since fiscal year 2017. The Corps implemented our recommendation to develop an agency-wide human capital plan and is, as a result, better positioned to address its capacity and preparedness challenges and manage its current and future workforce.²⁷
- In 2018, we reported that DOD had not monitored data for defense laboratory hiring or evaluated the effectiveness of the labs' hiring, including the use of hiring authorities.²⁸ Further, DOD lacked performance measures to evaluate the effectiveness of hiring across the defense laboratories as well as clear time frames for approving and implementing new hiring authorities such as direct hire. As a result of our three recommendations, DOD established a mechanism

²⁵GAO, *Defense Health Care: Additional Assessments Needed to Better Ensure an Efficient Total Workforce*, GAO-19-102 (Washington, D.C.: Nov. 27, 2018).

²⁶GAO, *DOD Depot Workforce: Services Need to Assess the Effectiveness of Their Initiative to Maintain Critical Skills*, GAO-19-51 (Washington, D.C.: Dec. 14, 2018).

²⁷GAO, *Army Corps of Engineers: Workforce Planning Follows Most Leading Practices but Could Be Enhanced with Additional Actions*, GAO-22-104054 (Washington, D.C.: Dec. 9, 2021).

²⁸GAO, *DOD Personnel: Further Actions Needed to Strengthen Oversight and Coordination of Defense Laboratories' Hiring Efforts*, GAO-18-417 (Washington, D.C.: May 30, 2018).

for routinely monitoring data and evaluating the data and identifying timeframes, thus positioning DOD to more effectively use hiring authorities.

DOD Faces Challenges Managing Its Contracts for Services, Limiting Informed and Cost-Effective Decisions

DOD spends hundreds of billions of dollars annually on contracts for goods and services. We have previously reported on longstanding challenges DOD has faced managing risks related to use of contracts, as exemplified by our decision to place DOD's Contract Management on our High-Risk List more than 30 years ago. Since then, DOD has made considerable progress addressing many of the underlying issues, but still has more work to do in strategically managing services acquisition.²⁹

In particular, we found that DOD has experienced challenges in validating requirements and forecasting budget needs.³⁰ This type of information can help DOD make decisions for service acquisitions that leverage efficiencies and are informed by anticipated spending. In April 2023, we identified positive steps that DOD is planning to take to address these challenges, including revising guidance on how to better manage services, restarting annual assessments of its service requirements review process, and developing a dashboard to track spending trends for its service acquisitions.³¹ We also reported that DOD had issued guidance to begin forecasting budget needs for service acquisitions in its fiscal year 2024 budget submission, efforts that were underway at the time of our reporting in April 2023.

We have also identified continued progress in DOD's use of Operational Contract Support for military activities around the world, including identifying capability gaps, developing guidance, and integrating this support into planning and training. For example, in April 2023, we reported that DOD had completed actions to address capability shortfalls

²⁹GAO-23-106203.

³⁰GAO-23-106203, *Defense Contracted Services: DOD Needs to Reassess Key Leadership Roles and Clarify Policies for Requirements Review Boards*, GAO-17-482 (Washington, D.C.: Aug. 31, 2017), and *DOD Service Acquisition: Improved Use of Available Data Needed to Better Manage and Forecast Service Contract Requirements*, GAO-16-119 (Washington, D.C.: Feb. 18, 2016).

³¹GAO-23-106203.

that had previously created risks to operational effectiveness, timelines, and resource expenditures.³²

As of February 2023, four recommendations related to this high-risk area remained unimplemented. For example, DOD needs to establish a mechanism to coordinate efforts to develop budget forecasts for service acquisitions using consistent data and issue military department guidance on how to collect and report forecasted budget needs for service acquisitions across a 5-year time span in each budget submission.³³ Implementing these recommendations would improve DOD's contract management and demonstrate progress in its efforts to have this area removed from GAO's High-Risk List. We are currently waiting for DOD's comments on a forthcoming report on DOD's management of service contracts, and hope to issue a final report later next month.

Several Opportunities Exist for DOD to Achieve Efficiencies and Cost-savings through Improved Management of its Workforce

Since 2011, we have focused on identifying efficiencies that can be obtained and cost savings or avoidances that might be realized if federal agencies take action through our Duplication, Fragmentation, and Overlap body of work.³⁴ Specifically, each year we report on federal programs with fragmented, overlapping, or duplicative goals or actions, and we have suggested hundreds of ways to address those problems and potentially reduce costs or boost revenue. In our June 2023 annual report, we identified 95 unimplemented recommendations we have made to DOD that, if implemented, could generate considerable cost-savings to the U.S. government.³⁵ In some cases, if DOD took actions in one area, we estimate that billions of dollars of cost savings would be generated. More broadly, we recently reported on the estimated financial benefits that could be realized if all open recommendations to DOD were implemented, which could range from an estimated \$8 billion to \$100

³²GAO-23-106203.

³³GAO-16-119.

³⁴GAO, *Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Billions of Dollars in Financial Benefits*, GAO-23-106089 (Washington, D.C.: June 14, 2023).

³⁵GAO-23-106089.

billion, with a median estimate of \$36 billion in potential financial benefits.³⁶

Within our body of work focused on efficiencies and our resulting annual report, we have identified specific opportunities for DOD to achieve efficiencies and save costs within the workforce management area. Some examples include:

- **Fragmentation and overlap in human resource services across DOD defense agencies and organizations.** In September 2018, as part of our review of DOD's efforts to assess the continuing need for its defense agencies and DOD field activities (DAFAs), we found fragmentation and overlap within the DAFAs that provide human resources services to other defense agencies or organizations within DOD. For example, we found that at least six DOD organizations, including three DAFAs, performed human resources services for other parts of the department. This had resulted in negative effects, such as inconsistent performance information regarding hiring, fragmented information technology systems, and inefficiencies associated with overhead costs.³⁷ As of July 2023, our recommendations for DOD to identify optimal information technology solutions for human resources and to fully assess, identify, and implement the most effective and efficient means of human resources service delivery have not been implemented.
- **Duplication in the delivery of healthcare benefits to military beneficiaries.** In July 2014, we found that the US Family Health Plan (USFHP) within DOD's current military health system (MHS) was duplicative because there was significant overlap between it and the TRICARE Prime benefit offered by the regional TRICARE managed care support contractors. We made a suggestion to Congress to end

³⁶GAO, *Potential Financial Benefits: Estimating the Value of Implementing Open GAO Recommendations*, GAO-23-106598 (Washington, D.C.: June 27, 2023). To estimate ranges of potential financial benefits, we developed simulation models using GAO's historical data on recommendations and matters and realized financial benefits. To ensure a sufficient number of open recommendations and matters for each simulation, we selected the 10 entities—nine agencies and Congress—with the largest number of open recommendations and matters for consideration, including DOD. As of May 2023, DOD had 1,245 open recommendations. GAO, *Priority Open Recommendations: Department of Defense*, GAO-23-106305 (Washington, D.C.: May 23, 2023).

³⁷GAO, *Defense Management: DOD Needs to Address Inefficiencies and Implement Reform across Its Defense Agencies and DOD Field Activities*, GAO-18-592, (Washington, D.C.: Sept. 6, 2018).

this duplicative program, but as of May 2023, no enacted legislation has been identified that would terminate the Secretary of Defense's authority to contract with USFHP designated providers.³⁸

Further, over the past decade, we have issued reports on opportunities for the department to achieve efficiencies within DOD headquarters activities, which include organizations such as the Office of the Secretary of Defense, the Joint Staff, military service secretariats and staff, and headquarters elements of the combatant commands, defense agencies, and DOD field activities. In 2010, the then Secretary of Defense announced a department-wide efficiency initiative to reduce overhead costs and reinvest the savings in sustaining DOD's current force structure and modernizing its weapons portfolio. In subsequent years, the department pursued reductions in the size of staff within headquarters activities.

In an effort to assist with congressional oversight, we reported on the department's efforts to pursue reductions in headquarters staff and difficulties of accounting for related resources.³⁹ For example, among other things, we recommended that DOD set clearly defined and consistently applied baselines and track management headquarters reductions against the baselines. We also found inconsistencies within a DOD May 2018 progress report that raised additional questions about the accuracy of DOD's cost savings estimates. Over time, we have found that DOD's efforts to implement broad reform initiatives or carry out efforts to achieve efficiencies are consistently hindered by data availability or reliability issues, unreliable cost estimates, and a lack of baselines and associated performance metrics to measure effectiveness and gauge success.⁴⁰ DOD has not fully implemented our recommendations, such as to routinely and comprehensively monitor and evaluate ongoing efficiency initiatives, including establishing baselines from which to measure progress, periodically reviewing progress made, and evaluating results

³⁸GAO, *Defense Health Care: US Family Health Plan is Duplicative and Should be Eliminated*, GAO-14-684 (Washington, D.C.: July 31, 2014).

³⁹GAO, *Defense Efficiency Initiatives: Observations on DOD's Reported Reductions to Its Headquarters and Administrative Activities*, GAO-18-688R (Washington, D.C.: Sept. 24, 2018).

⁴⁰GAO-18-592 and GAO, *Defense Efficiency Initiatives: DOD Needs to Improve the Reliability of Cost Savings Estimates*, GAO-17-724 (Washington, D.C.: July 24, 2017).

and to consistently report reform savings based on definitions of reform.⁴¹ Failing to do these severely limits the ability of the department and Congress to track and make continued progress.

In sum, considering the size of the DOD personnel workforce and the budgetary resources entrusted to the department, effective management and achieving efficiencies are important. However, effectiveness and efficiency can only be assessed upon a foundation of high-quality information. Management of the military personnel, civilian, and contractor workforce, and the mix of those workforces, would benefit from more reliable information and data, as would any efforts focused on reform and efficiencies sought by the department.

Chairwoman Warren, Ranking Member Scott, and Members of the Subcommittee, this completes our prepared statement. We would be pleased to respond to any questions you may have at this time.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact Elizabeth A. Field, Director, Defense Capabilities and Management, at (202) 512-2775 or fielde1@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Suzanne M. Perkins (Assistant Director), Nancy Santucci (Analyst in Charge), Britany Evans, Gloria (Juyoung) Lee, Meghan Perez, William Russell, Michael Shaughnessy, Carter Stevens, and Ian Toller-Clark.

⁴¹GAO-18-592 and GAO, *Defense Reform: DOD Has Made Progress, but Needs to Further Refine and Formalize Its Reform Efforts*, GAO-21-74 (Washington, D.C.: Nov. 5, 2020).

Related GAO Products

Potential Financial Benefits: Estimating the Value of Implementing Open GAO Recommendations. GAO-23-106598. Washington, D.C.: June 27, 2023.

Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Billions of Dollars in Financial Benefits. GAO-23-106089. Washington, D.C.: June 14, 2023.

High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas. GAO-23-106203. Washington, D.C.: April 20, 2023.

National Security Snapshot: DOD Active-Duty Recruitment and Retention Challenges. GAO-23-106551. Washington, D.C.: March 28, 2023.

Military Cyber Personnel: Opportunities Exist to Improve Service Obligation Guidance and Data Tracking. GAO-23-105423. Washington, D.C.: December 21, 2022.

Weapon Systems Annual Assessment: Challenges to Fielding Capabilities Faster Persist. GAO-22-105230. Washington, D.C.: June 8, 2022.

Army Corps of Engineers: Workforce Planning Follows Most Leading Practices but Could Be Enhanced with Additional Actions. GAO-22-104054. Washington, D.C.: December 9, 2021.

Defense Health Care: Actions Needed to Define and Sustain Wartime Medical Skills for Enlisted Personnel. GAO-21-337. Washington, D.C.: June 17, 2021.

Navy Readiness: Actions Needed to Evaluate and Improve Surface Warfare Officer Career Path. GAO-21-168. Washington, D.C.: June 17, 2021.

Hypersonic Weapons: DOD Should Clarify Roles and Responsibilities to Ensure Coordination across Development Efforts. GAO-21-378. Washington, D.C.: March 22, 2021.

Service Acquisitions: DOD's Report to Congress Identifies Steps Taken to Improve Management, But Does Not Address Some Key Planning Issues. GAO-21-267R. Washington, D.C.: February 22, 2021.

Related GAO Products

Defense Reform: DOD Has Made Progress, but Needs to Further Refine and Formalize Its Reform Efforts. GAO-21-74. Washington, D.C.: November 5, 2020.

Business Systems Modernization: DOD Has Made Progress in Addressing Recommendations to Improve IT Management, but More Action Is Needed. GAO-20-253. Washington, D.C.: March 5, 2020.

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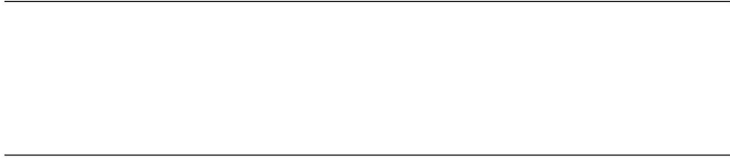
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Senator WARREN. Thank you, Ms. Field. I appreciate your being here and appreciate your testimony. I recognize Senator Kaine for 5 minutes.

Senator KAINE. Thank you, Chairwoman Warren, and thank you to our witnesses. I think I am going to make my comments maybe a little bit more for my colleagues and—but also to share with these witnesses or experts some frustrations I have and why I am glad that the chair and ranking Member have decided to do this hearing and then hopefully embrace others.

I have been very frustrated in my 10 years on the Committee about the absence of real analysis of major initiatives that we undertake within the Pentagon, and I am just going to use two, military housing, and then the formation of the DHA and the military medical services that Ms. Field discussed.

The Pentagon made a decision, no doubt, for both cost and quality reasons in the 1990's, to push a privatized housing model. It is not our core expertise. Why don't we let housing companies do it? It is not warfighting, let others do it, and if they do it, they may be able to save us money and also offer higher quality accommodations to military members and families.

It has been a pretty big failure, and I think the failure is more on the Pentagon side of the ledger even than the private provider side of the ledger, because the contracts that were set up gave the Pentagon significant oversight responsibility.

For example, on a base, the base commander was to hold back payment until the end of the year to some certain percentage and then decide whether the provider had merited some, or all, or none of that payment based on performance. Instead, the pattern was essentially for the base commanders to just release all the money at year end, regardless of performance.

The contracts with the private providers were set up so that at some midpoint in these long term contractual periods, the Pentagon could step back and do an assessment, are you meeting the needs of our families? If not, we need to renegotiate the contract. That midpoint came. There was no renegotiation done.

Just steady State, it is now off our shoulders, so it is on the shoulders of these housing providers, and the housing providers weren't being incentivized to really treat our military family members the way that they would treat commercial clients, because all these providers also had commercial business.

They treat their commercial clients better because they would leave and go somewhere else if they didn't. They started to treat our military families sort of as hostages. We ended up making it worse. We had as a key theme to the NDAA [National Defense Authorization Act] a few years ago, there was an effort to push cut in headquarter staff, a non-defined, across the board cut in headquarters staff without really digging into who are headquarters staff.

I fought very hard against an across the board headquarters staff cut. I was unsuccessful. A couple of years later, this housing thing blew up in our face, and we went back and looked at what was the headquarters staff that was cut. In all of the offices that were charged with the responsibility of overseeing these housing con-

tracts, they were losing 30, 40, 50, 60 percent of their staff, and surprise, surprise.

To quote a famous Marine, Gomer Pyle, surprise, surprise, when you cut all the housing staff, suddenly the oversight gets worse, and the quality gets worse. A program that was designed to save money and a program that hopefully was going to lead to a better result, ended up, frankly, probably doing neither.

We have had to come in, and we are making progress, but we are still not really where we are. We ought to have great both cost and quality tools to assess a program like this. Similarly, the different service branches had their own military expertise. The decision was made based on a study that was done in 2011 to try to put this together in a combined DHA.

I still hear all kinds of constituent complaints from servicemembers in Virginia and their families about waiting lists and insufficient access to services from the DHA. Ms. Field, you talked about areas where the DHA is spending more than they need to or having a hard time recruiting people into key positions.

Where I hear about it is from our military members and their families who have a hard time getting access to services, particularly in the mental health space. We have had a raft of military suicides at the mid-Atlantic Regional Maintenance Center in Norfolk and in ships that are in dry-dock for extended periods, and often the availability of mental health services is weak.

One of my staffers went on a carrier avail recently, and on the entire carrier there were two mental health psychologist positions for this huge group of people, and one was vacant. My staffer asked, okay, how long has this position been vacant? For a very long time. Well, what is the salary that you would pay this psychologist?

The salary is \$85,000. You would make so much more than that having a psychology practice in suburban Arlington, Virginia, or virtually anywhere in the country, and you wouldn't have to be deployed on a carrier for months at a time away from your family. We are not going to fill that position at that salary.

These are two instances of big initiatives, transitioning healthcare into a DHA environment. Transitioning housing from the military provides it, to let's get the housing experts to do it. Both are continuing to show major problems. I am not sure either really produce savings or produce better quality of service to our military men and women.

I don't really have a question for you, but I guess Senator Scott asked me, do you have some issues that are on your mind that can inform future discussions?

I would like to know when we embrace these major initiatives, how do we measure them to make sure they are doing what we say and how do we maybe get hold of it quicker if it is going the wrong direction, to turn it in a positive direction rather than just keep investing in something that is not bearing out as it should?

I will just stop there, but I am really happy that you are doing this, and I do want to make sure we focus on the dollars, but I also want to focus on the bang for the buck. If the dollars are being wasted and we are not getting the service that we need to either promote lethality or protect our people, then I think we have got

a lot of work to do, and I appreciate the Committee for tackling this.

Senator WARREN. Thank you very much, Senator Kaine, and the reminder, this is the first of more than one hearing as we try to dig in better on these issues. I really appreciate your comments here and the points you highlight. Senator Scott.

Senator SCOTT. To followup with one other thing Kaine said. I come from a business background, so my first reaction is, it is not that the business was bad, right? Was the structure of the deal wrong?

Was there no accountability? Was there no measurement? Did it never make, you know—and we don't even have a conversation like that. It is like we just want to blame somebody, whoever we want to blame. It is not something that should be hard to figure out.

In business, you have the ability and there are all these organizations now that you can compare your costs, all this stuff to somebody else now. There are all these comparative groups that you can buy into, and I wonder, I have never heard of any part of the Federal Government, especially DOD, ever doing that.

Going back to Mr. Roark, let me ask you a question. When I became Governor of Florida back in 2011, our Medicaid program—we bid it out, and the benefit of doing it is we knew our cost and we also could hold somebody accountable for access and quality, right, and outcomes. But you had to put all this measurement in there.

One thing that surprised me, we didn't have any program where somebody could say, okay, so I wasn't responsible for buying after that. If you are talking about breast pumps, I didn't have to buy breast pumps, it was their responsibility to do that.

They have a contract with TRICARE, they bid it out, and then the Government is responsible for the purchase of equipment?

Mr. ROARK. Senator, in this case, when Congress passed the law that enabled breast pumps, I think what happened was that a lot of suppliers set up websites and so forth and let military spouses and military members know that this benefit was available to them, but they didn't have the prices on the website.

Then they—DHA hadn't set up the price ceiling or the price cap, if you will, and so, therefore, if there is no price cap in place, then it just goes into this paid as billed category, as I mentioned in my statement.

Senator SCOTT. It is outside of the contract?

Mr. ROARK. Correct, and so, the contractor in that case just pays as billed. If there is a cap, then they can only go up to that amount. I think that that is the key point here.

Senator SCOTT. Do they not use any of these group purchasing organizations? Because there are a bunch of them now. Now in fact one of my own companies has the biggest in the country, and I mean all that stuff, you are guaranteed the lowest price. They don't do that?

Mr. ROARK. What we did as the OIG to try to oversee this particular item is that we went to look for other benchmarks, like you said. Whether that is other Federal health care programs, Medicare, Medicaid, or whether that is retail prices, you know, we were kind of searching for, you know, what would be a reasonable price for these items.

However, I think that that is the concern and to some degree the frustration with the pay to billed model, which is, you know, there is a competing interest where DHA wants to get the item out to servicemembers in a timely manner, so there is the kind of—some incentive to do that quickly. On the other side, we also want to ensure that we get what we paid for, and we pay a fair price, and so achieving that balance is critically important.

Senator SCOTT. So, in your report when you look at DHA overpayments, was it a little bit of money? Was it—and so, you have the numbers on how much it is? Are we talking about quite a bit of money?

Mr. ROARK. Correct. For breast pumps, the total amount that was paid in 2016 was about \$28 million, and we have calculated that the excessive charges or the overpayments were about \$16 million.

Senator SCOTT. What is the total value of DHA overpayments found by the Inspector General? How much money for everything. Do you have a total number?

Mr. ROARK. Across the entire health system? I don't have that number, but maybe I can speak to these examples. Again, I think we highlight these examples as a way of showing that there is much more out there, and that great efficiencies could be achieved across the board if some of these lessons learned are applied across the board.

Senator SCOTT. Thanks.

Senator WARREN. I really appreciate this direction on the conversation because it is about what information is available to us. Here we are, we are talking about civilian employees, servicemembers, and as we see up here, the contractors.

The idea that when we talk about defense contractors, most people think about Lockheed Martin or Boeing, these giant companies that win these huge contracts to build fighter jets or bombs.

But the DOD relies a lot on what it calls service contractors. These are contractors like Booz Allen, McKinsey, and CACI International Inc., hired to do things like accounting, legal services, consulting. Over the past two decades, the Department of Defense has gone from spending about \$100 billion a year on service contractors, to \$205 billion in 2022.

This is the point. It is not quite half of the entire budget that we are spending, but it sure starting to crowd in on it. Mr. Mosher, you lead the National Security Division for the Congressional Budget Office, and you have decades of experience in budget analysis.

We know from public reports that DOD currently employs 2.1 million military personnel and about 770,000 civilian personnel. I am going to ask you something I think you answered in your original testimony, but it is important enough here. I want to underscore it. Do we know how many contractors DOD employees?

Mr. MOSHER. In a word, no. We just don't know yet.

Senator WARREN. We don't know, and I think I heard you in talking that the estimates that the estimates are from here—it is not that we don't know down to the last person. We don't even know what the ballpark is here, I take it from what you said.

Mr. MOSHER. That is correct. We don't know what the maximum number is. OMB provides data in their object class analysis that gives the size of the service contracts themselves. One way of cutting it would be about \$274 billion in 2022, I believe. But that tells you what the cost of the contract is. It doesn't tell you either the number of the people or how much we are paying in labor.

There will be labor and non-labor costs. One thing that is—there are different types of contracts. There are people who mow lawns and much of their costs would probably be labor. There are people who sit in chairs next to civilians and military in the Pentagon. Their costs are probably mostly labor.

But there are also service contracts that provide maintenance of tanks and such like that, where you would expect a smaller portion of their costs would be labor, and they are buying parts.

Senator WARREN. Here we are spending more than \$200 billion on service contractors. We don't really know how many people we are hiring or what we are paying these people.

We accepted the GAO estimate of \$200 billion. I just want to point out, CBO has said it may be closer to \$300 billion. The inability of Government accountants even to estimate how much we are spending is a sign that Pentagon contracting is badly broken.

Every time that DOD decides to hire a contractor to perform a service for the Department, they are supposed to, by law, be taking that on because it is the cost effective way to get the job done.

Ms. Field, this is right in your wheelhouse. Does DOD collect data that would allow its managers or allow someone doing oversight to conduct a cost comparison to figure out whether or not the Department should contract something out or do that work in-house?

Ms. FIELD. No. So, it is a source of cost savings, in fact, to in-source positions, to convert them from contractor to civilian. The Department used to have a data base that provided some fairly detailed information about contractors that would potentially help that sort of analysis. Recently, DOD shifted to a Federal Government wide data base system that has less data.

Senator WARREN. We now know less than we used to. We spend more and have less information about it. The Department of Defense's Cost Assessment and Program Evaluation Office found that in some cases, defense contractors can cost two or three times as much as civilian employees doing exactly the same work.

As you say, people sitting side by side. In other cases, they are just outright fraud. In 2014, the Department of Defense Inspector General found that defense contractor Northrop Grumman improperly billed the Government more than \$100 million for employees to provide training and logistics support for counter-narco terrorism technology program.

Sounds like an important program. Northrop Grumman was charging the Government an average of 100 billable hours a day for a single employee. Ms. Field, pretty clearly, nobody can work more than 24 hours in a day, so it is a pretty clear sign that fraud is going on. When you see something like that, right? No one should have any doubt. There is fraud here. Can DOD or DODIG easily detect these kinds of overcharges or excessive rates?

Ms. FIELD. I am not familiar with that particular case, but I can absolutely tell you that it is very hard to detect and to prove fraud. That is why things like hotlines are so valuable for Inspectors General and GAO.

I will also note very briefly that GAO has recommended some improvements to DOD's Fraud Risk Management Program. Their guidance Department wide currently does not require routine fraud risk assessments. That is something that should be going on.

Senator WARREN. Okay, so they don't know how many contractors they employ, and they don't have systems in place that will catch even blatant fraud. Unfortunately, it gets worse from here.

When DOD submits its annual budget, it has to include a projection of the long term cost of its programs so that we know not just what something is going to cost in year one, but what it is going to look like down the road.

Ms. Field, can DOD estimate what its future costs are for service contracts that go beyond this fiscal year?

Ms. FIELD. Not nearly as well as we would like. The Department did not used to include services contracting at all in the FYDP [Fiscal Year Defense Program], as you mentioned, the 5-year future defense program. That was astounding to us because service contracts represent consistently about half of the Department's contracting costs.

They have made some improvements in this space, but there are many more they could make. Will be issuing a report soon with some recommendations.

Senator WARREN. I appreciate that. In fact, the GAO has reported that DOD has "limited visibility" into DOD's future spending plans. If DOD can't track this, I don't know how it is that the rest of us are supposed to exercise oversight. So let me ask you one more, Ms. Field.

The GAO has put DOD service acquisitions, meaning how DOD manages and makes decisions about hiring outside contractors to perform duties like program analysis or engineering advice, on your high risk list. That is what you call it, your high risk list. What does that mean?

Ms. FIELD. The high risk list is a report we put out every 2 years of the areas of the Federal Government that are most vulnerable to fraud, waste, and abuse and, or are in need of significant management. DOD has more areas on the high risk list than any other agency.

Senator WARREN. All right. So, thank you. I just want to summarize here what you all have just told me. DOD doesn't know how many contractors it hires.

DOD can't track whether those contractors will cost more money or less money than having a Federal employee do the same job. DOD does not have systems in place to catch even the most blatant frauds when contractors try to cheat the American taxpayer.

DOD cannot estimate the long term costs of hiring contractors, and DOD recognizes that the decisions it makes about service contractors run a high risk, one of the highest risks in Government that the taxpayer is getting cheated.

The Department of Defense is not in a position to make smart decisions about how to spend taxpayer dollars. It doesn't have basic

data about what things cost. If Congress doesn't have this information, then we can't exercise appropriate oversight.

We should require the Pentagon to put better systems in place to collect these data and then make these data available to you and us. Thank you. Senator Blumenthal.

Senator BLUMENTHAL. Amen. I think that is a very powerful summary of what we need to do with respect to contracting and personnel, nonmilitary service contracting, and other similar kinds of DOD contracting. But I want to come back to the recruitment issue. Because I think of all the challenges to our military right now, the clear and present danger is we are not going to get enough good people to wear the uniform.

The statistic that you provide, 72 percent, that is the Army's percentage in meeting its recruiting goal. I had breakfast this morning with the commandant to be, hopefully he will be confirmed soon and—of the Marine Corps, and he was very proud of the fact Marine Corps meets its recruiting goals.

Senator Kaine and I had some experience with Marines. Our two sons served as Active Duty in the Marine Corps. I have another son who was a Navy SEAL whom Senator Warren knows. They didn't go into it for the money. At the time they were single, so they didn't really care that much about the housing and schools for kids.

I notice that you make some recommendations about how to address this issue, get more reliable data, monitor plans and strategies for effectiveness, goals, plans, and strategies. But I think that something more fundamental is needed here because you can monitor, you can strategize, but unless you are reaching the people you want to recruit, it just won't work.

I wonder if any of you have insights, for example. We are going to raise—if we can get this NDAA approved, we will raise military pay 4 percent, 5 percent. I don't know whether that will make a difference.

What is the key here? Should we look to the Marine Corps as an elite service? Do we need more of the kind of spirit, image—I don't know. You know, there are plenty of ads that try to recruit young people. So, tell me what your thoughts are.

Ms. FIELD. If I could begin, I would just offer two quick thoughts. The first is I think quality of life in the military is incredibly important for recruitment because in all of our work, we often hear that young, enlisted servicemembers talk about their experience with their buddies back home or with their families.

When they hear, for example, that they are living in housing, barracks that is in very poor condition, their buddies and their family members get the message, don't go into the military. So that is my first thought, quality of life, which can cover a lot of things to include housing, but also things like pay, compensation, food.

My second thought just for your awareness is that we are right now conducting an audit, looking at the recruiting programs across the services that will include a look at their use of digital and social media. I don't have any results from that audit yet, but we will certainly provide them as soon as we have.

That might illuminate why the Marine Corps is more successful than other services, particularly the Army.

Senator BLUMENTHAL. Any others?

Mr. ROARK. For me. I think just to echo the points that my colleague Ms. Field made. I think that health care is an important part of taking care of the soldiers that we have and making sure that their quality of life is as good as possible.

I think that efficiencies that we can gain in the health system to make every dollar count is critically important, and I think that is why we are all here today to explore opportunities to do that.

Then on the housing side, I know we have done a number of projects on housing hazards, health hazards and so forth, that military families face in privatized housing.

Then we are also completing a series of evaluations right now on the Fiscal Year 2020 NDAA provisions for privatized housing. We are in the third year of a 3-year series of evaluations on that.

Senator BLUMENTHAL. Well, I look forward to the audit. It can't come soon enough, but I want to add one more perspective. You know, I recently visited Groton, where our army is training Ukrainians to fight.

I have never seen American troops more motivated and engaged than they were in training these young Ukrainians. We are about to go fight and die. These are young people who were bakers and teachers and computer scientists, and they are being taught by our Army who have incredible skills and the challenge of teaching those Ukrainians their profession. It is a profession.

Elicited such motivation. The food isn't great, the housing is okay, but not great. But the mission is really what drives them. I don't know how we attract people. I have seen some of the social media, some of the ads about the mission. But that's just a thought, not an original thought by any means, but one that struck me thinking about recruitment.

Those young troops from our American troop are going to talk about that experience their whole lifetime. The same happened, you know, Senator Kaine and I visited one of the bases where Ukrainian refugees were brought back, and there were marines there. These Marines had never been deployed. But working with the refugees is an experience, again, a mission for them.

It is not a combat mission, but it is something where their sense of purpose is really fulfilled. So just a thought and I don't know how we put it into the recruitment program, but it just struck me that that is going to be a selling point if we want to get the best and brightest.

Mr. MOSHER. Senator, if I could, on your question about recruiting and such. As sort of the data guy, one of the things I think you need to look at is, are the services putting the money that they should be into the recruiting budgets? How does the Army's recruiting budget and numbers of recruiters this year compared to 1 year ago or 2 years ago?

Are they actually sort of doing what you would think they would do, and that is putting more money against that. So, look at the numbers. Also, don't forget, we are in a boom economy in terms of employment and the military always has trouble recruiting when you can make good money on the outside. So that is another thing to keep in mind as you are looking at this.

Senator BLUMENTHAL. We are in a boom economy. But you know what? What the Marine Corps does is they take some of their best people and they put them on recruiting. It is not a backwater for them.

It is essential. They put it as a priority. You know, you are great at what you do as a marine? We are going to put you out to get more great marines. It is not kind of the fallback for a well, you know, so-and-so can't really do the job, let's put him into recruiting.

We will send them out, you know, Hartford, Connecticut. The marine who goes to Hartford, Connecticut, is among the best because he has to attract the best. So, just another thought.

Senator WARREN. It is a powerful point, Senator Blumenthal. Senator Scott.

Senator SCOTT. I just want to followup with what Senator Blumenthal said. I joined the Navy at 18. They didn't tell me I was going to sleep in barracks, we didn't have barracks. We had a ship, 57—3 racks up. I think it was 7 feet tall. So, we had a rack that was as long as I am tall. Everything we owned was in a container that size. That was it.

The showers actually didn't work that much because when we out to sea, because the desalinization stuff didn't work a lot of times, and they shut it off right in the middle of the shower, which is really nice. Right when you had soaped down. Food, not the best.

Better than what my dad had. He was in the Army. So, I think it goes back to mission, and we had a hearing on this, and I don't know if you remember hearing much about how they were selling mission. I didn't. But the truth is, if you are in business, if you can't sell a mission, you are not going to recruit good people.

Actually, our offices I bet can find really good people because we have a mission. I think it goes back to, we got to really sell why we are doing what we are doing, and I think our military leadership and whoever is the President has got to sell the fact that we are doing this for a very specific reason and purpose, and how important it is.

If we don't, I think it is going to continue to be hard, and you have to admire what the Marines are doing because they figured it out. So, can I ask you a question, does anybody meet with you all? I mean, you put out these nice reports. Does anybody care from the military? Who talks to you guys?

Ms. FIELD. I would say, yes. We, for the most part, have a good working sort of collegial relationship with DOD officials. They do implement many of our recommendations, but I will also note DOD has the lowest implementation rate in terms of implementing GAO recommendations compared to other agencies.

So, yes, they meet with us. I think many of them are committed, hardworking civil servants, but we would like to see our recommendations implemented at a higher rate.

Senator SCOTT. Same thing?

Mr. ROARK. For us, same thing for us. So, I think we do a lot of outreach with senior officials and with others, and whether that is around the world. I travel around the world to meet with folks in different organizations and different commands and understand what their challenges are and so forth.

I think we get very positive, candid feedback there, and then once we issue a report, or I believe that for the most part, DOD handles it in a very professional way and takes it seriously. Sometimes recommendations are, you know, a little harder to implement. For the most part, I think the relationship is positive.

Mr. MOSHER. We are not really a recommendation generating agency. We don't make recommendations and kind of till more with policy, options, and choices. So, it is a little less direct.

But we certainly do hear from DOD when they don't like things that we have written or when they like things that we have written. We hear from Members or staff on the Committee. So, I think it just really depends for us on the study.

Senator SCOTT. Well in business, the shareholders, the board—I mean, you don't keep your job if you don't do your audit, right? Right, I mean, it is the most basic thing you have to do. Or the CEO is not going to stay there. Because if you get a bad audit, I mean, you can be delisted if you are a public company.

So, I guess part of it is we have got to hold people accountable on our part at the senior level. If they are—if we expect them to follow what you guys do. Ms. Field, can I ask you a question. Can you tell me what the difference between—like, take an officer that has Active Duty military working for them, and then they hire an outside firm to do the work.

So, you end up with either a civilian that works for part of the Federal Government or a civilian that works for Booz Allen or whatever. How do they manage them?

Because it sure seems like it would be awfully difficult if they are not in the military and you are an officer, how do you manage these people? Can you fire them? Can you say “you are not going to get a promotion?” What do you get to do?

Ms. FIELD. Yes, that is a great question. I think it is difficult, and I think part of the issue, and I will go back to the health system just because it is an example that I think people can really grasp and identify with. The contracting companies, so let's say Booz Allen, they get to decide who they are going to send to fill a contract.

What we heard when we went around to military treatment facilities is, if we don't like the candidate that they send—and they, by the way, have—the companies have 30 to 60 days to propose a candidate, they can send that candidate back, but then that company has another 30, sometimes 60 days—

Senator SCOTT. You are paying all this time?

Ms. FIELD. The contract, yes, and so, what we heard from MTF was that in some cases they have to decide between filling a position with a subpar candidate or leaving that position vacant. So, it is a real problem.

Senator SCOTT. What about if they are a Federal employee? So, if the choice is between a Federal employee and a military member, how do you manage them? What would be the differences?

Ms. FIELD. I think my understanding, and I have certainly observed this, is that Active Duty military try to treat everybody as part of the team. It is not surprising, given the emphasis on leadership in the military.

But they do still face the same struggles that we see sort of across the civilian workforce, and so Senator Warren pointed out the GAO's high risk list. Federal strategic human capital is on that high risk list because it is so hard to manage the Federal workforce, civilian workforce in the way that would be most effective.

Senator SCOTT. Thank you.

Senator WARREN. Thank you. I want to talk a bit more about healthcare, and just so anybody who is watching this knows, servicemembers and their families get their health care coverage through TRICARE that we have talked about some today. This is the DOD's managed health care program, and it is run, you guessed it, by private contractors, including one of the largest health insurance companies in the country. The cost of this health care coverage is shared by taxpayers, and in some cases by servicemembers and their families who have co-pays on some of the care that they get.

The Defense Health Agency is responsible for managing these contractors, and it provides the reimbursements for medical procedures, services, supplies, whatever is purchased under this. Years of support show that TRICARE is allowing rampant price gouging by health care providers, driving up costs for beneficiaries and ripping off taxpayers.

The Department of Defense Inspector General has long warned about the costs of letting TRICARE fraud continue unchecked. We have talked about two examples today, breast pumps that are for sale at Wal-Mart for \$192. The Federal Government, through TRICARE and a private contractor, ends up paying as much as \$1,500. Vaccines that everywhere else can be purchased for \$127. What happens through TRICARE? It reimburses \$1,848 for exactly the same vaccine.

Now, medical supply companies make a profit when they can sell items to private insurance companies. That is how they stay in business. But insurance companies typically set a cap on what they will reimburse for a product.

Your audit found that the reason DHA was paying these clearly inflated prices was either because the Federal Government had failed to set price caps or maximum reimbursement rates for these products. In other words, DHA had effectively told these companies that they were willing to pay whatever it was the company wanted to charge.

Even in cases where the DHA has set those rates, the DHA continually failed to enforce the caps or to claw back money when they had been overcharged from the original agreement. Now, Mr. Roark, when TransDigm overcharged DOD for spare parts, let's get out of health care for a second, your office recommended that DOD ask for a refund.

DOD did, they asked for the refund, and the American taxpayer got \$16 million back. But what did DHA, let's go back to health care, what did DHA say when you recommended asking for a refund for TRICARE price gouging, both in areas where they had never set a rate to begin with or where there was a cap, but DOD had not enforced it? What happened when you asked them, go get the money back, or at least some of it?

Mr. ROARK. In our two reports, we kind of covered this in two ways. First, we asked them to seek voluntary repayments for instances where very high prices had been charged for services or for items.

Then in other cases, we asked them to recoup money for instances where they did not enforce the cap, as you mentioned. In the end, about \$712 was the kind of the total amount that they recouped.

Senator WARREN. I am sorry, did you say \$712?

Mr. ROARK. Yes—\$712,000—\$712,000.

Senator WARREN. Okay. All right, \$712,000, okay.

Mr. ROARK. In terms of the amount of voluntary repayments, it was zero.

Senator WARREN. Voluntary repayments was zero. In fact, I have the quote here from your report. DHA said—this is when they have been overcharged. DHA said, “the idea of voluntary payments is not realistic.”

In other words, we just aren’t going to do it. Why was it in many cases here that DHA didn’t even try to get the money back? It feels like a failure of both oversight and will.

Interestingly enough, the former head of DHA, the one who made these decisions not to seek voluntary repayments because they said we are just not going to get anything from that, retired from the agency in 2019 and a year later joined the board of the largest TRICARE contractor.

Mr. Roark, how much do you estimate that DOD could save if it just set maximum prices caps, like ordinary insurance companies do, and then actually enforced those caps?

Mr. ROARK. I can’t say across the entire health system because that is just a lot of different areas. However, for these two reports that we are here discussing today, we calculate that the savings that could be achieved by implementing our recommendations was around \$100.7 million. That is \$81.2 million for the breast pumps report and \$19.5 million for the second report.

Senator WARREN. Okay. I just want to underscore this. It is \$100 million for breast pumps, which is important, but I mean, and vaccines, and that is it. We have got \$100 million there, and we have to assume this problem exists all the way across. I am very concerned that DHA is failing to protect TRICARE beneficiaries and allowing these companies to rip off taxpayers.

Yesterday, I sent a letter to both the DOD and DHA asking both agencies to improve oversight and transparency around current TRICARE spending and put new rules in place to prevent price gouging of our military families in the future. I think we are going to have a lot more work to do in this area.

Do you have another question you would like to ask? You mind if I do one more and then I will be finished? Okay. I have got one more round that I want to ask here. During the Obama administration, Ash Carter, who was then head of acquisitions at the Pentagon, led an initiative to identify improvements in how DOD contracts for services. This initiative was called, Better Buying Power, and it identified \$90 billion in potential savings over 12 years. Let me say that again \$90 billion.

One of the biggest recommendations was changing the way that DOD writes contract requirements when it buys services, everything from cleaning buildings to management consultants. The GAO wrote, and I want to quote what the GAO said, “determining whether to contract for such services, eliminating duplicative or unnecessary services, and effectively managing and overseeing contractors is vital to DOD achieving its missions.”

Ms. Field, help me translate those recommendations into terms that people who don't do acquisitions policy for a living will understand. Is this the basic idea that you can protect your budget when you are buying a service by being clear about what you expect from whomever you hire, and that you should probably do an assessment on the front end to determine whether or not you need that work at all. Is that about right?

Ms. FIELD. That is exactly right, and maybe to give an example in DOD. This would be, for example, one of the services, let's take the Army, deciding that it needs to figure out how much it is spending on grounds maintenance, right, which is something that happens at military installations across the world.

Under this practice, the Army should figure out how many contracts does it have for grounds maintenance? How many does it need? How can it cut costs by perhaps consolidating contracts? It is pretty simple. It is something that we all do in our own households.

Senator WARREN. Ask for a volume discount——

Ms. FIELD. Right, absolutely. So that is the idea.

Senator WARREN. Okay. Okay. It is a really important insight because we are talking about things that pretty much every business in America does and pretty much every family by figuring out in advance what they are getting and what they are paying for it.

Do you have any idea, Ms. Field, how much money DOD would save if they conducted these reviews before they shoveled the money out the door?

Ms. FIELD. I don't have an across the board estimate for you, but I will offer two points. The first is that we know that when two of the smaller DOD components used this practice, specifically the Defense Logistics Agency and the Defense Threat Reduction Agency, DTRA, when they did this, they saved hundreds of millions of dollars. Those were——

Senator WARREN. Hundreds of millions for just the smaller——

Ms. FIELD. Just two small components.

Senator WARREN. Okay.

Ms. FIELD. My second point I would offer is that if you think about the amount that DOD writ large is spending on services contracting, \$205 plus billion, if they were able to save just 1 percent of that, there is \$2 billion right there. So, there is a lot of potential.

Senator WARREN. That is a 1-year.

Ms. FIELD. That is 1 year.

Senator WARREN. It compounds over time, as you were talking about, the effects of this. You know, it is great that DLA and other agencies are saving money, but it is the military services who buy the lion's share of the services here.

I just want to make sure that I understand, that the military services are not doing similar reviews to the kind you talked about

across other areas to eliminate duplicative contracts and try to save money.

Ms. FIELD. So originally really were not doing it, which is problematic because, as you mentioned, they account for about three-quarters of the service contracting dollars for DOD. GAO recommended that the services adopt this practice.

They have begun implementing it to varying degrees of success. We are just about to issue a new report in the coming weeks that will identify some recommendations for the services to do it better, to hopefully get better results.

Senator WARREN. You are going to make this recommendation to the same services that you said have the lowest rate of picking up your recommendations. Is that right?

Ms. FIELD. Our hope is that they will take them seriously and implement them.

Senator WARREN. We will find ways to make them take this more seriously. I just want to underscore here about how we are leaving money on the table here.

The Better Buying Power Initiative that I talked about a minute ago estimated that sharpening DOD's pencils on review requirements alone could save \$44 billion over 10 years on consulting and research and development contractors. If we got even a 10th of that savings, we would be talking about real money here.

When DOD asks for supplemental funding, we should remind them that by following a few basic accounting and oversight practices, they would have another \$44 billion to spend, and ask why, if they really need this money, they haven't already done that.

This is just one area where DOD could score huge savings. You start to multiply that in other areas and we are talking about significant money here. So, I am going to make a closing statement. You have closing statement, anything you want to say?

I just want to thank all of our witnesses. I want to thank you for your service. I want to thank you for testifying today. I want to thank you for continuing to make recommendations, and to stay on this. I also want to thank Jon Clark, and Gary Leeling, and Andy Scott, and Sofia Kamali, and Noah Sisk, and Sean O'Keefe, and Katie Magnus, and Brendan Gavin for their work in helping put this hearing today.

I really appreciate your contributions. I am looking forward to working with all of you. We are committed to ensuring that servicemembers and their families receive all of the resources and all of the support that they need. It is clear from today's hearing that DOD has a lot of work to do to make sure that we have the right cost efficient mix of Federal employees, military personnel, and contractors.

Those failures add up. DOD's own estimates say that we could save \$90 billion over the next 12 years, and our witnesses today have identified other areas where we can save, and we know there are more reports coming on this.

I remain concerned that the Pentagon is too focused on increasing its budget and neglecting to exercise due diligence to prevent waste and fraud in the money that we have already allocated. Senator Scott.

Senator SCOTT. First off, think about what we can do, all right, take Mr. Roark, what you said that they didn't get voluntary. What if we asked about it, all right. So, if you guys will think about that.

I will give you just some of my business background. This was 26 years ago. I ran a hospital company. Our revenue base was \$24 billion. My savings over—took me a few years to get there—was \$2.4 billion. It is how much, then how much costs I cut out of—and that was out of, our cost structure would have been out of 25 percent of the cost. Something like that.

So much of my savings there. I mean, this is staggering, the dollars that you can save. When you have the Government's buying power, I mean, it is not a little bit. It is staggering, the dollar numbers. I don't want to speak on behalf of the chairwoman, but if there are things that would be helpful that we can ask for, I think both of us are in the same position.

We support our military. The fund issue—and I am not—I am not sitting here, and I wouldn't say, gosh, I am here to cut military spending. I want to make the military spending smart, efficient, and have a lethal force. But we do have \$32, I think you said it, Ms. Fields, we got \$32 trillion of the debt.

We have to spend our money better. We have got problems. So, if you guys have any ideas. Do you want to say something, Ms. Field?

Ms. FIELD. Yes. If I may, I do want to point out that GAO issues what we call "matters for congressional consideration."

These are recommendations to Congress of improvements that we think should be made to programs, many of them that could save money. We just issued a report estimating the total amount, which was billions that the Government could save.

There is one that is relevant to the discussion today that we have made and has not yet been implemented, and that was a recommendation that Congress eliminate the Secretary of Defense's authority to contract with U.S. Family Health Plan providers.

This is a very small, little known program, but when we assessed it back in 2014, we found that that program largely duplicated providing the same benefit to the same beneficiaries and many of the same areas as participate in the TRICARE prime program.

The problem with the U.S. Family Health Plan, besides the fact that it is duplicative, is that the contractors or the companies that provide services under this do not need to compete in the same way that you typically would, nor do they have to have transparency in how they price out their services.

That is one matter for congressional consideration that remains unimplemented, and if implemented, could save hundreds of millions of dollars.

Senator SCOTT. You said, Mr. Mosher, this bastion is on the service contracting, that you don't have data. Think about how much data there is. All that is available. They are just not giving it to you. All that data is out there because it has to be in the contract, right?

Mr. MOSHER. Well, I think that is the issue, how much is in actually in the contract in terms of labor costs and on labor costs. There is actually hope in the sense that the Army, we think, kind of cracked this.

They had for several years data that they were looking at service contractors, they were demanding from the contractors information of the sort that we think would be very useful up until about 2015, and then it got wrapped up into the broader DOD system, and now we are getting less than we had before.

You could look back to the way the Army reported and try to use that as a model. We think that the OP-8, which is one of the budget displays that DOD provides to the Congress, which deals with civilians and other labor, does not really capture much.

If you could do something parallel for service contractors, that would be data we could use. I mean, I guess my sense is the best way to start controlling these sorts of things is to have better data. So, and you can ask for that.

Senator SCOTT. Good job. Everybody gets a good job today.

Senator WARREN. Thank you.

Mr. ROARK. Can I add one point? One the consistent themes that we emphasized across our reports was emphasizing to the DOD how important volume discounts are and using our negotiating power to see if we can achieve better prices and lower cost through that as well.

I think that regarding some of the points that we have all discussed today, I think that for me, the lessons that we can learn from the two reports today is just being proactive, taking a look at the data for trends to try to identify problems before they become a crisis and a lot of money is spent, and using those benchmarks, as we talked about, to make sure that we are getting the best price possible.

Then periodically reviewing and monitoring it to make sure that we follow through and ensure that those steps that we implement are effective.

Senator WARREN. Thank you very much, all three of you. Thank you for your service to the country. Thank you for being in here today. I hope we will all stay in touch. Thank you. This hearing is adjourned.

[Whereupon, at 5:34 p.m., the Subcommittee adjourned.]

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR ELIZABETH WARREN

DOD ORGANIZATION AND MANAGEMENT

1. Senator WARREN. Ms. Field, there have been many efforts to make the Pentagon more efficient. In 2010, the then Secretary of Defense introduced an initiative to reduce overhead costs and reinvest the saved funds into warfighting. Years later, it was reported the Department of Defense had a study which found \$125 billion that could be saved over 5 years in its back-office bureaucracy. Additionally in 2015, the National Defense Authorization Act for Fiscal Year 2016, required the DOD to cut \$10 billion in costs from headquarters, administrative, and support activities. What are the impacts—financial and otherwise—of reducing costs in headquarters, administrative, and support activities?

Ms. FIELD. Reducing unnecessary costs should always be a key objective for DOD. The issues identified in the above referenced DOD study are similar to some of GAO's longstanding high-risk areas at DOD, including our business transformation, financial management, and contract management high-risk areas.¹ For example,

¹ GAO, *High Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, GAO-23-106203 (Washington D.C.: April 20, 2023).

the Defense Business Board study noted that DOD could realize savings by optimizing spending on contracts, developing a change strategy that includes identifying skills gaps in the workforce, and optimizing information technology through application rationalization and consolidation. Similarly, GAO has called for DOD to be more strategic in how it acquires services, including making greater use of category management techniques to identify opportunities to meet the department's needs at lower costs; to address the causes and solutions of skill gaps in the workforce; and to develop an information technology architecture with sufficient information about business activities to allow for more effective identification of overlap and duplication.

2. Senator WARREN. Ms. Field, can cost saving be achieved without requiring layoffs of civil servants or a reduction of military personnel?

Ms. FIELD. Yes. Our prior work has found that efforts to review service requirements prior to contract award can result in cost savings by reducing or eliminating duplicative requirements. For example, we reported that defense agencies—such as the Defense Logistics Agency and Defense Threat Reduction agency, among others—saved hundreds of millions of dollars from fiscal years 2017 to 2019 through holistically reviewing their service requirements for efficiencies.

We have also reported that improvements in DOD's and other Federal agencies' use of category management—an Office of Management and Budget-led initiative intended to help agencies buy more strategically and achieve efficiencies—has resulted in more than \$35 billion in cost savings across contracts for goods and services. DOD spent \$414 billion on contracts for goods and services in fiscal year 2022, so savings identified on just 1 percent of that total through improved use of service requirements reviews or category management initiatives would amount to over \$4 billion.²

3. Senator WARREN. Ms. Field, the DOD was able to identify over \$9 billion in cost savings for headquarters, administrative, and support activities. Has the DOD implemented changes to save the \$9 billion it has identified? If not, why has it not done so?

Ms. FIELD. I believe this question refers to a DOD report that it had identified a total of \$9.2 billion in cost savings from fiscal year 2015 through fiscal year 2019. However, we found that DOD did not have a reliable cost estimate to support these estimated savings.³ Further, according to DOD's internal assessment, \$5.3 billion of these cost savings were “not auditable” because the baseline for reductions had not been established, among other reasons. In addition, documentation supporting cost savings estimates from other efficiencies was not sufficiently detailed.

Reducing the resources devoted to headquarters activities has been a long-standing challenge for DOD, but our subsequent work has shown some progress in that area. In our November 2020 report on DOD's reform efforts, we found that DOD's savings estimates were generally reflected in its budget materials.⁴ In addition, through implementation of its Performance Improvement Framework, which DOD issued in October 2022, the department has put in place a process that may help to collect and validate information on the costs and savings associated with reform efforts.

4. Senator WARREN. Ms. Field, the DOD increased and improved its acquisition workforce after an almost 50 percent reduction between 1989 and 1999. How can the DOD improve efficiency and reduce waste in its acquisition management?

Ms. FIELD. DOD can continue its efforts to attract, hire, sustain, and improve the defense acquisition workforce and provide clear guidance on ways to more strategically and efficiently buy goods and services. GAO's prior work has found that a larger acquisition workforce has allowed DOD to bolster support for critical functions, such as program management, engineering, and contracting. DOD has also continued to take steps to ensure the acquisition workforce has needed skills and training to perform key tasks by completing competency assessments for each of its acquisition career fields and transforming its credentialing processes for acquisition career fields.

DOD can continue to support its acquisition workforce by making sure it has clear and up to date guidance on managing acquisitions. For example, DOD plans to issue

² Contract obligations based on GAO's analysis of Federal Procurement Data System data.

³ GAO, *Defense Efficiency Initiatives: DOD Needs to Improve the Reliability of Cost Savings Estimates*, GAO-17-724 (Washington, DC: July 24, 2017).

⁴ GAO, *Defense Reform: DOD Has Made Progress, but Needs to Further Refine and Formalize Its Reform Efforts*, GAO-21-74 (Washington, DC: November 5, 2020).

guidance by the end of this fiscal year on better managing its service acquisitions through the use of category management—an Office of Management and Budget-led initiative intended to help agencies buy more strategically and achieve efficiencies. We have reported that improvements in DOD's and other Federal agencies use of category management has resulted in more than \$35 billion in cost savings across contracts for goods and services. In September 2023, we also made recommendations to update Air Force and Army service acquisition policies to ensure data on service acquisitions are aggregated and reviewed to identify broader cost savings and efficiencies.

5. Senator WARREN. Ms. Field, what would be the financial and management impact for DOD reducing its acquisition and auditing workforce?

Ms. FIELD. Maintaining a skilled acquisition workforce is vital to maintaining military readiness, increasing DOD's buying power, achieving savings, and meeting emerging challenges and complexities. Following reductions in the size of DOD's acquisition workforce in the 1990's due to decreasing defense budgets and concerns about skill gaps and growing reliance on contractors to perform tasks, GAO included DOD's acquisition workforce as an area on GAO's High Risk list. DOD has taken steps to rebuild its acquisition workforce since 2009. For example, DOD leveraged the Defense Acquisition Workforce Development Fund to hire, train, and retain a workforce that grew from around 126,000 in fiscal year 2008 to nearly 183,000 in fiscal year 2020, and has implemented recommendations GAO made to improve how it selects, trains, and mentors program managers—a critical acquisition career field. These steps, among others, allowed GAO to remove DOD's acquisition workforce from GAO's High Risk list in 2021. We have ongoing work to assess DOD's financial management workforce and expect to issue a report early next year.

6. Senator WARREN. Mr. Roark, you mentioned a 2021 report where DOD Office of Inspector General (OIG) found the DOD faced challenges to acquisition reforms in health care services. What are the challenges the DOD faces in acquisition management?

Mr. ROARK. My statement was from the OIG Management Challenges list 2021, it was just a general statement on an overall risk. Nothing further to report.

7. Senator WARREN. Mr. Roark, how can the DOD overcome these challenges?

Mr. ROARK. The two main reports discussed at the hearing were DOD OIG reports DODIG-2018-108, "TRICARE Payments for Standard Electric Breast Pumps and Replacement Parts," and DODIG-2019-112, "Audit of TRICARE Payments for Health Care Services and Equipment That Were Paid Without Maximum Allowable Reimbursement Rates." The recommendations from these two DOD OIG reports, discussed in the response to question 10 below, can help the DOD avoid improper payments for health care.

8. Senator WARREN. Ms. Field, the DOD has not passed an audit since they started the independent reviews in 2017. The Government Accountability Office (GAO) reported that the DOD "remains the only major agency that has never been able to accurately account for and report on its spending or physical assets." What value can be gained from the DOD passing its independent audit?

Ms. FIELD. The financial statement audit has value far beyond the audit opinion. It can help to identify vulnerabilities and ways to improve operations. As DOD reported, financial audits have resulted in short-and long-term benefits. The audits have increased transparency and visibility of financial management issues, and are providing a positive return on investment from value gained through independent auditor insight into DOD's business processes. These audit insights help DOD to assess what is performing well and what areas still need improvement. The audits have also helped identify assets that DOD did not know existed. For example, as DOD reported in its June 2020 Financial Information and Audit Remediation report, the Navy identified and added nearly \$2.4 billion of unrecorded inventory, operating materials and supplies, and general equipment. The Navy subsequently used those items to fill over 12,000 requisitions, which otherwise would have cost \$50 million. DOD reported that as a result of increased transparency and visibility of financial management, it improved its operations and business processes, which should lead to the preparation of reliable financial statements and help DOD's mission by providing accurate information for decisionmaking. For example, in fiscal year 2022, the Air Force identified and corrected approximately \$5.2 billion worth of variances in its general ledger for equipment and accumulated depreciation. DOD reported that this increased level of visibility allows for greater control and oversight of financial transactions related to military equipment.

9. Senator WARREN. Ms. Field, what are the greatest challenges for DOD passing an audit?

Ms. FIELD. Issues and risks that hinder DOD's ability to achieve a clean audit opinion include (1) material weaknesses, (2) ongoing deficiencies with DOD's financial management systems, and (3) introduction of new systems and challenges associated with implementation of those systems.⁵

- While it is possible for any audited entity to receive a clean audit opinion and still have material weaknesses, some material weaknesses prevent the auditor from performing procedures to draw a conclusion on the financial statements. DOD consolidated 16 of its identified material weaknesses into 10 categories the department now tracks and reports, which includes Information Technology, Fund Balance with Treasury, property, and reporting entity.
- DOD has wide-ranging weaknesses in its financial management systems that prevent it from collecting and reporting financial and performance information that is reliable, useful, and timely. DOD's financial management and business systems modernization efforts have been on GAO's list of high-risk programs and initiatives since 1995. DOD management recognizes the risk that legacy systems pose to its operations and related accounting, and is in the process of identifying, retiring, and replacing legacy systems. However, DOD must first produce a complete inventory listing of systems before it can ensure retirement of all noncompliant systems.
- For over 30 years, DOD has initiated a variety of efforts and undergone several changes in organizational responsibility to help modernize its business and financial systems and improve the quality of data. However, DOD rarely processes financial transactions using only one IT system. For example, in fiscal year 2021, DOD reported that it used 299 separate IT systems to support its financial statements. The audit requirement for supportable transactional data is speeding the pace of system improvements, including new system implementation, which will eventually provide management with insights, metrics, analytics, and a common operating picture from which to make informed decisions.

TRICARE

10. Senator WARREN. Ms. Field and Mr. Roark, there are a series of DOD Inspector General (IG) reports finding that the DOD is failing to prevent price gouging and overpayments to contractors in the TRICARE health program. One contributor to these excess healthcare costs is improper payments. What recommendations does your organization have for the DOD to better manage improper payments?

Ms. FIELD. In 2015, GAO found that the Defense Health Agency's (DHA) method for measuring TRICARE improper payments only examines the claims processing performance of the contractors that process TRICARE's purchased care claims and does not examine the underlying medical record documentation to discern whether each sampled payment was supported.⁶ As a result, we reported that TRICARE's reported improper payment estimates may understate the amount of improper payments for the program. To better assess and address the full extent of improper payments in the TRICARE program, we recommended that the Secretary of Defense direct the Assistant Secretary of Defense (Health Affairs) to implement a more comprehensive TRICARE improper payment measurement methodology that includes medical record reviews, as done in other parts of its existing post-payment claims review programs. Since that time, DHA has taken some action to incorporate medical record reviews into its improper payment estimates, including completing 2 years of such review. However, the agency has not taken steps to continue medical reviews or incorporate the results of such reviews into the TRICARE improper payment estimates. Relatedly, we recommended that the Secretary of Defense direct the Assistant Secretary of Defense (Health Affairs) to develop more robust corrective action plans that address underlying causes of improper payments, as determined by the medical record reviews. By fully implementing these recommendations, DOD would be better positioned to understand and address the extent of TRICARE improper payments.

⁵ A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

⁶ GAO, *Improper Payments: TRICARE Measurement and Reduction Efforts Could Benefit from Adopting Medical Record Reviews*, GAO-15-269 (Washington, DC, Feb 18, 2015).

Mr. ROARK. In DOD OIG reports DODIG–2018–108 and DODIG–2019–112, the DOD OIG made a total of 9 recommendations, 3 of which pertain to improper payments. For report DODIG–2018–108, we recommended that the Defense Health Agency use only suppliers that have fixed reimbursement rates for electric breast pumps, and that it pursue actions, such as recouping overpayments, from suppliers that billed excessive amounts for breast pumps and replacement parts. For report DODIG–2019–112, we recommended that the Defense Health Agency identify reasons why contractors did not use existing TRICARE maximum reimbursement rates for vaccines and contraceptive systems. Further, we recommended that the Defense Health Agency update policy, conduct periodic reviews of reimbursement rates, and seek recoupment for overpayments.

11. Senator WARREN. Ms. Field and Mr. Roark, how much could the DOD be saving by more effective improper payment management?

Ms. FIELD. With respect to TRICARE, we do not have an estimate of the financial savings that would result from DOD implementing our recommendation for improved improper payment reporting or of other efforts by DOD to improve TRICARE improper payment management.

Mr. ROARK. For OIG reports DODIG–2018–108 and DODIG–2019–112, we identified a total of \$116.9 million in potential monetary benefits. Specifically, for report DODIG–2018–108, we identified \$81.2 million in funds put to better use and \$16.2 million in questioned costs. For report DODIG–2019–112, we identified \$19.5 million in funds put to better use.

12. Senator WARREN. Ms. Field, what lessons can be learned from how the Department of Health and Human Services' (HHS) Centers for Medicare & Medicaid Services' (CMS) approach to improper payments?

Ms. FIELD. In 2015, we found that DOD uses a methodology for measuring TRICARE improper payments that is less comprehensive than the methodology used to measure improper payments in Medicare. We reported that CMS's approach to measuring Medicare improper payments examines medical records associated with a sample of claims to verify support for the payment. This methodology more completely identified improper payments beyond those resulting from claim processing errors, such as those related to provider noncompliance with coding, billing, and payment rules.

Additionally, CMS we reported that reports more comprehensive information about root causes of improper Medicare payments than DOD does for TRICARE, develops corrective actions that more directly address root causes, and uses the information to address the agency's goal of reducing future improper payments.

13. Senator WARREN. Ms. Field, which other departments or agencies that manage improper payments better than the DOD?

Ms. FIELD. We have not specifically assessed whether other departments or agencies manage improper payments better than DOD. However, agency inspectors general report annually on their agencies' compliance with criteria included in the Payment Integrity Information Act of 2019 (PIIA) and related Office of Management and Budget guidance. PIIA includes six criteria for compliance, which OMB guidance expands to 10. OMB instructs inspectors general to report on whether agencies complied with these criteria, such as whether agencies conducted improper payment risk assessments, reported estimates, and developed corrective actions plans, as required.

In March 2023, we noted that for fiscal year 2021, only 10 of the 24 agencies specified in the Chief Financial Officers Act of 1990 (CFO Act), as amended, were compliant with PIIA and related OMB criteria, as reported by their inspectors general.⁷ These agencies were: (1) U.S. Agency for International Development, (2) Department of Commerce, (3) Department of Energy, (4) Department of Interior, (5) Department of Justice, (6) Department of State, (7) Department of Transportation, (8) General Services Administration, (9) National Science Foundation, and (10) Nuclear Regulatory Commission. The total of 10 compliant agencies was a decrease from 12 agencies in fiscal year 2020, and the lowest number of compliant CFO Act agencies since fiscal year 2017.

14. Senator WARREN. Ms. Field, are there best practices DOD should adopt?

Ms. FIELD. We have issued several resources for use in managing improper payments. These include:

⁷ GAO, *Improper Payments: Fiscal Year 2022 Estimates and Opportunities for Improvement*, GAO–23–106285 (Washington, DC: March 29, 2023).

- *Standards for Internal Control in the Federal Government* (known as the Green Book).⁸ The Green Book provides managers criteria for designing, implementing, and operating an effective internal control system, which is key to preventing and reducing improper payments.
- *A Framework for Managing Fraud Risks in Federal Programs*.⁹ This framework identifies and conceptualizes leading practices to aid program managers in managing fraud, including fraud that results in improper payments.
- *A Framework for Managing Improper Payments in Emergency Assistance Programs*.¹⁰

This framework provides principles that can help Federal program managers mitigate improper payments in emergency assistance programs, and it can also be useful for managing improper payments in non-emergency assistance programs or during normal program operations.

In addition, in a June 2023 report, we examined programs with reported reductions in estimated improper payment rates since fiscal year 2017.¹¹ We identified examples of 19 programs across eight agencies with reported reductions, according to fiscal year 2022 reporting. Based on our review of agencies' financial reports and interviews with agency officials, including DOD, we found that strategies and efforts for mitigating improper payments varied. However, we found that the most commonly reported mitigation efforts fell under two broad categories: (1) establishing accountability and facilitating internal collaboration, and (2) providing technology, tools, and training targeted to root causes. Efforts related to these categories may have contributed to reductions in programs' estimated improper payment rates.

DOD has taken some steps to adopt practices that could help reduce improper payments. For example, for our June 2023 report noted above, DOD told us the department had established senior accountable officials at the senior executive service level in each of the military services and defense agencies to promote accountability for the DOD payment integrity efforts. In addition, according to DOD, the department developed and implemented processes and tools to evaluate, monitor, and measure improper payments for DOD Travel Pay, including developing performance metrics and tracking them via spreadsheets and data base dashboards, performing periodic quality assurance reviews of metrics and corrective action implementation, and monitoring recovery of overpayments.

DOD is also using Advana, an enterprise data platform, across the department for advanced analytics. Specifically, according to DOD officials, DFAS utilizes the Advana Improper Payment Detection (IPD) tool for the early identification and prevention of improper payments in seven entitlement systems (i.e., contractual payment systems). DOD officials told us that the Advana IPD tool has identified and prevented more than 7,000 potential improper payments since it was implemented in December 2020. We are working with DOD to obtain more information on the savings generated from the tool.

PRIVATIZATION

15. Senator WARREN. Ms. Field, there has been an effort to privatize commissaries on military installations or at least study the effects of privatizing commissaries. Would privatizing commissaries improve their quality for military personnel and provide cost-savings for the DOD?

Ms. FIELD. GAO has not directly assessed whether privatization would improve the quality for military personnel and provide cost-savings for DOD. However, GAO has issued several reports on the Defense Commissary Agency's (DeCA) management of the commissaries, in which we identify the ways in which DeCA does not operate like a business because it is required to provide certain benefits to service members, their families, and retirees.

- First, as we reported in 2022, DeCA's two primary objectives of generating savings and increasing margin can be in tension with one another, particularly if the targets set for each are incompatible.¹² Specifically, if DeCA raises the

⁸ GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, DC: September 10, 2014).

⁹ GAO, *A Framework for Managing Fraud Risks in Federal Programs*, GAO-15-593SP (Washington, DC: Jul. 28, 2015).

¹⁰ GAO, *A Framework for Managing Improper Payments in Emergency Assistance Program*, GAO-23-105876 (Washington, DC: July 13, 2023).

¹¹ GAO, *Improper Payments: Programs Reporting Reductions Had Taken Corrective Actions That Shared Common Features*, GAO-23-106585 (Washington, DC: June 30, 2023).

¹² GAO, *Defense Commissaries: Actions Needed to Clarify Priorities and Improve Program Management*, GAO-22-104728 (Washington, DC: June 28, 2022).

prices on certain items to generate more margin (and therefore reduce its reliance on appropriations), the savings to the customer on those items decreases. Conversely, if DeCA lowers prices to provide more savings to customers, DeCA's ability to generate a margin decreases. Since fiscal year 2016, DeCA has had a global target customer savings rate of 23.7 percent, meaning that it expects its customers to save, on average across all commissary locations, over 20 cents on the dollar by shopping at a commissary instead of making similar purchases at other local grocery stores.

- Second, DeCA operates commissaries throughout the United States, including in isolated or more remote areas, as well as at overseas locations in 13 countries. This means that DeCA operates commissaries in some locations that would not necessarily be considered profitable by the private grocery industry, but that are important to the customer population. Whereas a private grocery store chain might close a location based on lack of profitability, DOD must follow clear criteria defined in a DOD instruction to close a commissary.¹³

Given these factors, any assessment of the potential effects of privatizing commissaries would need to determine if a private company could both deliver the full intended benefit to all consumers, including those in remote and rural locations, and provide the intended customer savings, or whether those benefits and savings should be adjusted.

16. Senator WARREN. Ms. Field, did the privatization of military housing improve the quality of housing for military personnel and provide cost-savings for the DOD?

Ms. FIELD. In seeking the authorities granted to DOD under the Military Housing Privatization Initiative (MHPI) in 1996, department officials posited that leveraging private sector financing would allow them to eliminate inadequate housing more economically and faster than could be achieved through traditional military construction financing. As such, GAO's work in the early years of MHPI sought to assess the validity of this assumption. A number of complicating factors made doing so difficult. In 1996, for example, GAO reported that because DOD was using new construction standards to assess the condition of military-owned housing units, many housing units that DOD classified as inadequate were not dilapidated, but only lacked modern amenities, such as a separate utility room or a carport.¹⁴ In other words, there was no reliable baseline with which to compare the condition of the new, privatized housing to the old, government-owned housing. Based on this work, we further stated in 1998 that while we recognized that DOD faced significant housing problems, we did not fully agree with DOD on the magnitude of the problem.¹⁵ Further, in 2000, we reported that, because no projects under the program had been completed, there was little basis for evaluating the effectiveness of the program in eliminating inadequate housing more economically and faster than could be achieved through traditional military construction financing.¹⁶

However, we were able to evaluate DOD's estimated cost savings. When GAO analyzed the complete life-cycle cost estimates that DOD had prepared for individual projects, we found that, overall, the cost savings were likely to be more modest than predicted. For example, in a 1998 analysis of two privatized housing projects, GAO's review showed that although privatization was less costly for each project, the overall estimated cost savings to the Government were considerably less than the military services' estimates—about \$54 million less, or about 7 percent, at one of the two installations, and \$15 million less, or about 10 percent, at the other. GAO also found in a subsequent review of 12 projects that privatization, on average, should cost the government about 11 percent less than military construction financing. For 10 of the projects, we calculated that the estimated savings ranged from 38 percent to 5 percent. For the remaining two projects, we estimated that privatization would cost more than military construction—about 9 percent and about 15 percent more, respectively.¹⁷

In recent years, as questions about whether privatization was the right policy choice have transitioned to questions about how privatization is working, GAO's

¹³DOD Instruction 1330.17, *DOD Commissary Program* (June 18, 2014) (incorporating change 2, effective Sept. 14, 2018)

¹⁴GAO, *Military Housing: Privatization Off to a Slow Start and Continued Management Attention Needed*, GAO/NSIAD-98-178 (Washington, DC, July 17, 1998).

¹⁵GAO/NSIAD-98-178.

¹⁶GAO, *Military Housing: Continued Concerns in Implementing the Privatization Initiative*, GAO/NSIAD-00-71 (Washington, DC: March 30, 2000).

¹⁷17GAO/NSIAD-00-71.

work has focused on assessing the financial health of privatized housing projects and DOD's oversight of the condition of the housing.

QUESTIONS SUBMITTED BY SENATOR JOE MANCHIN

GOVERNMENT ACCOUNTABILITY OFFICE

17. Senator MANCHIN. Ms. Field, the Government Accountability Office (GAO) recommended in 2005 that the position of Chief Management Officer (CMO) be created within the Department of Defense. Does GAO still believe a CMO position is necessary?

Ms. FIELD. Yes, we believe a CMO function or its equivalent, as discussed below, is needed to ensure that DOD can effectively manage business reform to achieve progress. Our work has identified the need for DOD to have dedicated leadership at a very senior level, with significant authority, clearly defined roles and responsibilities, and resources to successfully drive business reform. There are different models that DOD and Congress could adopt to ensure that a fully empowered senior leader focused on business operations and transformation is in place. For example, the U.S. Department of State has adopted a "two deputies" model, in which one Deputy Secretary of State focuses on management and resources issues, while the other focuses on the more traditional mission responsibilities of the Deputy Secretary of State. The CMO model is another structure that DOD could adopt to address DOD's longstanding weaknesses in managing its business operations, if the position is sufficiently empowered and resourced to perform these duties.

For more than a decade, DOD and Congress have experimented with different organizational structures to try to facilitate successful business reforms within the department, and to address longstanding weakness that have resulted in reduced efficiencies and ineffective performance. We have assessed many of these structures and the reform initiatives that have come out of them, and have found that these characteristics—senior leader with sufficient authority, clearly defined roles and responsibilities, and sufficient resources—to be critical to success.

18. Senator MANCHIN. Ms. Field, how would GAO characterize the Department of Defense handling of that 2005 recommendation to create a CMO until it was formally created by Congress in the Fiscal Year 2018 National Defense Authorization Act?

Ms. FIELD. DOD's response to GAO's recommendation to create a CMO reflected progress in some areas, but challenges in others, and was not fully successful. DOD first took steps to establish a CMO role in May 2007, when it designated the Deputy Secretary of Defense as the department's CMO. In September 2007, we found that while the Deputy Secretary was at the appropriate level with sufficient authority and responsibility to transform business operations, the demands placed on the position made it difficult for them to maintain the oversight, focus, and momentum needed to resolve business operational weaknesses.¹⁸

Subsequently, Congress included a provision in the National Defense Authorization Act for Fiscal Year 2008 to codify the Deputy Secretary of Defense as the DOD CMO, establish a new position known as the Deputy Chief Management Officer (DCMO) to assist the Deputy Secretary, and name the Under Secretaries of the military departments as CMOs of their respective organizations.¹⁹ The military departments also established DCMO positions to assist the CMOs with overseeing their business operations. In addition, the National Defense Authorization Act for Fiscal Year 2009 required the secretary of each military department to establish an office of business transformation and develop business transformation plans, with measurable performance goals and objectives, to achieve an integrated management system for the business operations of each military department.²⁰

While these structures resulted in enhancements in DOD's business operations, we found that DOD had not defined the relationship between the DCMO and military departments, and that the DCMO was advisory and not held accountable for results. We also found that DOD needed to further define how the CMO and DCMO

¹⁸ GAO, *DEFENSE BUSINESS TRANSFORMATION; Achieving Success Requires a Chief Management Officer to Provide Focus and Sustained Leadership*, GAO-07-1072, (Washington, DC: September 5, 2007).

¹⁹ Pub. L. No. 110-181, § 904 (2008).

²⁰ Pub. L. No. 110-417, § 908 (2008).

would monitor and assess information to measure department-wide progress against goals, among other things.²¹

19. Senator MANCHIN. Ms. Field, would you say the Department in any serious way attempted to address the concerns raised by GAO that lead the Office to recommend the creation of that position?

Ms. FIELD. One key reason that DOD's Approach to Business Transformation has remained on our High Risk List since 2005 is that the department has not fully implemented our recommendations designed to position DOD for success in this area. For example, in 2005 we found that a lack of sustained leadership attention and appropriate accountability had challenged DOD's progress in implementing a risk management framework, and that such leadership was needed for transformational efforts.²² We made several recommendations related to assigning clear leadership with accountability, and developing performance measures, among others, but DOD did not fully implement them.

In 2007, we reported that while DOD had made progress establishing a management framework for overall business transformation, it did not fully address broader business transformation efforts.²³ We concluded that DOD's efforts at business transformation consisted of various entities whose interrelationships were not clearly articulated and numerous plans that were not integrated across the department. We further found that there was no single individual, office, or integrated plan within DOD to provide a complete and focused assessment of the department's business transformation efforts. We recommended that DOD institutionalize in directives the roles, responsibilities, and relationships among various business-related entities and committees and expand the management framework to capture overall business transformation efforts, rather than limit efforts to modernizing business systems. DOD did not implement this recommendation.

Although DOD has taken some actions over the years to act on GAO's recommendations in this area, key recommendations remain unimplemented. Among them are that DOD routinely and comprehensively monitor and evaluate ongoing efficiency initiatives, and consistently report reform savings based on definitions of reform.

20. Senator MANCHIN. Ms. Field, what does GAO attribute the supposed "failures" of the CMO to as identified in the May 6, 2020 Defense Business Board Independent Assessment?

Ms. FIELD. We found that the absence of a chartering directive, cultural resistance to enterprise-wide transformation efforts, a lack of resources, and sustained challenges in delivering material reform limited the effectiveness of the position. In its 2020 assessment of the CMO position, among other things, the Defense Business Board concluded that the CMO position was not set up for success, and we agree. In addition, a June 2023 report from the Defense Management Institute echoed these structural and cultural challenges, and concluded that they hindered the ability of the CMO to drive business reform.

As we reported in 2019, while Congress had given the CMO both significant responsibilities and authorities—subject to the authority, direction, and control of the Secretary and Deputy Secretary of Defense—DOD had not resolved unanswered questions about how the CMO's responsibilities and authorities would be carried out.²⁴ For example, the National Defense Authorization Act for Fiscal Year 2019 directed the Secretary of Defense, acting through the CMO, to reform DOD's enterprise business operations across all organizations and elements of the department with respect to any activity relating to civilian resources management, logistics management, services contracting, or real estate management.²⁵ Fulfilling these responsibilities depended, in part, on the CMO's visibility into the business operations of all components of the department, including the military departments, as well as the ability to identify and execute DOD-wide business reforms.

We found that DOD leadership had not fully determined how the CMO would exercise its authority to direct the secretaries of the military departments and the

²¹ See GAO, *High-Risk Series: An Update*, GAO-13-283 (Washington, DC: February 2013); *High-Risk Series: An Update*, GAO-11-278 (Washington, DC: February 16, 2011); and *High-Risk Series: An Update*, GAO-09-271 (Washington, DC: January 22, 2009).

²² See GAO, *Defense Management: Additional Actions Needed to Enhance DOD's Risk-Based Approach for Making Resource Decisions*, GAO-06-13 (Washington, DC: November 15, 2005).

²³ GAO-07-1072.

²⁴ GAO, *Defense Business Operations: DOD Should Take Steps to Fully Institutionalize the Chief Management Officer Position*, GAO-19-199 (Washington, DC: March 14, 2019).

²⁵ Pub. L. No. 115-232, § 921 (2018).

heads of all other elements of DOD on matters for which the CMO had responsibility. We identified instances in which the lack of a determination as to how the CMO was to direct the business-related activities of the military departments led to questions about respective roles and authorities of the CMO. In one case, officials from the military departments questioned the CMO's authority to make binding decisions; in another, the military departments sought to pursue reform activities without CMO involvement and oversight.

We also identified instances in which the CMO's efforts to implement reforms were hampered by a lack of resources. We reported that DOD had established reform teams led by senior officials throughout the department charged with identifying and implementing initiatives to consolidate the department's business operations.²⁶ However, the Office of the CMO did not request funding for reform team initiatives, in part because officials had initially planned to use available funding from the savings generated by the initiatives to fund the development and implementation of other initiatives. Office of the CMO officials later recognized the need for the initiatives to obtain funding separate from any savings realized, but had not developed an approach to do so. As a result, reform teams reported lacking the funding needed to implement some of their initiatives.

21. Senator MANCHIN. Ms. Field, does GAO believe the Department's, and specifically multiple Secretaries of Defense, failure to supply a Department Charter to the position of CMO confirming its authority contributed to the assessments outlined in the Defense Business Board Independent Assessment of the CMO?

Ms. FIELD. Yes, the lack of a chartering directive directly contributed to the department's inability to successfully implement the CMO position. In March 2019, we reported that the absence of a chartering document to codify the CMO's authorities and responsibilities and specify how those are to be operationalized, would raise continued questions about the extent of the CMO's authority and responsibility, and would prevent a shared understanding across the department of the CMO's role. We concluded that guidance that fully encompasses all CMO authorities and responsibilities and explains how they are to be operationalized could help institutionalize and sustain the position beyond the tenure of the current acting CMO. We recommended that DOD codify the CMO's authorities and how they are to be operationalized in formal department-wide guidance. DOD concurred with this recommendation, but did not implement it, and subsequently the CMO position was disestablished by the William M. (Mac) Thornberry NDAA for fiscal year 2021.

22. Senator MANCHIN. Ms. Field, does GAO believe the current delineation of business modernization, cost assessment, and cost efficiency responsibilities are held by offices within the Department at a sufficient seniority level, and does GAO believe those duties are effectively coordinated within the Department?

Ms. FIELD. It is too soon to tell whether the current delineation of DOD's business operations responsibilities is effective in driving sustained and meaningful business transformation.

With the disestablishment of the CMO in January 2021, the Deputy Secretary of Defense reestablished the Director of Administration and Management (DA&M), who was subsequently designated the department's Performance Improvement Officer (PIO). The Deputy Secretary also transferred a number of former CMO responsibilities to DA&M and other organizations throughout the department, including the Under Secretary of Defense (Comptroller) and the Chief Information Officer. Table 1 shows selected responsibilities for each of these officials as prescribed in the Deputy Secretary of Defense's guidance.

Department of Defense official	Responsibility
Director of Administration and Management/ Performance Improvement Officer	Defense reform Performance improvement Pentagon Reservation management Defense-wide support

²⁶ GAO, *Defense Management: DOD Needs to Implement Statutory Requirements and Identify Resources for Its Cross-Functional Reform Teams*, GAO-19-165 (Washington, DC: January 17, 2019).

Department of Defense official	Responsibility
Under Secretary of Defense (Comptroller)	Defense business systems Maintain Financial Improvement and Audit Remediation Plan
Chief Information Officer	Defense business systems

Source: GAO

DOD is in the process of collecting data and will be reporting on the results of its new coordination efforts as part of the fiscal year 2025 and 2026 budget cycles. Specifically, ODA&M partnered with the Under Secretary of Defense (Comptroller) and the Cost Assessment and Performance Evaluation office to issue revisions to department's Integrated Program and Budget Guidance for fiscal year 2024–2028 in order to capture additional information on reform efforts. Further, ODA&M officials told GAO that they continue to engage with Under Secretary of Defense (Comptroller) and Cost Assessment and Performance Evaluation to identify opportunities for performance improvement initiatives in the department. According to those officials, full integration of the approach into the Planning, Programming, Budgeting, and Execution process will likely not occur until the fiscal year 2026 budget cycle, which will be initiated in early 2024.

NATIONAL DEFENSE AUTHORIZATION ACT

23. Senator MANCHIN. Ms. Field, does GAO endorse or support section 902 of S. 2226, the National Defense Authorization Act, and does this include endorsing or supporting this section's inclusion through the NDAA conference process and within the final version of the Fiscal Year 2024 NDAA?

Ms. FIELD. While this is a policy decision for the Congress to make, our work has demonstrated that DOD would benefit from a fully empowered, senior leader who is dedicated to driving meaningful and sustainable enterprise-wide business reform. This need could be filled through different organizational constructs as long as these conditions are met and the position is appropriately resourced.

We recognize that DOD has recently undertaken a significant reorganization, pursuant to statutory direction associated with disestablishment of the CMO, and reassigned the roles and responsibilities of the position to other offices. DOD has also established and is also utilizing different governance structures to help manage departmental reform. Among other things, after the CMO was disestablished, DOD implemented a new approach to business reform focusing on a bottom-up approach that emphasizes DOD organizations' responsibility to initiate and implement business reforms. As recently as August 2023, the Deputy Secretary of Defense approved a list of crosscutting initiatives and DOD established a new senior governance structure for its business management and reform efforts. While DOD has made some progress laying the groundwork for collecting data associated with its business reforms under its new structure, it is too soon to determine if it will be successful. GAO will be reporting on DOD's initial efforts in implementing this new structure in the Fall 2023, and will continue to monitor its progress moving forward.

24. Senator MANCHIN. Mr. Roark, does the DOD Office of Inspector General endorse or support section 902 of S. 2226, the National Defense Authorization Act (NDAA), and does this include endorsing or supporting this section's inclusion through the NDAA conference process and within the final version of the Fiscal Year 2024 NDAA?

Mr. ROARK. The DOD OIG does not endorse or support pending legislation.

25. Senator MANCHIN. Mr. Mosher, does the Congressional Budget Office endorse or support section 902 of S. 2226, the National Defense Authorization Act (NDAA), and does this include endorsing or supporting this section's inclusion through the NDAA conference process and within the final version of the Fiscal Year 2024 NDAA?

Mr. MOSHER. CBO's role is to provide objective, nonpartisan information to support the budget process and to help the Congress make effective budget and economic policy. The agency does not make policy recommendations or take positions on legislation.

QUESTIONS SUBMITTED BY SENATOR DAN SULLIVAN

MILITARY COMPENSATION

26. Senator SULLIVAN. Mr. Mosher, I and other Senators serving on the Senate Armed Services Committee (SASC) have repeatedly discussed the military's recruiting challenges with DOD officials during hearings this year. In fact we had an entire hearing on the subject in May, in which we heard from senior representatives from each branch. DOD officials have provided many reasons for the recruiting crisis from lack of interest and fitness among young people to their fear of leaving home and perception that military service puts life on hold. However, one reason most timely and fitting to your appearance here today is the belief that in good economic times military recruiting suffers as more economic opportunities are available. However, as you know Mr. Mosher, the military offers an attractive compensation plan that not only includes a competitive salary but medical and life insurance, housing allowances, and extensive paid leave. In your opinion, what could the DOD do to make the current military compensation plan more understandable to potential recruiting pools?

Mr. MOSHER. Although military personnel are well compensated when compared with their peers in the civilian sector, the structure of DOD's compensation package is complicated. Its mix of cash, noncash, and deferred compensation (which includes veterans' benefits) differs significantly from the more straightforward wages or salaries that potential recruits or servicemembers who are contemplating reenlistment might use for comparison. Thus, one concern is that prospective and current members of the military may undervalue the military compensation package. The armed services provide military personnel with an accounting of the value of their compensation each year, but it is not clear how well that information is understood or how it informs members' decisions about reenlisting.

CBO has not specifically examined ways to make the current military compensation package more easily understood to potential recruits. In its broader analysis of military compensation, however, the agency has presented options for changing aspects of the current compensation system, such as relying more on cash bonuses, that could improve understanding.² In a related effort undertaken at the request of the Senate Armed Services Committee, CBO is developing an infographic that will illustrate, in part, how military compensation compares with compensation in the private sector.

27. Senator SULLIVAN. Mr. Mosher, in what ways could the DOD improve the military compensation plan to make it more attractive?

Mr. MOSHER. An analysis by CBO has found that compared with their peers in the civilian sector, military personnel are well compensated.³ On average, enlisted personnel receive cash compensation that is higher than that received by about 90 percent of civilians of the same age and education level (which surpasses DOD's goal that cash compensation meet or exceed the 70th percentile of civilian earnings). Moreover, the difference between military and civilian compensation is greater than that comparison suggests because military compensation includes noncash benefits, such as health care, that civilians must purchase using their cash compensation. And after leaving the service, military members may be eligible for deferred benefits from the Department of Veterans Affairs, such as the GI Bill, health care, and compensation for medical conditions incurred during their service.

One way to make the military compensation package more attractive may be to make it easier to compare with compensation in the private sector (as discussed in CBO's response to the previous question). Another solution may be to change the relative mix of cash, noncash, and deferred compensation to make the overall package more attractive to potential recruits and service members contemplating reenlistment.

Servicemembers receive a larger share of their overall compensation in the form of noncash and deferred benefits than do most people employed in the private sector. And evidence suggests that many service members greatly underestimate the full value of those deferred benefits. In addition, because cash can give people more control over their spending choices, current and prospective service members may value cash compensation more than noncash compensation. Increasing the share of military compensation that cash pay represents could improve efforts to attract and retain military personnel—particularly younger people. (Research has shown that

²See, for example, Congressional Budget Office, *Approaches to Changing Military Compensation* (January 2020), www.cbo.gov/publication/55648.

³Ibid.

senior military personnel tend to value deferred compensation in the form of retiree benefits more than their younger colleagues do.)

CBO recently examined several ways that DOD could change the structure of military compensation to reduce or slow the growth of spending while still attracting and retaining a high-quality force.⁴ Some changes could also help DOD fill needed positions and make the compensation package more appealing. One approach would emphasize cash bonuses instead of other elements of compensation—including increases in basic pay—to give DOD more flexibility to respond to recruiting challenges and to increase enrollment in undersubscribed career fields, such as aircraft maintenance or cybersecurity. A second approach would introduce a salary system in which military personnel would pay for housing, food, and health care for their families, like civilians do. Such a system would give policymakers, service members, and—perhaps most importantly—potential recruits a more complete view of the amount of cash pay that military personnel can earn.

Under one scenario in a new salary system, cash pay could be higher for junior enlisted service members who are single, particularly young members living in barracks. Raising their cash pay would encourage those members to stay in the military longer, in part because it would compensate them for the hardship of residing in barracks (one of the least attractive aspects of military life, according to surveys). Some service members might be worse off, however, and transitioning to a new salary system would be complicated. DOD's most recent comprehensive review of military compensation examined some of the advantages and disadvantages of a salary system but did not recommend implementing such a system.⁵

SPECIAL PAY TO ATTRACT DOD CIVILIAN FIRST RESPONDERS

28. Senator SULLIVAN. Ms. Field, several DOD installations in my State have historically had trouble attracting DOD civilians to fill first responder positions, particularly firefighters. Some of these reasons have included the remoteness of duty locations, cost of living, availability and affordability of housing, high cost of moving expenses, late declinations by applicants, and physical relocation to Alaska. However, more recently Fort Greely and Fort Wainwright have begun applying special pays to attract and retain DOD civilians in key first responder positions, which so far seems to be working. What hiring tools does the DOD currently have to hire DOD civilians into hard to fill positions?

Ms. FIELD. While we have not evaluated the full range of hiring tools currently available to DOD to hire civilians into hard-to-fill positions, we have previously reviewed the department's use of specific hiring authorities to hire science, technology, engineering, and mathematics (STEM) personnel at the defense laboratories; the availability of support services to personnel in remote locations; and suicide prevention efforts at remote locations outside the contiguous United States.²⁷ Our 2018 review of DOD's use of hiring authorities found that certain factors—such as the high demand for science and technology workers, competition with the private sector, the requirement for U.S. citizenship, and the need for security clearances, among other things—resulted in hiring challenges and prompted concern about the outlook for a workforce that is vital to the department's mission.²⁸ To address some of those concerns, the Senate Armed Services Committee noted that it had taken steps to provide the defense laboratories with certain flexibilities from Federal rules and regulations that had the potential to hinder the laboratories' ability to carry out their critical missions. Those flexibilities included greater pay-setting authority and the ability to hire qualified candidates who meet certain criteria using direct hire.²⁹ Laboratory officials we surveyed identified certain direct hiring authorities as both helpful in hiring STEM personnel and doing so in a timely manner. Laboratory offi-

⁴Congressional Budget Office, *Approaches to Changing Military Compensation* (January 2020), www.cbo.gov/publication/55648.

⁵Department of Defense, *Report of the Thirteenth Quadrennial Review of Military Compensation, Volume I: Main Report* (December 2020), www.tinyurl.com/28jammjb20 (PDF).

²⁷GAO, *DOD Personnel: Further Actions Needed to Strengthen Oversight and Coordination of Defense Laboratories Hiring Efforts*, GAO-18-417 (Washington, DC: May 30, 2018); *Military Installations: DOD Should Consider Various Support Services when Designating Sites as Remote or Isolated*, GAO-21-276 (Washington, DC: Jul. 29, 2021); and *Suicide Prevention: DOD Should Enhance Oversight, Staffing, Guidance, and Training Affecting Certain Remote Installations*, GAO-22-105108 (Washington, DC: Apr. 28, 2022).

²⁸GAO-18-417.

²⁹These authorities are intended to expedite the hiring process and facilitate efforts to compete with the private sector.

cial also told us, however, that despite the availability of the hiring authorities, challenges to hiring qualified candidates remained.

In 2021, we reported on challenges with obtaining support services at remote installations in the United States.³⁰ While this report did not specifically cover first responders, remote installation officials identified challenges in general with filling and retaining civilian employees. For example, officials at the four installations included in our review stated that they gauge the interests of service members in specific morale, welfare, and recreation (MWR) programs and work with regional and service-level MWR officials to maximize the programs that the installation is able to offer. However, officials also stated that their ability to provide MWR services is negatively affected by factors such as low pay, commute time, and cost of living that impact their ability to fill and retain civilian employees at installations in remote or isolated areas. For example, officials at Clear Air Force Station, Alaska, told us that it is difficult to find civilian workers to support the food and beverage services on the installation because of low salaries, such as \$11 an hour, and the commute from the nearest community, which is about 25 miles from the installation. In addition, officials from two of the four installations and respondents to our survey identified the lack of employment opportunities for their spouses as a concern. For example, at Marine Corps Mountain Warfare Training Center, Bridgeport, California, service members have to choose between living in family housing or in communities located another 30 miles from the installation so that their spouses can find employment. If they live in family housing, both the service member and the spouse face total commutes of over an hour a day; the service members face a commute of over 2 hours a day if they live in the nearest community.

Additionally, in April 2022, we reviewed the department's suicide prevention policies, programs and activities for service members and dependents, including those assigned to remote locations outside the contiguous United States.³¹ We found that, while the department had taken steps to integrate suicide prevention into primary care, it experienced challenges in fully staffing the primary care behavioral health positions. According to Defense Health Agency (DHA) officials, these challenges included high demand for behavioral health providers, difficulties in recruiting behavioral health personnel that want to work in a primary care setting, undesirable locations, and prolonged hiring and on-boarding processes. However, while DHA officials were aware of the challenges, the agency had not addressed the shortages.

29. Senator SULLIVAN. Ms. Field, what improvements would you like to see in the previously mentioned area?

Ms. FIELD. As noted, we have not evaluated the full range of hiring tools available to DOD to hire civilians into hard-to-fill positions. However, the previously discussed reviews of hiring at the defense laboratories, support services at remote installations, and the department's suicide prevention efforts at remote installations outside the contiguous United States identified steps the department could take to be better positioned to address associated personnel challenges.³²

For example, our 2018 review of the defense laboratories' use of hiring authorities found that the department needed to strengthen the oversight and coordination of its efforts to hire science, technology, engineering, and mathematics personnel at the defense laboratories.³³ As a result, we recommended that the department obtain and monitor defense laboratory hiring data to improve oversight, and develop performance measures for evaluating the effectiveness of the laboratories' hiring.³⁴ While DOD has since taken the necessary actions to address those recommendations, our findings and recommendations underscore the need for and importance of establishing proper oversight mechanisms, including obtaining and monitoring relevant data on hiring and developing performance measures, to better understand the use and efficacy of any hiring authorities.

During our 2021 review of support services at remote installations, we recommended, among other things, that the Secretary of Defense, in collaboration with the Secretaries of the military departments and the Commandant of the Marine Corps, should systematically assess the risks associated with not having needed support services for service members and their dependents stationed in remote or

³⁰ GAO-21-276.

³¹ GAO-22-105108.

³² GAO-18-417; GAO-21-276; and GAO-22-105108.

³³ GAO-18-417.

³⁴ In GAO-18-417, we also recommended that DOD establish timeframes to guide hiring authority approval and implementation. DOD has implemented this recommendation.

isolated areas and subsequently develop strategies to better meet those needs as appropriate.³⁵

Our 2022 review of the department's suicide prevention efforts recommended that DOD develop a strategy to address the previously noted primary care behavioral health provider staffing shortages, including those at remote installations.³⁶ Having such a plan is key to resolving shortages. In response to this recommendation, DOD provided us with standardized contract language for primary care behavioral health personnel and stated that it expects this language will improve recruitment and retention of these personnel by including an accurate position description and recommending the inclusion of certain incentives in the contract. However, to fully implement this recommendation, DOD should provide documentation that it has developed a strategy that comprehensively addresses challenges staffing those personnel. By developing such a strategy, DOD can help ensure the military services' ability to provide more comprehensive and effective behavioral health care to service members and dependents through primary care resources.

We also have direction from the Joint Explanatory Statement accompanying the NDAA for Fiscal Year 2023 that we assess civilian support at remote locations and provide a report. Specifically, the Joint Explanatory Statement directs GAO to assess 1) the average number of vacancies for civilian support services positions at remote or isolated military installations in comparison to vacancies for such positions at other military installations, and 2) the average number of days required to fill such a vacancy at a remote and isolated military installation in comparison to filling a vacancy of a position with the same duties at such other installations.

³⁵ GAO-21-276.

³⁶ GAO-22-105108.