

THE FINAL REPORT OF THE PLANNING,
PROGRAMMING, BUDGETING, AND EXECUTION
REFORM COMMISSION

HEARING

BEFORE THE

COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

ONE HUNDRED EIGHTEENTH CONGRESS

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THE FINAL REPORT OF THE PLANNING, PROGRAMMING, BUDGETING, AND EXECUTION REFORM COMMISSION

WEDNESDAY, MARCH 20, 2024

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

The Committee met, pursuant to notice, at 9:30 a.m. in room SH-216, Hart Senate Office Building, Senator Jack Reed (Chairman of the Committee, presiding).

Committee Members present: Senators Reed, Shaheen, Blumenthal, Hirono, Kaine, King, Warren, Peters, Manchin, Rosen, Wicker, Fischer, Cotton, Ernst, Sullivan, Scott, Tuberville, Budd, and Schmitt.

OPENING STATEMENT OF SENATOR JACK REED

Chairman REED. Good morning. The Committee meets today to discuss the Planning, Programming, Budgeting, and Execution (PPBE) Reform Commission's final report. The PPBE Reform Commission was established in Fiscal Year 2022 National Defense Authorization Act (NDAA), and was tasked with assessing the effectiveness of the PPBE process in developing policy recommendations that will enable the Defense Department to more rapidly field the operational capabilities. The Commission was led by The Honorable Robert Hale, who was here previously, as Comptroller and Chief Financial Officer at the Department of Defense (DOD), and The Honorable Ellen Lord, who served previously as Under Secretary of Defense for Acquisition and Sustainment. The Commission's Executive Director was Ms. Laura Sayer, who served previously as Comptroller for Navy Installations Command, Navy Facilities Engineering Systems Command, and Office of Naval Research. I am pleased to welcome each of these witnesses today, and would like to express my appreciation for the Commission's expert bipartisan work. Thank you.

Much of the discussion around the 2022 National Defense Strategy (NDS) focuses on long-term strategic competition with China and Russia, particularly the capabilities we need to develop for any potential high-end fight and the key role of our alliances and partnerships. But the NDS stresses another less-glamorous, albeit it equally important, transformation that must occur if we are to succeed in strategic competition, that is the need to reform the acquisition and financial performance of the Department of Defense.

The Department's PPBE process has long been the core of how defense programs are developed, how they are resourced, and how those resources are executed. However, the PPBE process has remained largely unchanged for more than 60 years, since Secretary Robert McNamara put it in place in 1961, when it was a cutting edge planning tool. Today it is much too slow and cumbersome to keep pace with the Department's requirements to develop new technologies in a rapid, agile manner, and to make decisions in a more dynamic environment.

Recognizing this, the Committee has made reforming the PPBE process a priority for several years. Our first step was to create and direct an independent commission to review and make recommendations for PPBE reform. In addition, the Committee has worked to provide the Department with more flexibility while maintaining transparency and accountability.

With that in mind, I am encouraged by the thoroughness and practicality of the PPBE Reform Commission's final report. The report includes 28 recommendations, largely intended for the Defense Department to make changes internally. Notably, the report's first recommendation is to replace the PPBE process altogether with a new defense-resourcing system. As the report states, one of the most consistent concerns the Commission heard over the past 2 years is the current PPBE process lacks agility, limiting the Department's ability to respond quickly and effectively to evolving threats, unanticipated events, and emerging technological opportunities. I understand that a new defense resourcing system would build on the PPBE's strengths while addressing such weaknesses. Before we consider the variety of forms that have been suggested it is important to first understand the context of the Commission's work and the analysis that produced these recommendations.

For my colleagues' awareness, instead of the usual 5-minute witness opening statements we have asked Mr. Hale and Ms. Lord to provide a presentation of the work of the Commission and its recommendations. We will then turn to our usual round of questioning.

I would like to again thank all of the members and staff of the Commission, and I look forward to your testimony. Now let me recognize the Ranking Member, Senator Wicker.

STATEMENT OF SENATOR ROGER WICKER

Senator WICKER. Thank you, Mr. Chairman, for convening this hearing, and thank you, sir, for sponsoring the Planning, Programming, Budgeting, and Executing Commission 2 years ago. While the acronym PPBE may sound strange to most, the subject is timely. This system governs the process that the Pentagon uses to choose what to buy.

For over 6 decades, the Department of Defense has operated a byzantine budgeting system with virtually no modifications or improvements. This system was built for a past era, an age in which software did not exist, and the United States Government, not the commercial sector, was the largest research and development spender. This system was predicated on the Pentagon's ability to predict the future with near certainty 2 or 3 years out. That task

is impossible because today's threat environment evolves too quickly.

There is undoubtedly some merit to parts of our existing budget system, but a crucial point is that for too many years it has failed to deliver key weaponry at relevant speed and scale. It has also failed to connect strategic choices to budgets, and it has stifled trust between Congress and the Pentagon. In other words, it is long past time for an update to the Department's budgeting system.

I applaud the Commission for its thorough, timely, and realistic work in three main areas. First, the Commission recommends that DOD improve its ability to ensure that budget is based on strategy. Today it seems that the National Defense Strategy is little more than a suggestion to those in the trenches, building the defense budget. This is why we still see such a significant disconnect between the strategy's focus on China and the relative lack of investment in key capabilities and infrastructure that we need to face China in the Pacific.

Our current budgeting system does not foster, let alone require, cooperation between our military services, even though that is how they will have to fight. A move toward capability-based portfolios and mission-based budgeting would alleviate part of this problem. Why have 27 projects based on disparate requirements when we could simply create programs based on missions, like air defense, and budget for it that way?

Fixing these two problems will require senior leadership, attention, and commitment, combined with hard work by our Budget Office.

Second, the Committee recommends significantly changing parts of the budgeting process. It should be a process that fosters innovative technologies and activities. This might mean adjusting reprogramming restrictions to allow the military to adapt, in weeks, not months, including under continuing resolutions (CR). It may also require thoughtful consolidation of related activities across the budget by department.

Last, but certainly not least, is the subpar relationship between Congress and the DOD. Today the transmission of budget data is episodic, manually input, and often ineffective. It is 2024, and we should have the ability to share information in real time, digitally, between the executive branch and Congress. This is not difficult from a technological standpoint. It just requires a culture change.

To achieve all this we will need a more modern budget workforce. It is clear to me that the comptroller workforce cannot execute this antiquated budget process and reform at the same time, nor should we expect them to. This will require significant up-front investment and new hiring authorities, but it will save us tens of billions of dollars in the decades to come.

I look forward to the different format today, Mr. Chairman. We have got our work cut out for us, to listen to the experts here, to reform the Pentagon's budgeting system, and this Commission has given us a great starting place. I look forward to the witnesses' testimony and to hearing their ideas for our consideration.

Thank you, sir.

Chairman REED. Thank you, Senator Wicker.

As I indicated, Secretary Hale, Secretary Lord, Ms. Sayer, you have 20 to 30 minutes to give us an overview, and then we will begin our questioning.

**STATEMENT OF THE HONORABLE ROBERT F. HALE, CHAIR,
THE HONORABLE ELLEN M. LORD, VICE CHAIR, AND LAURA
C. SAYER, EXECUTIVE DIRECTOR**

Mr. HALE. Thank you, Chairman Reed, Ranking Member Wicker, all the Members of the Committee. We are pleased to be here today to give you an overview of the final report of the PPBE Reform Commission. We will do that with a briefing. I think you have hard copies in front of you, and then we will answer your questions. Ellen and I will do the briefing and then ask Lara to join us as we answer questions. Ellen will deliver the first part of the briefing and I will finish it up. So Ellen, over to you.

Ms. LORD. Thank you, Bob. Chairman Reed, Ranking Member Wicker, Members of the Committee, on behalf of the 14 commissioners we are very appreciative that you are taking time out of your schedules to meet with us here today.

We speak after 24 months of work, over 400 meetings, speaking with over 1,100 individuals. We are very pleased, as a commission, to have over 200 years of experience on our staff. We initially hired Lara to be our Executive Director, and she, in turn, brought along other practitioners. So we did not have people looking things up. We had people with experiential learning, who had been through the PPBE process and know where its strengths are and where its weaknesses are.

Our Commission believes we are here at a critical juncture in history. We have emerging technology, whether it be software, hardware, services, we have new business models, all rapidly evolving, and we also have rapidly evolving geopolitical threats. This is putting us in a position where we have to be able to leverage American ingenuity and reduce it to warfighting capability to be quickly fielded. We believe that although today's PPBE process has many strengths in terms of engaging a variety of stakeholders and very comprehensively looking at the Department's strategy, we need to make improvements, because we have a need for speed, and right now we do not have that.

So I am on page 2 here of the handout [*The handout can be found in the Appendix on page 48*], and just want to make the point that our geopolitical threats range from the space domain to underwater. We have information warfare. We have cybersecurity threats. We need to weave all of our capability together to be able to fill the gaps our warfighters have today.

So if we go to slide 3, what I would like to do is talk about the fact that our process takes 2 years, best case, from defining a need, a requirement, to budgeting and getting money ready to be obligated and go through the DOD process. This does not meet the needs we have today, and I think Ukraine has very clearly shown us how we can take commercial technology, quickly put it in warfighters' hands, be adaptive, and be very, very lethal. We need to learn from Ukraine and other events around the world and make sure that we are pushing down decisionmaking to the program executive officers and the program managers. We need to

make sure we do not unduly constrain them with very discrete budget line items, that we do not get hung up with colors of money when moving from RDT&E [Research, Development, Test, and Evaluations] to procurement to O&M [Operations and Maintenance].

There is opportunity here, and that is really what all of our recommendations are about, the opportunity to make a change. Change needs to happen both in the Department, at DOD. It also needs help from Congress, and you will see in the back of our report we have actually drafted some legislative language to help support some of these recommendations.

If you go to slide 3, what we did there was talk about the long timeframe of our budgeting process, and we have pointed out in the report that there is precedent with other Government agencies who have more flexibilities than we do, whether it be NASA [National Aeronautics and Space Administration], NNSA [National Nuclear Administration], or the VA [Veterans Administration]. They are sometimes not colors of money. Sometimes there is no-year money, and there is the ability to carry over money. So there is precedent.

If we go to slide 4 we can talk about how we organized our work. It is in five different areas.

First, as Senator Reed mentioned, improving alignment of budgets to strategy. Right now it is difficult when you look at the justification books, when you look at DOD's budget, to understand how this meets the National Defense Strategy. Bob will talk in a little bit about some of the restructuring of the budget itself that we think will make this much clearer.

We second looked at fostering innovation and adaptability. Right now we know that the majority of our innovation comes from the commercial sector, yet we do not have the budgeting flexibility and the acquisition procedures, and a trained workforce, to allow us to quickly capitalize on these commercial developments.

We also, in a third category, looked at the relationship between Congress and DOD. There is a bit of skepticism on both sides, it seems, when dealing with PPBE, and we believe that is in large part due to the fact that we do not have the data-driven conversations we need to have. We often talk in generalities. We think there needs to be a cadence of communications on regular basis, with very transparent budgets that are sortable and searchable and very clear to all.

That leads us to the fourth category, which is modernizing business systems and data analytics. Right now the Department of Defense has many, many different business systems, and even within one military service it is very difficult, or within one agency, to understand all of the pieces and parts of the budget as well as the supporting materials. What we advocate is using common systems, where we have data aggregated, and we can use modern technology to sort and search and apply data analytics.

Finally we look at strengthening the workforce. The human capital at the Department of Defense is what is going to field capability quickly downrange. Today we do not adequately train our workforce in order to allow them to use all the authorities that Congress has given them, the policies that DOD has drafted, and the implementation guidance through procedures. We need to le-

verage the Defense Acquisition University and our leadership to motivate and reward our acquisition professionals, our budgeting professionals to embrace the change we have and use what we call “creative compliance.”

So there are 28 recommendations we have, many of which can be implemented now. We are very pleased with how the DEPSECDEF [Deputy Secretary of Defense] has embraced many of these and actually already put out some guidance. So to talk more specifically about our recommendations and the new budget structure and the defense resourcing process I am going to hand it back over to Bob.

Mr. HALE. Okay, Ellen. Well, thank you. Based on our 400 interview and research we distilled that into, as Ellen said, 28 recommendations, the first of which is to replace the current PPBE with a new system that we would call the Defense Resourcing System.

If you turn with me to slide 5, you will see that there is a fair amount of streamlining in this new system. On the left you see the current PPBE process. On the right you see the new DRS [Defense Resourcing System] process. I will not go through every detail here, but the size of the slides makes clear that the new system is streamlined, it uses fewer documents than the current PPBE system. For example, in some cases today services submit two documents to codify the budgets they present to the Office of the Secretary of Defense. It is not clear why you need to do that. We would go to just one document.

We also propose combining the current programming and budgeting phases of the PPBE into a single phase to avoid duplication.

In addition to streamlining, the new DRS strengthens the process for establishing guidance from the Secretary of Defense, telling the services how they should build their buildings to align the strategy. In past years that guidance has not always been definitive, and it has often been late. In 7 of the last 10 years it came after February, when the services were well into their budget builds.

The Commission recommends more use of analysis and more senior leader meetings in December/January to provide more definitive guidance, and do so in a more timely manner. Now that may sound academic, but it is not. When you are facing rapidly changing threats you want to be sure that the services are following the strategy that has been laid out, and so you want to be able to relate budgets to strategy.

Turn with me now, if you would, to slide 6. As part of the new Defense Resourcing System that Ellen has described and I have begun to describe, the Commission recommends transforming the way that DOD presents defense budgets and the way that Congress authorizes and appropriates funds. As you see on the left of slide 6, today the budgets are presented first in terms of a lifecycle phase, defined in terms of appropriations, procurement, O&M. They are presented in those terms, and in terms of service or component, plus more detail in most cases, but I will not go through a lot of that.

As the right-hand side of slide 6 shows, the Commission recommends presenting and authorizing and appropriating budgets in

terms of services and components—that stays the same—but then in terms of major capability or activity areas. DOD would have to define what these are, working with Congress, but examples could include things like tactical aviation, ground maneuver units, surface ships. Now these categories certainly not by themselves describe strategies, but they are a lot closer to a strategy than appropriation titles like procurement.

So this new presentation would help to ensure alignment of budgets to strategy, which as Ms. Lord noted, is one of the Commission's key goals, and I think an important one. The transformed budget would also present data that is more in line with the way this Committee and most people talk about and discuss the defense budget, that is in terms of capability areas.

Go with me now to slide 7, if you would, which lists a number of new processes and changes in budgetary rules that the Commission recommends in the new Defense Resourcing System. I will highlight a few of them.

Ellen mentioned that improving relations between DOD and Congress constituted one of the Commission's key goals. Now based on my personal experience, when there is a serious problem, DOD and Congress find ways to work together to meet national security needs. But there are strains in this relationship. We certainly heard a good deal about those strains during our extensive interviews, and some changes we think could help ameliorate these strains.

For example, the Commission recommends encouraging improved in-person communication between DOD and Congress on budgetary issues. Today there is a lot of communication when the budget is sent up here, at both senior levels and more junior levels, but after that the communication tends to be more episodic, and my impression at more of the role of the junior levels.

The Commission recommends at least one more round of in-person communications involving senior DOD and congressional personnel. This round would focus partly on execution-year issues, like the omnibus reprogramming. Why is it up here? What are the most important parts? Also the additional communication would focus on changes in the President's budget proposal. For example, new technologies that may have arisen in the years since the budget was put together, which could be, as Ellen mentioned, a couple of years ago, and that Congress may want to take into account during its markups. So we think some enhanced in-person communication would be good for the process, in general, and help DOD-congressional relations.

Let me turn to another rule change on slide 7. From DOD we heard a lot of concern about late budgets and the continuing resolutions that they cause, and these adversely affect budget execution and certainly congressional relations. Now a broad solution to late budgets involves issues well beyond the scope of this Commission, but the Commission does recommend some process changes that would mitigate some, though certainly not all, of the adverse effects caused by CRs while still maintaining congressional oversight.

Specifically, the Commission recommends that DOD be allowed to put in place New STARTs while under a CR, but only if all four of the defense committees and subcommittees had acted on the de-

fense budget, voted on it, and none of those four bills had prohibited the New start. Similar rules would govern increases in weapon buy sizes while under a CR. To ensure the legality of this recommendation, it would be put in place using the same informal agreement that Congress and DOD use today to govern the reprogramming process.

Let me turn next to some important business process changes that would help DOD and Congress process budgets more effectively. I will mention just one. The Commission recommends modernizing systems that are used to communicate budgetary data to DOD, and Ellen mentioned this one briefly. Today that is often communicated sometimes in printed form, but usually in flat files, Excel, or PDF files. DOD could put in place communication enclaves or platforms that would use software to transmit budget data in ways that would be more searchable, sortable, easier to extract information, and these approaches would reduce workload on both sides of the river, assuming Congress reciprocated and returned its guidance to DOD using these communication platforms.

We talked a lot about fostering innovation, or Ellen did, and adaptability. In its final report the Commission makes 11 specific recommendations designed to speed up actions under this new Defense Resourcing System, and so better foster innovation and increase adaptability. Which again is one of our key goals. I will mention three examples because this is an important area for the Commission.

The Commission addresses color of money challenges in several recommendations. One of them would provide that a single-purpose organization, like a buying organization, would be allowed to pay all its expenses with one color of money, procurement in the case of the buying organization. This is similar today to what we do in DOD labs, and it avoids the problem that occurs if a program manager 2 years ago said, "Yes, I might need a little O&M for sustainment." He gets into execution and finds out he does not have the right amount. He has got to stop and probably go to an above-threshold reprogramming to get that fix, or worse yet, wait for the next budget cycle, all of which slows down the program. We think this would get rid of many of those problems.

My second example of fostering innovation and adaptability involves consolidation of budget line items. Budget line items are the lowest level of detail that Congress uses to control a defense budget. There are 1,700 of them in the DOD budget today, 1,000 in the RDT&E appropriations alone. The Commission believes this is too many for effective oversight either in DOD or in Congress, and we recommend that DOD establish a working group with Congress—this has to be done jointly—to consolidate budget line items while maintaining appropriate congressional oversight.

My final example is an oldie but it is still a goodie in the Commission's view, and that is extending the availability of a small portion of DOD's operating funds. As you know, today all of DOD operating funds—that is the O&M and military personnel appropriations—must be obligated in the year in which they are appropriated. That often leaves insufficient time to obligate funds for the highest priority needs, especially when we are operating under CRs consistently—so that 1 year could be 6 or 8 months—and it leads

to the infamous year-end spending spree, when sometimes commanders and managers obligate money on lower priority programs just to avoid losing those funds.

The Commission recommends that DOD be allowed to obligate a small percentage of its operating funds, up to 5 percent in each operating appropriation, in the second year. That would reduce the year-end spending spree and result in more effective execution of defense dollars. The Commission believes that extending the availability of operating funds, along with some of the other rule changes we have recommended, have been debated for years, and are ready for legislative action. We hope that this Committee will include at least some of these proposed recommendations in this year's version of the NDAA.

Turn with me now to slide 8, and I will sum up the advantages of the new Defense Resourcing System. Overall, the DRS will help DOD react to rapidly changing threats and technology changes, and to keep pace or outpace our strategic competitors like China. How does it do that? Well, it does it in the way that Ellen and I have been talking about, reformed design to foster innovation and adaptability—that is those 11 recommendations on rule changes—a new budget structure, so we present the data the way talk about the defense budget, attention to communication with Congress, and other modernization of business processes so that we are using more modern systems, and finally streamlining to save both time and avoid non-value-added duplication.

Now I will turn to slide 9, which is the last one I will brief. We are concerned that if toss 28 recommendations into the laps of staffs that are already veery busy, both in DOD and Congress, handling day-to-day activities there just will not be enough time to implement these changes. So our 28th recommendation is that DOD establish an implementation team, divorce it from the day-to-day activities, and task it with overseeing implementation of those of our recommendations that DOD and Congress believe should be put in place. The team should be cross-functional—there is more here than financial management—it is going to affect acquisition and many other areas. It should report directly, in our view, to the Deputy Secretary of Defense because in DOD if you are going to make changes across functional areas that is the lowest level at which it can be effectively done. Finally, the implementation team should be temporary, but in the Commission's view, temporary is more like 3 years, because it is going to take time to implement some of these changes.

The implementation team should definitely be directed to involve Congress in these implementation efforts. It is in DOD's DNA—and I have worked there for many years—to go and huddle together and figure out the best solution and then present it to you. I think we will have more chance of success if they come and talk to you along the way, get your thoughts from Congress, and then eventually, obviously, they need to make a recommendation for most of these and make a presentation. So collaboration here is critical.

Slide 10 lists all of our recommendations. I will not brief it, but it is a good place for me to stop and say that we would be glad now to answer your questions. Ellen, Lara, and I would be glad to give you our best thoughts.

Chairman REED. Thank you, Secretary Hale. Thank you for all for an extraordinary bit of work, and my first impression is establishing a relationship with DOD and Congress is critical, and within that congressional sphere it authorizes and appropriates. I think we have to be very conscious of that, and we will try to do that.

We all recognize, based on just our experience over the years, and this very excellent report, that PPBE is an antique. We need something better. I wonder if both Secretary Hale and Secretary Lloyd, could you explain how the Defense Resourcing System is just not going to be a name change if we do it right, and how would it enable the Department to react more quickly to the demands? We will start with Secretary Hale.

Mr. HALE. Let me start off. It is much more than just a name change, although I think changing the name is important to get people thinking that, hey, there is something new going on here and not just revert to the old ways. But Ellen and I gave some examples. It would have processes to give better guidance to the services about how to structure their budgets consistent with strategy. That sounds academic, but it is not. If you are facing rapidly changing threats you need to be sure everybody is rowing in the right direction to counter those threats, and so we need a better process, and we think we have proposed one to link budgets to strategy.

I mentioned some of the 11 changes that are designed to foster innovation and increase adaptability to change threats. Those would all be part of the Defense Resourcing System. Ellen may well have more to say about this, but we need some modern business practices. I gave one example of better ways of communicating with Congress so we save time. Congress spends an incredible amount of time figuring out how to take into account the guidance you give them. Some of this can be done electronically, and we have some specific proposals in our report.

So it is much more than a name change. There is a good deal of specifics. Ellen, let me ask if you want to add to that.

Ms. LORD. Certainly, then I think I should hand it over to Lara to give some more examples, because she has really got the details.

One of the key changes is to take two processes that were done separately and bring them together. This is programming and budgeting. So CAPE has typically worked programming on one side and then comptroller budgeting on another. While the Department has made some progress toward using the same business systems to enter data, we say this should be one collaborative process, because right now too much time, in our opinion, goes by in the Department with separate groups working separately, and then later on in the cycle it all crashes together to try to be adjudicated.

So we would start the cycles earlier so that we could have wargaming, we could have data analytics, and we get that programming and budgeting really looking at different scenarios so that the DMAG cycle, the Deputy's Management Action Group, could start sooner so that the Department could get to some good decisions. That is kind of on the front end of things.

When the Department comes up with a budget, right now it is not delivered in a consistent way across the agencies and the Military Departments. What this system says is that there will be a

common platform, common software platform. That does not mean one platform. That means platforms that speak with one another, where you can access data, and then have justification books come across digitally, all together, in a consistent format, so that members and staffers can very clearly understand what is budgeted, what the backup documentation is, versus going from one budget to another and trying to rationalize the differences in presentation, and so forth.

This really requires the Department to come together, use digital systems for the benefit of our business systems. We all talk about digital engineering all the time when we talk about warfighting platforms, but we are not applying that same modern technology to the business side of things.

As I mentioned earlier in my opening comments, we are trying to get more decision authority down to PEOs and PMs. A lot of these recommendations under “foster innovation and adaptability” allow them to not wait for the system to catch up, so they can continue on their programs. It is allowing them to move a little bit of money around, with guardrails on so that Congress understands what is going on.

So Lara, why don’t you bring it home.

Ms. SAYER. All right. Well, good morning, and thank you so much for having us here today. A lot of what you have heard described talks about streamlining within the Pentagon. I wanted to highlight that the bulk of what happens in the PPBE process is actually in the field, in the Acquisition Program Office. Streamlining these activities will alleviate a lot of duplicative, non-value-added workload in those places where we actually execute the mission, put things on contract, and deliver capability. So I am no longer building a program and a budget. I am no longer putting together two documents that have a lot of similar information. That is where the rubber meets the road, where we simplify things.

One other thing I would like to foot-stop about the DRS process, how we have designed it, is that continuous analysis will be happening throughout the cycle. It will kick off rep briefings, there will be tabletop exercises, there will be conversations, including the Joint Force, so all of the relevant voices are heard early and often. Then the feedback with evaluation strengthened by modern business process will make sure we have better data-driven decisions throughout the cycle. Thank you.

[The joint prepared statement of The Honorable Robert F. Hale
and The Honorable Ellen M. Lord follows:]

WRITTEN STATEMENT OF
THE HONORABLE ROBERT HALE, CHAIR
AND
THE HONORABLE ELLEN LORD, VICE CHAIR
COMMISSION ON PLANNING, PROGRAMMING, BUDGETING, AND EXECUTION REFORM
BEFORE THE
SENATE COMMITTEE ON ARMED SERVICES
ON
THE FINAL RECOMMENDATIONS AND REPORT OF THE COMMISSION ON PLANNING,
PROGRAMMING, BUDGETING, AND EXECUTION REFORM
MARCH 20, 2024

Chairman Reed, Ranking Member Wicker, and Members of the Committee – thank you for the opportunity to appear before you today on behalf of the Commission on Planning, Programming, Budgeting, and Execution (PPBE) Reform to discuss the findings and recommendations contained in the Commission’s Final Report. Following this short introduction, this written statement provides the Executive Summary from that Final Report.

As the United States faces significant strategic adversaries and a rapidly changing technological landscape, the Department of Defense (DoD) must be able to allocate its resources in a responsive and agile manner. Today’s PPBE process is not always adequate to meet those demands. Even with substantial reforms to the DoD’s acquisition and requirements processes, the DoD cannot compete if the resourcing processes that are foundational to delivering capability to the warfighter are not reformed.

The PPBE process is how the Department plans, budgets, and executes resources to fund its missions. First established in 1961, this complex process involves personnel across the DoD, Congress, and private sector. The scale, complexity, and resources involved far exceed that of any U.S. company. The initial process to build, deliver, and pass a budget can take at least two years, and spending those funds occurs over the next one to ten years or more, enabled by the DoD acquisition processes.

While the PPBE process does allow a variety of stakeholders to inform the budget and identify and analyze key budget issues and alternatives, the lack of agility and time-consuming process make it difficult to adapt to new threats and adopt new technologies. These weaknesses are particularly evident compared to the private sector, which emphasizes flexible budgeting to prioritize innovation and delegated authority and accountability to enable quick decisions, supported by modernized business systems. Budget instability due to continuing resolutions also hampers budget execution, complicating the DoD’s ability to start new programs or accelerate programs in order to respond to emerging threats and incorporate innovative technologies.

These shortcomings contrast with the resourcing approach of U.S. strategic competitors. China consistently invests in priority programs over the long term, while providing flexibility and decision-making authority at lower levels to adapt to changes. Differences in the Chinese and Russian political systems also reduce friction in allocating resources for strategic and modernization investments and make moving resources easier as compared to the U.S. system of government. However, these strategic competitors also face challenges that limit the effectiveness of their defense resourcing processes, including corruption, a lack of transparency and oversight, and technical and industrial base limitations.

To address these challenges, the Commission proposes 28 actionable recommendations in five critical areas designed to transform all aspects of the PPBE process to improve the DoD’s and Congress’ ability to deliver resources and capability with greater speed to the

warfighter in support of national security. These recommendations form a new Defense Resourcing System that enables leaders throughout the DoD to better align budgets to strategy; foster innovation and adaptability by improving the ability to react to changing threats and requirements through streamlined processes and changed rules; significantly improve and render more transparent the communication between Congress and the DoD through the use of modernized systems; and further strengthen the capabilities of the defense resourcing workforce. Reforming the PPBE process by implementing the Commission's recommendations is a generational opportunity to enable the DoD to meet the challenges of today and tomorrow.

Executive Summary

The Commission on Planning, Programming, Budgeting, and Execution (PPBE) Reform has concluded that a new approach to the defense resourcing process is required to better maintain the security of the American people. For many years the current PPBE process has ably supported United States (U.S.) national security. However, the security environment is rapidly evolving, and the current PPBE process is not capable of responding as quickly and effectively as needed to support today's warfighter. The Department of Defense (DoD) needs a new process, one that enables strategy to drive resource allocation in a more rigorous, joint, and analytically informed way. The new process should also embrace changes that enable the DoD to respond effectively to emerging threats while leveraging technological advances.

Two persistent trends affecting U.S. national security drive a need for transformational change to the current PPBE process.

First, the emergence of the People's Republic of China (PRC) as a large, technologically advanced strategic adversary with corresponding global reach has profoundly threatened the rules-based order advocated by the U.S. in conjunction with partners and allies. After 30 years of focus on regional, asymmetric threats, the U.S. now faces strategic challenges with the PRC as a pacing threat while simultaneously contending with immediate threats from Russia, North Korea, Iran, and instability in the Middle East. This ever-evolving security environment demands rapid and large-scale evolution of current military capabilities. Over the last decade it has become increasingly clear that the current PPBE process does not provide the Department's senior leadership with the ability to implement change at the scale and speed the DoD requires. In response to these near-term challenges and existential threats, the Commission is recommending a fundamental restructuring of the process for converting strategy into a budget along with improvements in analytic methodology that enable DoD resourcing decisions. While these changes are primarily internal to the Department, they require close partnership with Congress for successful implementation.

Second, the pace of global technological innovation only continues to accelerate. The defense laboratories and the defense industrial base no longer lead technological change as they did during the Cold War. Instead, commercial technology enables today's militarily-relevant modernization in multiple applications like robotics and space, utilizing advances in areas such as artificial intelligence and cyber. Strategic adversaries are operationalizing this rapid technological change as they seek to overmatch U.S. military capabilities. The current budgeting and execution phases of the PPBE process, particularly in some key interfaces with Congress, do not provide the agility required to adopt technological advances at the speed of relevance.

The U.S. risks losing more of its already diminishing technological edge without immediate transformational changes in resourcing, especially in the year of execution. The Commission's recommendations include much-needed changes to the period of availability of funds, account structures, reprogramming processes, and data sharing with Congress. These reforms also leverage modern business systems and data analytics to better manage resourcing and communications. PPBE reform can only be implemented through sustained collaboration between the legislative and executive branches.

This Final Report provides a detailed review of the Commission's findings and recommendations as well as the transformational change the recommendations will produce.

Commission on PPBE Reform

Section 1004 of the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2022 created an independent Commission on Planning, Programming, Budgeting, and Execution (PPBE) Reform," within the legislative branch, and directed the Commission to conduct a comprehensive assessment of all four phases of the PPBE process that governs how the DoD creates its resourcing strategy for the following five years and provides the framework and input for the President's Budget request. The law directs a specific focus on budgetary processes that affect defense modernization.

This Final Report documents the Commission's findings, reflecting 24 months of research and formal meetings. The Commission's staff carried out extensive quantitative research and also contracted with several outside research organizations. More than 400 interviews were conducted with experts in PPBE and related fields, including personnel from Congress, the DoD, industry, academia, and research organizations. The findings of this Final Report also draw on the expertise and experience of its 14 Commissioners and staff (see biographies in Section XI).

Overview of Key Findings

Since the inception of the Planning, Programming, and Budgeting System (PPBS), now known as the PPBE process, the DoD has had a structured repeatable process enabling senior leaders to guide the course of the DoD. The PPBE process has allowed leadership to identify key resourcing issues and bring analytic information to bear on budgetary decisions. The PPBE process has ensured that a wide variety of stakeholder voices are heard, which helps build proposals that can be defended before Congress, and allows senior leaders to drive change. It has also ensured that multi-year budgetary impacts are considered to counterbalance tendencies toward short-term views. The Commission's reforms preserve these advantages and other positive aspects of the current PPBE process.

However, as noted above, the U.S. is experiencing a dramatic change in its national security environment. Responding to this increasingly complex global security challenge requires large-scale and rapid changes in strategic objectives, posture, readiness, force structure, and capabilities. Meeting these challenges requires addressing limitations in the current

PPBE process. For example, the Commission is concerned that current strategic and resource allocation guidance documents are frequently consensus-driven, often late to need, and sometimes fail to provide actionable direction to the DoD Components. Although there has been much progress in recent years, the key analytic offices in the Office of the Secretary of Defense (OSD) and the Joint Staff do not have sufficient capacity and assessment tools, nor appropriate training programs and time, to provide the level of analytic support required to inform senior leader decision-making on so many high-stakes issues. As a result, major issues are often elevated to senior leadership too late in the process, limiting the available trade-space and analytic support, which forces compression of the essential subsequent steps in budget development.

These strategic challenges are further compounded by the increasing pace of technological change. Moore's Law—the prediction that the number of transistors on a microchip will double every two years – is perhaps the best-known example of rapidly accelerating technological change. U.S. adversaries are taking advantage of this rapid technological change to build overmatch against U.S. military forces, putting the Department's ability to execute the National Defense Strategy (NDS) at risk.

One of the most consistent concerns the Commission heard over the past two years is that the current PPBE process lacks agility, limiting the Department's ability to respond quickly and effectively to evolving threats, unanticipated events, and emerging technological opportunities. This message has been repeatedly articulated in statements from current and former congressional Members and staff, from senior DoD officials, from program budget and acquisition officials at all levels, and from both traditional and non-traditional DoD industry partners. For example, a current DoD leader told the Commission that the amount of time it takes to approve and distribute funding through the current PPBE process to address a national security problem provides U. S adversaries with an innovation advantage. Another official added that the time-consuming nature of the PPBE process makes it difficult to influence a modification or an upgrade to an existing product design or to counter new threats.

Late enacted budgets, and long Continuing Resolutions (CR), pose another critical challenge to resource allocation. The CRs generally include a provision prohibiting new start activities, which can slow efforts to insert innovative technology in both new and current programs. Not knowing what the final appropriations will be until well into the fiscal year further hinders effective budget execution and the timely delivery of capabilities to the warfighter. Compounding this challenge, under current appropriation rules, operating funds must be fully obligated in the year they are appropriated which can result in a year-end spending spree that can allocate funding to lower-priority programs so that funding is not lost. The Commission also heard concerns that, under the current PPBE process, budgets presented to Congress cannot easily be linked to the defense strategy, in part because the budgets are presented in terms of appropriation title and DoD Component rather than by capability areas. While the Department has been modernizing its systems for over a decade, the current PPBE process still depends on some antiquated information technology

systems that make it difficult to quickly access and analyze validated data and effectively share information between the DoD and Congress.

Vision

To address these challenges, the Commission established a vision for a new resourcing process, drawing from the original set of six principles that guided creation of the original PPBS,¹ and modifying and expanding them to meet today's changing strategic environment. The new process should:

1. Closely align budgets to strategy for the Joint Force “based on explicit criteria of national interest,”² with the ultimate goal of faster delivery of capability to the warfighter.
2. Base resource decisions on “choices among explicit, balanced, and feasible alternatives.”³
3. Formulate and assess budget alternatives and consequences over multiple years before making major decisions, and use analysis to compare costs and benefits.
4. Enable accountable leaders in acquisition, operational, and support organizations to foster innovation and agility by improving their ability to react to changing threats and requirements, while ensuring the best technology and capabilities are fielded for the warfighter.
5. Use common modern business systems with shared and accessible data to support decision-making, reduce duplicative efforts, and better communicate information inside the DoD and to Congress.
6. Provide a dedicated, appropriately skilled, and resourced staff to support the Secretary of Defense and other senior leaders throughout the DoD.
7. Appropriately signal near- and long-term technological and infrastructure priorities to the industrial base, enabling both non-traditional and traditional vendors to supply capabilities to the DoD.
8. Meet budget timelines while ensuring that stakeholders have a voice in the process.
9. Provide Congress, the Office of Management and Budget (OMB), and the American people appropriate visibility into and understanding of key defense resource decisions.

Transformational Change: The Defense Resourcing System

To implement this vision, the Commission recommends creating a new **Defense Resourcing System (DRS)** to support U.S. national security in an increasingly dangerous world. This new system builds on PPBE's many strengths while also addressing the weaknesses that have emerged. The new DRS fundamentally strengthens the connection between strategy and resource allocation while creating a more flexible and agile execution

¹ Enthoven, Alain and Wayne Smith. *How Much is Enough: Shaping the Defense Program, 1961-1969*. 1971, republished by the RAND Corporation 2005. https://www.rand.org/pubs/commercial_books/CB403.html

² Ibid.

³ Ibid.

process and preserving congressional oversight. The proposed DRS replaces what was known as the PPBE process and consists of three processes: Strategy, Resource Allocation, and Execution.

Strategy: The new system employs analytics at the start of the Strategy process to determine priorities and direction for the forthcoming budget while establishing the overall guidance for key budget decisions. The Office of Primary Responsibility (OPR) is the Under Secretary of Defense for Policy (USD(P)). The key documents remain the National Security Strategy (NSS), NDS, and National Military Strategy (NMS). The DRS strategy process remains focused on these enduring, multi-year documents.

Resource Allocation: This is where the most significant process changes are proposed. In place of the current PPBE process the following steps occur within the Resource Allocation process:

1. *Guidance.* Instead of the current process of circulating a lengthy document for coordination (the current Defense Planning Guidance or DPG), the new approach brings the results of wargaming and analytical efforts into established senior leadership forums to inform discussions that can lead to specific guidance or at least provide direction for budgetary debates. Development of the new guidance document involves existing leadership forums, including the Senior Leadership Council and the Deputy's Management Action Group, and concludes by February of the year before the budget submission. The OPR for the Guidance process is the Analysis Working Group (AWG), under the leadership of the Director, Office of Cost Assessment and Program Evaluation (CAPE) as the Executive Secretary. The key document resulting from this process is the Defense Resourcing Guidance (DRG), issued in February that now includes both the integrated program priorities and Fiscal Guidance (FG). A new continuous analytic process overseen by the AWG supports the development of the DRG and will focus debate throughout the new resourcing process.
2. *Build.* This step centers around the Services and DoD Components and their construction of a strategically-informed Resource Allocation Submission (RAS) proposal in compliance with the DRG. The OPRs for this step are the Services and DoD Components. The RAS replaces the current Program Objective Memorandum (POM) and Budget Estimate Submission (BES) as the single submission to the OSD for review. The DoD Components will likely start their RAS well in advance of the DRG, much like they do today, but will be guided by the actionable direction established during the Guidance step.
3. *Decision.* This final step involves the OSD review of the RASs (formerly POM/BES), then issuance of Resource Allocation Decisions (RAD) and incorporation of OMB Passback changes, all of which culminate in a final DoD budget request. After approval by the OMB, this budget request becomes the DoD portion of the annual

President's Budget submission to Congress. The OPR is the Under Secretary of Defense for Comptroller (USD(C)), who establishes the necessary timelines and assigns the workload for review. The CAPE and USD(C) organizations will continue to perform their respective tasks, with CAPE focused on DRG compliance and strategic or programmatic issues and USD(C) focused on budget year issues to include pricing, executability, most single-Service or Combatant Command requests, and late breaking or conflict-related issues. The USD(C), working with CAPE, will also maintain a single database documenting all decisions.

Execution: With the USD(C) as the OPR, this process involves distribution of funding, as authorized and appropriated by Congress, and execution of those funds by the Services and DoD Components to meet national security needs. Many Commission recommendations described below will significantly improve the execution process, providing significant mechanisms to allow the DoD to respond to emerging issues more quickly and effectively. Of particular note, this process will also establish a feedback loop to evaluate overall fiscal, program, and operational performance, as well as alignment with strategic and planning goals. Key documents governing this process include budget execution reports, acquisition and operational reports, and other information useful to Congress, the DoD, and other stakeholders for carrying out oversight and analysis.

Naming the New System

The Commission recommends a new name for this process—the Defense Resourcing System—to emphasize the streamlining and combination of several discrete steps and phases of the former PPBE process. The new name, along with changed names for key documents and roles, also emphasizes the extent of the changes recommended by the Commission. Figure 1 depicts the processes and steps in the new DRS.

Figure 1 – Defense Resourcing System Structure

Process	Step	Key Document(s)	OPR(s)
Strategy		NDS	OUSD(P)
Resource Allocation	Guidance	Defense Resourcing Guidance (DRG) <i>(replaces DPG and Fiscal Guidance)</i>	AWG (CAPE as executive secretary)
	Build	Resource Allocation Submission (RAS) <i>(replaces POM/BES)</i>	Service/Component Resourcing Staffs
	Decision	Resource Allocation Decision (RAD) <i>(replaces PDMs/PBDs)</i>	OUSD(C)
Execution		President's Budget Omnibus Reprogramming Request Execution/Obligation Reports	OUSD(C) and Service/Component FMs
The new DRS is enabled throughout the process with continuous analysis and evaluation.			

Key Recommendations:

To shape the Commission's focus on critical areas for reform, the Commission organized its research and identified recommendations designed to:

1. **Improve the Alignment of Budgets to Strategy;**
2. **Foster Innovation and Adaptability;**
3. **Strengthen Relationships Between DoD and Congress;**
4. **Modernize Business Systems and Data Analytics; and**
5. **Strengthen the Capability of the Resourcing Workforce.**

Key Recommendations that Improve the Alignment of Budgets to Strategy

The Commission consistently heard that the current PPBE process does not show a clear alignment between DoD budget requests and overall defense strategies as articulated in the NSS and NDS. This remains a critical shortcoming in matching resources to the DoD's strategic vision and requirements of the Services, DoD Components, and the Joint Force. Under the current PPBE process, the programmed budgets are typically developed by the DoD Components before the appropriate strategic documents like the DPG have been finalized, and fact-of-life changes can easily overwhelm strategic choices. To address this, in addition to the DRS, the Commission recommends two key reforms and changes:

- **Strengthen the Defense Resourcing Guidance through Continuous Planning and Analysis:** As was noted earlier, the effectiveness of the DRG is bolstered by continuous analysis including threat analyses, wargaming, and cost benefit assessments. Beginning these key analyses earlier, and holding leadership decision

meetings that consider analytic results from November through February, will produce a timelier guidance document with a regular analytic cadence used to inform the Build step and shape resourcing decisions.

- Transform the Budget Structure:** An effective and properly stratified budget structure is a crucial underpinning of any resource allocation process, whether in the current PPBE process or the new DRS. The current budget structure begins with the designated life cycle phases (i.e., Research, Development, Test and Evaluation (RDT&E), Procurement, and Operation and Maintenance (O&M)). It then further aligns these to the separate Services and DoD Components before finally presenting data for specific accounts and programs. These top-level appropriations reflect the phases of traditional industrial production, but this is not how the Department or Congress consider the budget when making decisions today. Instead, today's decision-makers focus primarily on capability. Under the current budget structure, this requires pulling data from disparate sections of the budget in order to see the whole program. The Commission's reimagined structure starts with the Services and DoD Components, flows to Major Capability Activity Areas (MCAA) areas under their purview (examples might include ground maneuver units or tactical aviation), then to specific programs and systems, and finally to the relevant life cycle phases. Figure 2 below depicts these changes.

Figure 2 – Current and Reimagined Budget Structure

Current Structure	Proposed Structure
Life Cycle Phase	Service/Component
Service/Component	Major Capability Activity Area
Budget Line Item	System/Program (BLI)
Project (if applicable)	Life Cycle Phase

The Commission believes this budget transformation will enhance congressional oversight by transmitting program and budgetary information to Congress in a way that combines related funding for a capability under a single program and/or portfolio. This change will increase transparency across all types of funding requested and more clearly link decision-making and resource allocation. Moreover, the new budget structure will improve visibility and understanding of the resource allocations across the Services and for similar portfolios in the Joint Force. It also better matches 21st century Digital Age technological developments that no longer fit into the traditional Industrial Age categories of research, procurement, operation, and sustainment.

Key Recommended Changes that Foster Innovation and Adaptability

The Commission recommends the following important changes to foster innovation and improve agility in the allocation and execution of resources. The combination of these key recommendations has the goal of significantly increasing industry involvement and providing emergent technology to the warfighter more quickly and easily.

- **Increase Availability of Operating Funds:** The Commission recommends allowing a small portion (five percent) of operating funds to be carried over for obligation in a second year of availability, a type of flexibility that is already available to some non-DoD federal agencies. This change will reduce the high levels of year-end spending that hamper effective execution of funds, especially after a CR, as well as prevent the funding of lower-priority programs just to avoid losing the money.
- **Update Thresholds for Below Threshold Reprogrammings (BTR):** Raising these thresholds to keep pace with historical budget increases will increase flexibility for Program Managers (PM), Program Executive Officers (PEO), and others while also streamlining the decision-making process. Ultimately the Commission proposes eliminating BTRs and allowing a small percentage of an entire appropriation to be realigned with appropriate congressional briefings and oversight.
- **Mitigate Problems Caused by CRs:** This recommendation mitigates the adverse impacts of increasingly commonplace CRs by allowing the Department to proceed with new starts and increased program quantities under CRs in carefully delineated circumstances.
- **Review and Consolidate Budget Line Items (BLI):** This consolidation streamlines the current resourcing and execution processes, retains and increases transparency for Congress, ends unnecessary duplication in the existing budget structures, and eliminates redundancies. Consolidation will also increase the DoD's ability to adjust rapidly to changing circumstances in the year of execution and inject innovation or adopt new technology to address changing threats.
- **Address Challenges with Colors of Money:** This recommendation aligns colors of money with the way in which programs are actually executed, enabling the Department to better meet mission needs through the funding of software programs, continuing improvements to hardware, and program office accounts.

Key Recommended Changes to Strengthen Relationships Between DoD and Congress

The Commission remains mindful of the need to strengthen and improve relationships and communications between DoD and Congress regarding the President's Budget submission and throughout the resource allocation and execution phases. The Commission offers

several recommendations to improve these critical relationships with a focus on data driven communications.

- **Encourage Improved In-Person Communications:** The DoD should work with Congress to determine the best time to offer in-person updates that deal with execution-year issues as well as the budget proposal under review by the Congress. Updates should be informed by execution reviews and timed to support conference negotiations held by the authorization and appropriations committees.
- **Establish Classified and Unclassified Communication Enclaves:** This recommendation will enable more robust communication between DoD and Congress. It will include but not be limited to a common set of reports and budget material that can be readily searched, sorted, and retrieved for analysis across all security classification levels. Enclaves will enable efficient and effective communications across the government, increasing trust, transparency, and relevancy.

Key Recommended Changes to Modernize Business Systems and Data Analytics

The systems DoD uses to manage data do not always allow searching or sorting of shared information, nor can data be easily used or shared for analysis and decision-making. This is a serious impediment to making DoD resourcing more effectively agile, as well as more coherent and transparent. The Commission makes a number of recommendations designed to improve data analytics, including this key recommendation:

- **Create a Common Analytics Platform:** This will make information readily available and provide streamlined access to best of breed analytic capabilities and authoritative data across functional sectors, ensuring that all DoD organizations are leveraging the same authoritative, transaction-level business and warfighting data. A single common platform will, for example, provide the capability to integrate prior year execution and operational data, thereby improving assessments of cost, schedule, and performance.

Key Recommended Changes to Strengthen the Capability of the Resourcing Workforce

The workforce that carries out defense resourcing tasks must be of adequate size, sufficiently trained, and enabled with the tools and resources to support leadership and decision-making. The Commission makes a number of recommendations designed to improve the workforce, including these key recommendations:

- **Continue the Focus on Recruiting and Retention:** Both the Offices of the USD(C) and CAPE need to improve recruiting and retention to ensure they have staffs of sufficient size and skill to carry out their specified duties.

- **Improve Training for Personnel Involved in Defense Resourcing:** Improved training for personnel who support the DRS will ensure the Department has appropriately trained personnel who understand how their role supports the DRS in a number of ways. Training on preparation of the budget justification books, data analytics, and private sector practices represent key areas to empower the DoD workforce.

Additional Recommendations

In addition to the key recommendations described above, the Commission makes a number of additional recommendations that will, if implemented, significantly improve the Department's resourcing processes. Some of these recommendations may be interim steps before the implementation of the broader transformational changes identified above, but many will pay dividends for the long run. A full list of the Commission's recommendations, each of which is described in detail in the report, can be found at the end of this section.

Implementation

The Commission commends the DoD for establishing implementation plans for the 13 Recommendations contained in the Commission's Interim Report that could be implemented prior to this Final Report.⁴ Full implementation of all the Commission's recommendations in this Final Report will require substantial effort on the part of Congress and the DoD, especially its resource management community. The Commission recommends that the DoD establish an implementation team that reports directly to the Deputy Secretary of Defense. This temporary team would be made up of experts from various functional areas and, for the next three to five years, provide staff support to implement the Commission's recommendations. The Commission further recommends that the Department engage with Congress on these recommendations and provide regular updates on implementation.

Commission Recommendations

Improve the Alignment of Budgets to Strategy

1. **Replace the PPBE Process with a new Defense Resourcing System**
2. **Strengthen the Defense Resourcing Guidance**
3. **Establish Continuous Planning and Analysis**
4. **Transform the Budget Structure**
5. Consolidate RDT&E Budget Activities

⁴ "Implementation Plan for the Recommendations from The Commission on Planning, Programming, Budgeting, and Execution Reform's Interim Report." Department of Defense. Provided to the Commission. Public release forthcoming.

Foster Innovation and Adaptability

6. Increase Availability of Operating Funds

7. Modify Internal DoD Reprogramming Requirements

8. Update Values for Below Threshold Reprogrammings

9. Mitigate Problems Caused by Continuing Resolutions

10. Review and Consolidate Budget Line Items

11. Address Challenges with Colors of Money

12. Review and Update PPBE-Related Guidance Documents

13. Improve Awareness of Technology Resourcing Authorities

14. Establish Special Transfer Authority for Programs Around Milestone Decisions

15. Rebaseline the OSD Obligation and Expenditure Benchmarks

16. Encourage Use of the Defense Modernization Account

Strengthen Relationships Between DoD and Congress

17. Encourage Improved In-Person Communications

18. Restructure the Justification Books

19. Establish Classified and Unclassified Communication Enclaves

Modernize Business Systems and Data Analytics

20. Create a Common Analytics Platform

21. Strengthen Governance for DoD Business Systems

22. Accelerate Progress Toward Auditable Financial Statements

23. Continue Rationalization of the OSD Resourcing Systems

24. Modernize the Tracking of Congressionally Directed Actions

Strengthen the Capability of the Resourcing Workforce

25. Continue the Focus on Recruiting and Retention

26. Streamline Processes and Improve Analytic Capabilities

27. Improve Training for Personnel Involved in Defense Resourcing

28. Establish an Implementation Team for Commission Recommendations

Conclusion

The Commission concludes that the recommendations in this Final Report will enable the Department to more effectively meet national defense needs, while preserving the insight required for congressional oversight. Today, the U.S., its allies, and partners face multiple challenges and threats amid the most complex geopolitical environment since World War Two. The DoD must have an agile and responsive resourcing architecture and system, one that promotes innovation, agility, and speed, best harnesses defense resources, and supports timely and accurate senior leader decisions. Time is short, the need for change is increasingly urgent. The Commission calls upon Congress and the Department to adopt these recommendations that will better enable the DoD to continue to preserve U.S. national security in light of the ever-changing landscape.

Chairman REED. Thank you very much. Now let me yield to the Ranking Member, Senator Wicker.

Senator WICKER. Ms. Sayer, the implementation team would be composed of employees inside the Department of Defense, is that correct?

Ms. SAYER. Yes, sir, but they could also hire subject matter experts externally, as well. We haven't designed it specifically who should be. But it needs to have leadership direction from the Deputy Secretary of Defense to be effective.

Senator WICKER. Right. Right. Okay. Is there anywhere in the recommendation, change recommended for the Office of Management and Budget (OMB)?

Ms. SAYER. Well, they have to be a partner with us in this regarding the changes to budget structure, and we have talked with them several times, and they have been supportive. So they will have to be involved with the implementation team as the Department and Congress work together on this.

Senator WICKER. But Secretary Hale, this would require a change of approach from OMB, would it not?

Mr. HALE. Yes. I mean, I think the fundamental process could remain unchanged, of DOD having, we would hope, a joint review in the fall with OMB. But obviously if we transform the budget structure it would require a change agreement from OMB, and frankly, also from the Congress because we would propose that you authorize and appropriate in these categories, as well.

As Lara said, we have met several times with OMB. I am not going to sit here and tell you they bless all of these, but they were generally supportive, and they are certainly well aware of our efforts, and we heard what comments they had to provide us.

Senator WICKER. Okay, and Secretary Lord

[audio interruption] we do not have much time. On how we would treat continuing resolutions differently, basically the same people who have to agree on reprogramming would be able to reprogram funds in the case of a continuing resolution. Is that correct?

Mr. HALE. We did not actually recommend any specific changes associated with the reprogramming under a continuing resolution. Actually, DOD has a fair amount of flexibility, because the typical CRs are at an appropriation level. What they can't do is, right now at least, put in place any new starts. If you have got a weapons system that has a planned increase in the buy size, under CR they can't go above last year's level. We proposed allowing them to do that, but to ensure that we provide for congressional oversight they can only do that if all four of the defense committees and subcommittees had passed the bill and none of them had restricted the new start or the weapons size increase.

So I think we did what we tried throughout, Senator Wicker, and that is to balance oversight, the need for oversight, with the need for flexibility, and it seems to me it is a good compromise and one that—I would like to get rid of CRs. I think we all would—but a good compromise to the extent that we have them.

Does that answer your question?

Senator WICKER. It seems to me there is a school of thought out there that a CR saves money as opposed to the next appropriation bill, which is at a higher level. I think the panel knows what our thoughts are on that, that that is actually false.

Do you think this is going to make a continuing resolution a little more palatable?

Mr. HALE. We had a brisk debate on that in the Commission. Do you want to mitigate adverse effects, at the risk of making it a bit more palatable? Frankly, we looked at history. We had one budget passed on time in DOD in the last 10 years. They are just a way

of life, and they are being caused by factors well outside the defense budget.

So we finally decided that we probably are not going to increase the probability of them, because unfortunately they are pretty high right now, and therefore we should look for ways to mitigate adverse effects. We offered that to Congress and DOD as a way to do that, while again, I think, still maintaining oversight.

Senator WICKER. On the record, Mr. Chairman, wondering if they would comment, and at large on Secretary Lord's testimony, about lessons learned in Ukraine and how we would be better off under this new procedure in situations like the current situation in Ukraine.

Ms. LORD. Are we taking that as a QFR, or—okay.

Senator WICKER. Thank you.

Chairman REED. Thank you very much. Senator Hirono.

Senator HIRONO. Thank you, Mr. Chairman. I think any time we are talking about a pretty big change—because I think this is a big change to how DOD operates. It is more than a name change. Whenever we try to impose or have changes there is a lot of resistance. So you have a number of recommendations. How they are going to be implemented is a huge question in my mind, regarding your Commission's work.

One question that I do have for Ms. Sayer, you mentioned the need to streamlining. A lot of the streamlining needs to take place in the acquisition process. You just said that, right?

Ms. SAYER. I said it would affect the program offices. They would have less non-value-added work for PPBE.

Senator HIRONO. I thought you mentioned that more streamlining can occur in the acquisition process.

Ms. SAYER. I was thinking of the program office itself. They actually are involved in putting the program together and budget. They do the cost estimates.

Senator HIRONO. The reason I noted your testimony is that I am having a Readiness Subcommittee hearing focusing on acquisition. So, you know, it says that the 2016 NDAA, there have actually been some 600—there have been nearly 500 acquisition provisions to provide flexibility and options to the Department to tailor acquisition to be more efficient, cost effective, all of that. We even created pathways for acquisition so that we focus on how they ought to be operating. I do not think very many of us here, on this Committee, know that we have these pathways—rapid acquisition, middle tier authority, major capability acquisition, software acquisition, defense business systems, acquisition of services. We have all these pathways that are intended to provide more flexibility and have our acquisition people do what they are supposed to be doing.

I am wondering whether we—I think we provided enough ways that they ought to be operating. What more do we need to do to provide acquisition reform? Is it the people, because you also mentioned the need to train people. Is it that we need to better train, for example, our acquisition people so that they know how to use the authorities that they already have through these pathways that I just mentioned?

Ms. SAYER. I absolutely agree you have given wonderful authorities to the acquisition community, and absolutely training is need-

ed. We are focusing on the actual resourcing, the putting the budget together, and my point was just that in the program office, in the Acquisition Offices, they are a big part of building that as they build their program office estimate. So we are actually taking extraneous workload away from them so they can focus more on acquisition, probably on their training, so they can end up with better contracts. So my apologies for the confusion.

Senator HIRONO. Ms. Lord, do you want to add something?

Ms. LORD. Yes. Thank you very much. There are not many flexibilities relative to acquisition and OTAs, middle tier of acquisitions, software pathways are being utilized. They could be much more fully utilized if the workforce was trained. However, these acquisition professionals have a constraint if they do not have money available at the right time in their program, and that is what we are trying to get at with a lot of these changes here. Acquisition professionals are constrained by the color of money, if you will. RDT&E can only be used for certain things, procurement. What we are trying to do is couple budget adaptability, agility with the acquisition authorities to speed everything along. So they are very complementary.

Senator HIRONO. You say that you have some language, statutory language, that we can consider for the NDAA?

Ms. LORD. Absolutely. Absolutely.

Senator HIRONO. Okay. I am all for providing the kind of flexibility that people need, that our professionals need in order to do their jobs. I think, Mr. Hale, you were asked about allowing a small portion, 5 percent, of operating funds to be carried over for obligations, so that provides some level of flexibility. What does 5 percent of operating funds translate to in dollars?

Mr. HALE. I would have to go back to the budget. It would be—

Senator HIRONO. Are we talking about billions?

Mr. HALE.—maybe \$10 billion, \$20 billion.

Senator HIRONO. We are talking about a lot of money.

Mr. HALE. Oh yes. A lot of money, for sure.

Senator HIRONO. That is so—yes, go ahead.

Mr. HALE. But remember, they would still be spending this money in accordance with the budget justification books that they had sent to Congress. I mean, it is not as if, in the second year, they could go off and do an entirely new program. They would have to follow, again, what they told you they were going to spend the money on.

Senator HIRONO. So they still have to live within certain constraints.

You know, just this hearing points out that I like your idea that there needs to be more communication with Members of Congress because you have done all of this work, and me questioning for 5 minutes just does not hack it. So I like the idea of providing additional opportunities for us to interact, even with you all, and I probably will want to set up something perhaps with my subcommittee.

Thank you, Mr. Chairman.

Chairman REED. Thank you, Senator Hirono. The techs have been working on the microphones. The advice they give us, though, is if you could back a little bit it would mitigate the interference.

Senator Fischer, please.

Senator FISCHER. Thank you, Mr. Chairman, and thank all of you for the work you have done on this Commission. I know a couple of your key changes and reforms that you pointed out. One was to be able to incorporate continuous planning and analysis into compiling the guidance. I like that. I also like where you are looking at making sure that you change the budget structure so that military programs, they are all listed in the same part of the budget, because it is really difficult to look through the entire Department of Defense budget to figure out what a certain program's cost is going to be.

Ms. Lord, the report highlighted the importance of aligning the budget request with an overall strategy, but it also underscored the difficulty in achieving the symmetry under the current PPBE process. Can you explain to the Committee what the importance is in being able to rectify that gap, really so that the Department is able to react and be in a good position to compete against a technologically advanced adversary like China?

Ms. LORD. Absolutely. We begin with deconstructing the National Defense Strategy into a new guidance document that is much clearer about what should be done and what should stop being done. We then start much earlier in—

Senator FISCHER. I am going to interrupt you here. Do you have specific recommendations on ways to stop—

Ms. LORD. Yes.

Senator FISCHER. What page was that on?

Ms. LORD. We will go back and look at that, but overall—

Senator FISCHER. If you could let us know.

Ms. LORD.—process, we can show you—

Senator FISCHER. Because that—

Ms. LORD.—where we talk about clarity, we discuss at some length perhaps the opportunities to change the Defense Planning Guidance, and we give it a new name and ask for a lot more specificity. So we can get back to you with the pages on that.

But that begins with articulating clear direction so that we do not have different military services and agencies going and building budgets according to their interpretation of what is being asked to be done, and only find out 8 months later that their interpretation was different than senior leadership.

Second, we begin this analysis cycle earlier, and we want to make sure that we leverage force structure, materiel, services all together in wargaming, tabletop exercises, and what-if scenarios. That requires data being in a central repository or able to be pulled out to do modern data analytics so that you can run hundreds of what-if scenarios to optimize, if you will, force structure, the number of ships, the number of planes, all of these different things.

So the idea is to get in there and do many, many more what-if scenarios earlier so that when this is communicated clearly to Congress, and you ask questions, there are data-driven answers to come back to justify why a certain pathway was taken.

Senator FISCHER. Thank you. Senator Hale, do you have anything to add?

Mr. HALE. No. I think Ellen did a good job, and I will add one thought. In the past years, one of the problems with this Defense

Planning Guidance, which is the current document that is used to give instructions to the services on how to build budgets, one of the problems is it has been a kind of consensus document. It gets sent around for coordination. The services realize they want to get the right words in there so they can justify their programs.

One of the changes we would make is more use of senior leader meetings in December and January, probably at this DMAG, presided over typically by the Deputy Secretary. The Deputy Secretary and the Secretary need to hear from the services about their thoughts on strategy, but they also need to formulate what strategy they want the Department to follow, and it may not be a consensus strategy. So we think more use of these DMAG senior-level meetings would help produce more definitive guidance, and if we do them in December and January, an on-time definitive guidance.

Senator FISCHER. Thank you. Secretary Lord, you know, I mentioned just the continuous analysis that needs to happen here. I think the Department has a risk-adverse culture. So how is that going to play?

Ms. LORD. We believe that leadership is incredibly instrumental in setting culture and that there need to be motivations and rewards for taking smart risks. We often treat risk in terms of risk elimination versus risk management. We believe we need to take smart risks, and what we are doing is trying to delegate down to the PEOs and the PMs who are closest to the problem, make smart decisions with how to spend money, to really come up with something that is of utility for the warfighter.

Senator FISCHER. Thank you. Thank you, Mr. Chairman.

Chairman REED. Thank you, Senator Fischer. Senator King, please.

Senator KING. Thank you, Mr. Chairman. First two quick introductory points. Thank you for this amazing amount of work and the research and analysis that you have done is very impressive and important. Clearly we have not had a chance to absorb this report in this short period of time.

Second, with regard to your legislative proposals, I do not know if you have already done this. I served for 2 years on the National Cyberspace Solarium Commission. We have had something like 70 percent of our recommendations enacted. One of our tricks was that we supplied the committees with fully drafted legislation. It makes it a lot easier for staff. It makes it a lot easier to consider the matters. If you have not done that I recommend it. It will accelerate the process over here.

Mr. HALE. There is some legislative language that we have drafted.

Ms. LORD. It is embedded in the report.

Mr. HALE. We were fortunate to have Peter Levine as a commissioner. You will recognize that name.

Senator KING. Absolutely.

Mr. HALE. He and others on the Commission were helpful in drafting some of the language. If there is more needed we will do our best to provide it.

Senator KING. It will just accelerate the process over here, I think.

It seems like if you boil it all down, speed is what we are talking about, and speed particularly in a period of new threats and accelerating technological change. One of the problems—and again, I do not know if you have addressed it—is we have had testimony before this Committee from smaller businesses in Silicon Valley and others, that basically have given up on contracting with the Pentagon. They said it is just impossible. Too much red tape, too much work, too many filings and back and forth, and they just say, “We are just not going to bother. We are going to work in the private sector.”

I hope you address that, because that is where a lot of the innovation is taking place, in smaller businesses. If they do not even come and knock on the door we are never going to get to take advantage of those innovations. Secretary Lord?

Ms. LORD. The flexibility that we are talking about giving the PEOs and the PMs to move small amounts of money around helps with that. Also, one of the biggest challenges small businesses have is to understand what is being budgeted for and who to go see in the Department. So our budget transparency in terms of reorganizing the overall structure as well as making these justification books consistent and totally digital will help small businesses understand where the money is, who has it, and who the decision authority is.

Senator KING. That is important, but do not forget the paperwork barrier, the size of a proposal. That has to be addressed, as well. I think it would do well for the—and I know we have small business programs in the Pentagon, but if there were sort of focus groups with some of these companies saying what are the barriers.

Ms. LORD. Yes. There is actually a little bit of a tangent here, but there is National Economies studies right now looking at the SBIR/STTR process—I happen to be on that committee—and we are doing just that, to try to make it easier for acquisition professionals in the Department to get small businesses on contract, and conversely, point small businesses toward the documents and the people they need to know. But definitely a key part of this.

Senator KING. A similar point, and I think you touched on this in your testimony, the importance of relying on commercial, off-the-shelf products. Senator Tillis, who used to be a Member of this Committee, always came with a spec for the handgun, which is even thicker than your report.

Ms. LORD. I have been on the receiving end of that, yes.

Senator KING. You know what I am talking about. But that is illustrative of a problem, it seems to me, that often the Pentagon feels they have to have a custom item rather than an off-the-shelf item that will meet 80 or 90 percent of the need, and I think that is something we need to address.

Ms. LORD. Right. That is the requirements process. One size does not fit all. Not everything needs to go through JCIDS [Joint Capabilities Integration and Development System]. That is where the middle tier of acquisition allows a senior official in a military service or an agency to State a requirement themselves and move out crisply. Other transaction authorities allow you to do that, as well, without clearly defining a requirement, just a general need.

So the adaptive acquisition framework does empower the Department to do that. My opinion is the challenge is the motivations and rewards are not there for the workforce to do that. People are not being recognized who are using these, and the workforce is not trained to use these as well as they could, in addition. So we have a leadership opportunity here.

Senator KING. I agree. Final point, and I am out of time. I think we could do well to have a higher degree of relationship and cooperation with allies who are doing similar research, producing similar problems, facing similar problems, rather than say we have to do everything here, working with great—

Ms. LORD. Well, absolutely, and I will say ITAR is a little bit of a challenge there, so we need to work with the State Department, as well.

Senator KING. A huge challenge. Thank you. Thank you, Mr. Chairman.

Chairman REED. Thank you, Senator King. Senator Cotton, please.

Senator COTTON. Thank you all for appearing here and thanks to the Commission for a monumental job here.

Mr. Hale, we all know that continuing resolutions disproportionately affect the Department of Defense in a negative fashion, both in terms of lost money and lost time. Congress continues to pass continuing resolutions, however. I have sponsored, in the past, NDAA provisions that would allow the Department of Defense to move forward with some programs under a continuing resolution, but I think there is more to be done. Could you talk about which of your recommendations are most important to mitigating the negative impact of a continuing resolution?

Mr. HALE. Senator, we made a specific recommendation to do that, and the parts of it that we thought where we could give DOD some more flexibility under a CR but still maintain congressional oversight, and they are to allow some new starts to take place under a CR, but only if all four of the committees, Defense subcommittees and committees, had passed the bill on the budget and none of them had restricted the new start.

Similarly for increases in buy sizes of weapons, which now are limited—if you have got a program that is growing in the budget years it cannot go higher than last year while under a CR. We would allow that but again, only if all four committees had passed bills and none of them had restricted the buy size.

So we thought that was a good balance between oversight and some flexibility for the Department. But the best thing would be to get rid of these darn things. I mean, we cannot mitigate some of the worst of the problems with CRs. I did not think anybody can. It is the uncertainty about not knowing how much you are going to have to budget, and this year is a classic one. Are we going to be at the 1 percent below or at the proposed level for DOD? When they do not know that they are almost having to try to manage two budgets at the same time. That is a real problem.

So we will try to mitigate them, and I think these are good ideas, and I hope you will consider them, but the best thing would be to try to find some way to do away with CRs.

Senator COTTON. I agree. How would you respond to those Senators or Congressmen who would say, "I understand you tried to strike a balance, but you didn't strike a good enough balance." There is not enough role for oversight here in what you have proposed.

Mr. Hale, if you want to take that, and Ms. Lord, I saw you nodding your head vigorously so I would like to hear your response too.

Mr. HALE. The proposal we made, I think, strikes a good balance. As I said, all four committees would have had to have acted, and frequently by the time you are into a CR for several months all four of the committees and subcommittees have acted. So they could have expressed their will, and if they restricted a new start then you would not be able to put that one in place while under the CR.

This is not unlike what we did many years ago, back I think when I was working for Congress, when we had a lesser of House or Senate kind of language in continuing resolutions, which provided that any bill that struck a program at a lower level had to be adhered to during the CR. So I think we have balanced the oversight well, and I would urge you to consider putting that one in place.

Senator COTTON. Ms. Lord?

Ms. LORD. I do not believe we could let perfect be the enemy of good enough here, and our recommendation recognizes Congress' requirement to oversee taxpayer dollars, and we are only talking about moving on new starts where SAS, HAS, HACD and SACD have not marked. So that does preserve Congress' oversight in our mind.

Senator COTTON. Okay. Thank you. I remain concerned that certain cultural attitudes and bureaucratic inertia at the Department of Defense could leave many, maybe most, of your recommendations on the cutting room floor. It would not be the first time that that has happened with a significant report like yours.

What do you think are the biggest internal challenges at the Department to making these changes? Ms. Lord, again I see you nodding, if you want to take it, and then maybe if we have enough time—

Ms. LORD. Thank you. First of all, we tried to make sure we had stakeholder engagement during this whole process. The first individual at the Department we talked to was the DEPSECDEF, and we have gone in and briefed CAPE and Comptroller, many different individuals, and we have gone back prior to both the interim report release in August as well as the report released in March to talk with the DEPSECDEF.

We believe there has to be an implementation team established, and that needs to come from the DEPSECDEF's office so that there is the authority there. There has to be accountability, and we have to have metrics. Without data we have nothing, and so we need to put out a timeframe.

Now I will say that we were extremely pleased that right after the interim report, Kath Hicks put out a directive memo asking her team when and how they were going to implement the actions that could be implemented now, and we know that there have been leg-

islative proposals in the 2025 budget that six of them reflect our recommendations.

But I think there has to be one human being responsible for this, and there has to be accountability with data-driven reports on a regular cadence of communications.

Senator COTTON. Thank you.

Mr. HALE. Can I add to that? I think you can play a role in this, this Committee and the Congress. Some of these can be legislated, and I would hope you would consider them, either in the authorization or the appropriation bills, and that will certainly give guidance to the Department and force their hand. So you can play a role here.

Senator COTTON. Thank you.

Chairman REED. Thank you, Senator Cotton. Senator Warren, please.

Senator WARREN. Thank you, Mr. Chairman. So you three are testifying here today because Congress directed your Commission to take a close look at how the Pentagon allocates its budgetary resources and make recommendations about how the process could be improved. As I read most of your recommendations it is about providing increased flexibility for DOD to move money around to different programs as it sees fit, outside of what Congress specifically authorizes.

This is troubling because if anything, the Pentagon, arguably, has too much flexibility as it is when it comes to spending taxpayer dollars, and I just want to run through a few examples.

The Chief Financial Officer's Act requires annual financial audits for every Government agency. Mr. Hale, you have spent years working on DOD's financial management issues. Has the Department of Defense ever passed an audit, ever?

Mr. HALE. DOD, as a whole, not, but the Marine Corps had just passed, got an unmodified opinion, and a number of other agencies. DOD, as a whole, not.

Senator WARREN. Good for the Marine Corps, but I have got to tell you, that is a terrifying answer because not only has DOD not, what you are really saying is only the Marine Corps has, which is a way of saying all of the other divisions, as well, have not.

You know, in other words I think we can say from that DOD is not doing a good job of keeping track of where its money goes. So it is puzzling that despite this failure of basic internal controls this Commission is asking for DOD to have significantly more flexibility to move money around.

So let's look at another example. Each year DOD proposes a budget to Congress, but once that overall budget is submitted, individual divisions within DOD get a second bite at the apple. They can come to Congress separately and ask for more funding, so-called unfunded priorities.

Mr. Hale, do you know how many other agencies do this kind of two-bite funding, once for the overall department where all of the balances are made about priorities, and then a second time for practically every section in the Department to come advance its own priorities, without any curbs on the balances among them?

Mr. HALE. I am not aware of what other departments do. I will say that the unfunded—

Senator WARREN. So do you know of any that permit that two-bite funding?

Mr. HALE. I do not, but that does not mean there are not.

Senator WARREN. Well, I will tell you the answer, as best I can figure it out. It is zero. This is something that no one else does, and why? Because it is a terrible idea, and it leads to chaotic budgeting. DOD itself has supported my bipartisan bill to get rid of this approach. Nowhere else is this form of budgeting permitted, and yet your Commission report just kicks the can down the road. I mean, some watchdog you turned out to be here.

So I want to do one more example. The Air Force recently reported that its new intercontinental missile program is going to cost nearly 40 percent more than originally expected. They have admitted that they started out with bad data. Now I think it may be worse than that. I think there is an open question about whether Congress was purposely misled about the real costs of this project in order to get Congress to approve it.

Mr. Hale, does giving the Pentagon more flexibility to move money around from program to program make it more likely or less likely that DOD will provide accurate cost estimates for major programs?

Mr. HALE. I do not think it is going to affect the accuracy of the programs because they are moving money around within the guidelines of the justification books, and they told you how it is going to be spent. It would not solve some of the problems that you are raising, but I do not think it would worsen any of them, and it would allow us to react to technological change, or allow DOD to react to technological changes in ways that will, I think, strengthen national security.

Senator WARREN. Well, I have to say, since your job was on budgeting, I am a little alarmed at your casual approach to the implications of being able to do this. If DOD has more tools to cover up its mistakes then I think it becomes even more tempting to lowball the costs and the risks of a new program. This looks to me like the perfect recipe for mismanaging tens of billions of dollars.

Look, I am all for improving how DOD allocates its budget, but I do not see how these recommendations get us there. It seems to me that DOD has plenty of flexibility when spending taxpayer dollars. Before Congress gives DOD the \$850 billion it requested for this year I think we should insist on some guarantees that DOD will spend that money more responsibly.

Thank you, Mr. Chairman.

Chairman REED. Thank you, Senator Warren. Senator Schmitt, please.

Senator SCHMITT. Thank you, Mr. Chairman. In June of last year the Pentagon announced that they identified a \$6.2 billion accounting error in the value of equipment that they had previously sent to Ukraine. Then just a couple of weeks ago the Pentagon said, in a release, that, quote, "The Army had found additional funds"—\$300 million—"after renegotiating contract costs to replace equipment that has already been sent to Ukraine."

This release also quoted an unnamed official. It is long but I think it is worth actually reading and quoting it to highlight the absurdity of it. Quote, "We had savings come in that will allow us

to offset the cost of a new drawdown package,” said a senior defense official today. Quote, “The savings that have come in here are going to help square the circle of what the Secretary said of needing to have new funding come in to be comfortable doing any more drawdown. We did have funds come in that can cover the cost of one more package, but this is a bid of an ad hoc or one-time shot. We do not know if or when future savings will come in, and we certainly can’t count on this being a way of doing business,” end quote.

Well, I would agree that this is no way to do business, and I know this Commission does not have anything to do with funding Ukraine or any contingency, for that matter. But I do want to just bring this up that you talk about people losing faith in institutions. It is really hard, I think, for people when we talk about these additional drawdown packages and then they suddenly found \$6.2 billion. I know in our budget maybe people do not think that is a lot of money. Where I come from, that is a lot of money—\$6.2 billion is a lot of money.

So I guess the question for each one of you, if you want to chime in here, is what can be done to enhance the transparency and accountability here with DOD’s budgeting and acquisition to both Congress and to the public, addressing this. It feels like we are just continuously pulling money out of thin air. Anyway.

Ms. LORD. I believe that one of the recommendations that squarely addresses this is the need for modern business systems. I went into DOD after 33 years in industry, and the systems, the business systems used by the Pentagon are 10, 20, 30 years old, and they do not talk to one another, so to speak. So there is a lot of fat-fingering that has to happen to move, you know, one set of numbers to another, and I believe there is always going to be human error.

One of our recommendations here is to demand that we have modern business systems based on commercial off-the-shelf technology versus having these bespoke systems that are developed by different groups within DOD, outsourcing other groups to do them. There is a lot of reconciliation that has to be done with the systems we have now. In fact, our staff has an enormous amount of experience on that.

I do not know, Lara, if you want to comment on that, having worked with the financial systems.

Ms. SAYER. The financial systems are a bit antiquated, and there is not consistent capability across the Department. I have worked across multiple services—Air Force, Navy, and SOCOM—and every time you change commands it is something different.

There is also not consistent training. So the transparency unique should be in the justification material, the J Books, the RDoCs. There is no consistent training on what we described and tell Congress what we are procuring.

Senator SCHMITT. Do you think that would address this particular issue, like somewhere, we have found \$6.2 billion.

Ms. SAYER. That was actually a misinterpretation of confusing regulation in the Financial Management Regulation. That actual document from the Department is over 7,000 pages, has not really been updated, and whenever they make small changes they do not

pull it through the entire document. So they interpreted one section of it one way, and then when they went back and read it again they realized that had it wrong.

So that is one of our big recommendations is for them to clean up their house on their guidance documents, sir.

Senator SCHMITT. I do want to get to one other question. I think everybody here can think of recent examples of major acquisition programs that have either gone completely off the rails, like the Army's Future Combat Systems that wasted roughly \$18 billion, with virtually nothing to show for it, to continuing over time and over budget, like the F-35, that is 10 years late and 80 percent over budget.

While there are a bunch of reasons why I think these programs fail or struggle, I wonder if the PPBE reform could be a way to address some of those fundamental issues. I also think this is particularly relevant in this kind of lightning fast technological innovation phase, that we have got to be better at, I think.

I have heard from some industry leaders that the system procurement specifications are really prescriptive. They are really prescriptive. For example, rather than simply stating what warfare problem is DOD trying to solve and solicit really kind of market solutions, it is quite the opposite. It is on the front end, being strictly very, very prescriptive. I just think this is going to be really important. It has always been important, but now, with the competition with China and others it is really important.

What are some recommendations you guys might have to address that? Because it feels like this is a behemoth that we talk about it, we know it is a problem, but then you get into a 7,000-page document that people interpret differently. So what can actually be done to cut through here?

Ms. LORD. The requirements process is a big part of it, but then when those requirements are translated to budget documents we have to be very careful. We have an example in the report about buying pens. You specify one color pen. If you find pens that are a different color you cannot buy them.

So what I would say is we need to be very careful how we define requirements and then how we contract. Future Combat Systems, I was on the industry side for that. There was a major debacle in terms of the acquisition community not working closely with the operators, the people, the warfighters who were actually going to use what was being procured. So what ended up being procured was not what was needed. With Future Combat Systems we gave all the responsibility and authority to a prime contractor and have pulled it back over time.

So there are major problems with the way these acquisitions were originally drafted, and that is more of an acquisition problem. But what we are talking about is making sure with these Justification Books that we do not have overly prescriptive language and that we do not have too many finite budget line items that cause program managers to wait weeks and months to get money that actually is authorized and appropriated for them to use, because of these administrative glitches.

Senator SCHMITT. Thank you. We will continue the conversation. I am out of time. Thank you, Mr. Chairman.

Chairman REED. Thank you. Senator Manchin, please.

Senator MANCHIN. Thank you, Mr. Chairman. Up front, in your Executive Summary of your report you all call out the damage delayed budgets and continuing resolutions do to our national security, which we all agree. An example is the CR that covered the beginning of fiscal year 2023 cost DOD nearly \$18 billion, according to the American Enterprise Institute, and that average delay in appropriations being enacted is now over 4 months. I do not know what that figure is going to be.

To help address that you have called for the creation of a common modern business system to better communicate information inside the Department and to Congress.

My question is, putting it mildly, the Department struggles to do anything that requires that level of coordination, based on past experiences. Who exactly do you see in the Department successfully leading this effort?

This is for all the panel, anybody.

Ms. LORD. Yes, there have been some steps. CAPE and Comptroller are now working together in one system, and we see a demand signal from senior leadership to try to have data move around. I think Lara probably has some specific examples of pockets of—

Senator MANCHIN. I do not want to set you all up with this question coming up, and this is even more. In 2005, the Chief Management Officer was created. You all paid no attention. It never took hold. No one supported it. Nothing happened. They got rid of it. We put it back again. I mean, I am just telling you, I do not know who makes these decisions, but I can tell you they do not want it. They do not want that oversight. I know what you are saying. It sounds good, and you would think the Department of Defense, being as large as it is, would want oversight to make sure we are spending and doing that.

So I will lead into another. The military-industrial complex, which is what Dwight Eisenhower warned us against, every bit of that, every bit of these companies that basically we are beholden to for our military might, if you will, have retired, high-ranking retired military officials in their ranks, every one of them. Some of them are basically controlling the direction it is going.

Do they have more power than basically the Defense Department has itself, or are they basically the tail wagging the dog? Mr. Hale, you have been there, and I know you have seen it inside out and every other way you can. This is a tough one because something is wrong, sir. When you only have the Marines—John McCain and I, way back, God bless John, we wanted to audit the Department of Defense. It is the only agency we have in the Federal Government that has never been audited, and to this date, 14 years later, only the Marines.

So I do not know how we break through this, but I can tell you it keeps ringing in my ears, Dwight Eisenhower saying, “Beware of the military-industrial complex,” and I am very much aware. So go at.

Mr. HALE. Well, I certainly hear your concerns. It is not an area where we focused in the Commission. We were looking for ways to take whatever level of moneys Congress and the President agree on

and spend it in a matter that helps us keep pace or outpace China and other strategic competitors.

I understand your concerns——

Senator MANCHIN. Let me ask you this question.

Mr. HALE.—but they were not a focus of this Commission.

Senator MANCHIN. You only have two people, that I understand, two positions in the Department that have the authority to make the change would be the Secretary and the Deputy Secretary, from what you are talking about. To be frank, they both already have more on their plates than they can handle. That is why we created the Chief Management Officer, and you all do not want it.

Mr. HALE. Well——

Senator MANCHIN. You will not accept it, you did not integrate it, and nobody wanted it. Is that accurate?

Mr. HALE. Clearly the Department asked that it be eliminated, so I think you are right there. We are not part of DOD now, although we certainly have been.

Senator MANCHIN. So you understand that, basically what you are saying right now——

Mr. HALE. But——

Senator MANCHIN.—and identifying is kind of hard for us to take it serious because you already had a position that could have done it, and you were just never given the authority to do it.

Mr. HALE. Well, I will say——

Ms. LORD. Well, there is——

Mr. HALE.—the Deputy Secretary has taken this Commission seriously. She has been very helpful. She directed implementing a number of our recommendations in our August interim report, and when we briefed her on this she expressed support for the Commission and its goals. So I think it is on her plate, and——

Senator MANCHIN. Okay. We will call her in and find out.

Mr. HALE. Say again?

Senator MANCHIN. We will call them in and find out. Secretary Lord, did you have something to say?

Ms. LORD. Yes. I believe that potentially we are conflating a couple of issues here. DOD is a very large, complex——

Senator MANCHIN. We know that.

Ms. LORD.—organization, and when we add new departments it makes it more complex. So there is an issue——

Senator MANCHIN. Who is adding departments? Why do you add more departments when you cannot really oversee the ones you already have?

Ms. LORD. I am addressing your CMO question, and that is the very point I am making.

Senator MANCHIN. Okay.

Ms. LORD. When you add another group it adds to the bureaucracy. So in my mind——

Senator MANCHIN. Whoa, whoa, whoa. Wait a minute. You are saying by having an oversight CMO, a management officer, is adding to the bureaucracy, that is supposed to be overseeing the bureaucracy so it does not get more bureaucratic?

Ms. LORD. We have checkers on checkers on checkers on checkers on checkers.

Senator MANCHIN. Well, my God, no one is reporting on the checkers, I can tell you that, because we cannot get an audit out of you all. Thank you.

Chairman REED. Thank you, Senator Manchin. Senator Budd, please.

Senator BUDD. Thank you, Chairman, and again I thank the witnesses for all your work on PPBE Reform Commission. Every week I hear from small businesses in my home State of North Carolina. They face obstacles working with DOD. They have got innovative ideas. They have got solutions to the real problems, and these solutions they could scale up quickly, but given the cumbersome Pentagon budget practices that never really bridge this valley of death. I see this as unsustainable for them and certainly for our military, given these urgent emerging threats.

Ms. Sayer, what were the Commission's finding related to issues that small businesses face with the PPBE process, and Ms. Lord, or Secretary Lord, what recommendations from the report would best improve outcomes for small businesses? Ms. Sayer, we will start with you.

Ms. SAYER. Thank you for that question. So when we talked with private industry as part of our research we heard a lot of feedback on the difficulty of doing business with the DOD. A lot of it was not even understanding how to look at our budget to understand where the Department was investing so they could make sure they were aligned with that. Another problem was just where the front door is to DOD to do business, and while DOD has a lot of these innovation units it is still sort of you get into the parlor but you do not actually get into the actual front door to do business.

We have talked about, throughout this discussion today, about the requirements being too descriptive, which leaves no room for these new technologies to come in. That is why we are looking at some of the streamlining of the budget structure to give that ability to buy technology wherever it falls, and technology readiness levels. Then looking at our justification materials, the operations and maintenance account is 35 percent of our \$800 billion-plus budget. If you try to read it, good luck figuring out what the Department wants to buy, and so we are looking for that to be more programmatically based, where there is parts obsolescence issues and hardware issues where these small businesses could actually compete.

I will turn it over to Ms. Lord.

Senator BUDD. Thank you.

Ms. LORD. Two key issues here. One, the budget structure, right now small businesses cannot figure out where they could play in this very, very large budget because of the way it is broken up by RDT&E, procurement, and O&M. So our budget restructuring recommendation makes it much more intuitive, by military service, by type of platform, whether it be a ship, a plane, whatever it might be. So one is transparency to see what is addressable by small businesses.

On the other side is our recommendation for training of the acquisition workforce. Right now I do not believe there is sufficient training for SBIR/STTR programs, and right now it is an afterthought for many acquisition professions. So we have an obligation, I believe, to train the workforce to understand not only how to use

the small business set-asides that are there but also how to use some of the flexible acquisition pathways, like middle tier of acquisition and other transaction authorities to help small businesses.

Senator BUDD. You know, the Commission's final report, it also identifies what I would characterize as a misalignment between national strategy and resource allocation. This is really clear if you consider both the 2018 and the 2022 National Defense Strategy, which identified China as the pacing challenge, and yet Congress had to push DOD to align resources to the Indo-Pacific, through initiatives such as the Pacific Deterrence Initiative and supporting unfunded requirements.

Another example is the Army's decision to cut—to cut—special operations forces (SOF) over the next 5 years, despite the outsized role that SOF plays in competition with China and Russia in counterterrorism and crisis response. Defense planning guidance just does not properly account for SOF's value proposition as the services plan their size and their shape.

I want to open this to the panel, and Secretary Hale, we have not heard from you yet, if you will start us. What are your recommendations to better align the budget with the strategy?

Mr. HALE. We would propose that we start earlier with more analysis that deals with threat analysis, wargaming, that sets up meetings in December or January, at the DMAG level, at the Deputy Secretary level, designed to let the services comment on draft guidance that is being circulated at that time, but also gives a venue for the Deputy Secretary and perhaps the Secretary of Defense to enunciate the guidance they want, and not just the consensus of what the services have said but what guidance does the Secretary of Defense want for the Department to pursue in this year's budget.

We think that combination of more analysis and senior-level meetings will yield more definitive guidance, and if they do them in December or January it will be timely. That has been another problem with the guidance. It comes after the services have done much of their budget bills. So we believe that we do have some proposals that will strengthen the guidance process.

Senator BUDD. Thank you, Mr. Secretary. In the interest of time, anything very brief from the two of you?

Ms. LORD. Yes. I think we addressed this very point by recommending to do away with the Defense Planning Guidance, which was too broad, and replace with the Defense Resourcing Guidance that will be more specific in terms of what to do and what not to do.

Senator BUDD. Thank you.

Ms. SAYER. I would just—

Chairman REED. Thank you very much, Senator Budd. Oh, go ahead.

Ms. SAYER. I was just going to add that the transformed budget structure would be more clearly aligned with whatever Defense Strategy, so it would be more apparent what was being budgeted for and how it aligned. Thank you.

Senator BUDD. Thank you.

Chairman REED. Thank you, Senator Budd. Senator Kaine, please.

Senator Kaine. Thank you, Mr. Chair. By attending this hearing, Mr. Chairman, I am missing a budget hearing, thereby risking the ire of the other Rhode Island Senator, Senator Whitehouse, my Chair of the Budget Committee.

Chairman REED. The junior Senator?

Senator Kaine. Oh, is he the junior Senator? Okay. Thank you. But the reason I am doing it is I actually think this budget hearing is even more important than the budget hearing that he is conducting right now because of the importance and size of the DOD budget.

I just want to spend a little bit of time really with my colleagues on this CR question. Having been here 11 years now, I have learned something about CRs, and I think we are missing an obvious strategy to reduce them. The normal CR is get the budget done right before the end of the year. The abnormal CR is the one that we are in right now, into the next calendar year.

Why has it become a norm to have a CR to December 31? There is a reason, and I interested that none of the recommendations kind of grapple with what seems to me to be, in plain sight, a pretty easy solution. We have the wrong fiscal year. We have the wrong fiscal year. To get a budget done by September 30, to begin a fiscal year on October 1, is going to require a lot of attention by Members of Congress during the month of September. In every other year 100 percent of the House and 33 percent of the Senate are uninterested in the budget in September, and they are sort of uninterested in the budget in October. They are interested in their election. There is nothing that is a forcing mechanism about October 1 to get a budget done, and we set it up in the Budget Act of 1974 at precisely the wrong time to get the attention of Congress to get a budget done.

So a friend who is a landscape architect told me once, if you are going to design a landscape do not put the sidewalks down. Put the landscape down, then see where people walk, then go pave the sidewalk where they walk. If you look at what has happened since 1974, when do we usually get the appropriations deal? There are exceptions, like this year, but in 80 percent of the time, maybe more, we get the deal before the holidays, and we get the deal before the holidays because people want to take time off and enjoy their time with their family, and the leaders basically say we are going to get a deal before everybody goes home.

If you were to adjust the calendar back and do a calendar year budget, which is 6-month offset with what most State and local governments do, you would dramatically reduce the number of CRs. You would still have abnormal CRs like this year, where the absence of a House Speaker, and then the need for a new House Speaker to get his feet on the ground and then decide whether the deal that was cut on the spending caps in May was a deal that the new Speaker needed to honor, you would still have aberrational circumstances. But you would set the budget calendar up at a time when the tradition and practice in real life of this body suggests this is when we do budgets, and we could avoid the automatic 3-month CR, which has now become normal.

I have a bill that is bipartisan that is pending in the Budget Committee to make this move. I have had some appropriators—and

I am not an appropriator, but I have had some appropriators say, "Oh, Congress will just slide it back another 3 months." I actually do not think that is true. I think, again, the actual experience of when we do the appropriations bill suggests that at the end of the calendar is the time that we would normally do it.

That is also, if you slide back the dates in the 1974 Budget Act by 3 months to accommodate what I am suggesting you would also slide back the date of the President's submission of the budget. No incoming President is going to submit a really good budget that is very thoughtful in February. It does not happen. By sliding it back you would give an incoming administration more time to really make a budget their own and submit something meaningful, particularly if there has been a transition from one party to the next and a whole new budget and leadership team is put in place.

So I appreciate what you have done in trying to urge us to reduce CRs, to put some processes in place that could mitigate the downside effect of CRs, but I think this is mostly in Congress' hands, and I think Congress has a step that we could easily take that would not eliminate CRs but that would make them less normal, than would make them less the norm, and would promote a lot more just budgeting reality in this place.

So I am going to continue—this is more to my colleagues than to the witnesses, but I am going to continue to press this with my Budget Committee colleagues in the hope that we might adjust the rules to what has become the normal practice.

I yield back, Mr. Chair.

Chairman REED. Thank you very much, Senator Kaine. Senator Shaheen, please.

Senator SHAHEEN. Well, thank you, and thank you to all of our witnesses for being here and for the enormous amount of work that you have done on this report, and to everyone on the Commission.

I have to respond, though, Senator Kaine's comments because I do not disagree with him necessarily. I think it is a creative way to do it. But you and I have both been Governors. Neither of our states had fiscal years that went according to the calendar annually. In New Hampshire ours started July 1st, and I am not sure that just changing the calendar deals with the problem. I would also argue that we need a biennial budget, which is something Virginia and New Hampshire both have, which would make it easier to do this process. Again, there has been a lot of opposition to that.

But I think the point that you are making goes to one of the underlying points that the Commission really has not addressed, that I believe to be true when we talk about the Department of Defense being risk averse, when others talk about too much flexibility.

I think one of the challenges is Congress. I mean, the fact that Congress cannot get our act together to get a budget done on an annual basis, that we put so many requirements in place that it is hard to get a procurement process that people can understand, and I understand the reasons why that is done, but I think we have got to be more realistic about what is possible.

One of the things that you may have talked about, and I am sorry that I missed your testimony earlier, we passed a supplemental funding bill here the Senate over a month ago to support Ukraine. That bill is still sitting in the House, when I think about

\$28 billion of that money goes to our defense industrial base to help address the national security of this country, and yet here we are. We are still under a continuing resolution that is going to be the end of March before we get that done. This has real impacts, as you all know, on the Department of Defense and on our ability to do what we need to, to protect this country and to maintain the global position we have in the world.

So I think there is a lot of important information in your report, but I guess I am in the camp that says all the problem is not at DOD. Some of it is there, but a lot of it is in Congress too, and we need to get our own act together.

So since I missed your testimony I guess one question that I have is if Congress were only going to adopt one, or DOD were only going to adopt one recommendation from your report, what would be the most important recommendation that we should be looking at?

Mr. HALE. Well, I will cheat and say put in place the Defense Resourcing System, which encompasses all of the 28 things we recommended. I do not know that there is one single silver bullet, Senator.

Senator SHAHEEN. I am not suggesting that it be a silver bullet but more the top priority.

Mr. HALE. Well, the Commission came up with 14 priorities. I do not want to speak for them and choose one. I will tell you that I think the extended availability of operating funds into the second year would do a lot to improve execution. It is not going to solve other problems of adaptability, which are also very important.

Can I also say, we did debate biennial budgeting, and frankly decided not to pursue it because it did not work when it was tried in the 1980's, and it did not work because there was never a 2-year appropriation bill. Actually, they did not even authorize it for 2 years.

Senator SHAHEEN. Well, that is the problem. There was not really biennial budgeting if you did not have a 2-year appropriation.

Mr. HALE. In fact, I go back to, I used to say Christmas is an action-forcing event, or winter holidays are an action-forcing event for budgets. I still think that is true. But as you think about changing the year I would urge you to keep in mind the problems it will create for the departmental workforce. You are going to have close-out occurring during Christmas, and I think we need to keep in mind what we are doing to these people if we do that. So I would urge you to think about dates that might make that less onerous on the workforce. But I understand your point. We also debated that issue at some length. It is not as if it was not paid attention to.

Senator SHAHEEN. Mr. Chairman, since he was addressing Senator Kaine's question can I have a few more seconds here?

Chairman REED. Absolutely.

Senator SHAHEEN. I want to go back to the small business piece because my State, like so many of the Members of this Committee's states have a lot of small businesses that are very engaged with the defense industry. One of the programs that has made a huge difference for them has been the SBIR program. Can you talk, Secretary Lord, to why that program is important and the need to re-

authorize it in a way that continues the innovation that we are seeing through small businesses?

Ms. LORD. It is critically important because the preponderance of our innovation comes from small companies, and we need the SBIR/STTR process to actually, I think, be made larger and be championed to a greater extent by the Department.

The budget is not transparent to small businesses. They cannot understand what budget line items they can address and then who they go to, to work on this. We also do not particularly train the acquisition workforce to work with small businesses, so there is a lack of capability, knowledge, transparency on either side.

I will say, I mentioned this earlier, there is actually a National Academies study right now looking at that process and how it could be done differently. I actually sit on that task force, so it is important to make these recommendations for the reauthorization, to make it a stronger system.

Senator SHAHEEN. Good. Well, thank you. Thank you all very much.

Chairman REED. Well, thank you very much, Senator Shaheen, and Senator Kaine. I want to thank you for superb work. This Commission was thorough, exhaustive, in looking at every option to improve what is now the PPBE system. It struck me in the course of the hearing, which I think was a very good one, is PPBE one of the reasons we cannot get an audit? Secretary Lord?

Ms. LORD. I think it has to do more with the business systems we have that we are talking about and the lack of clarity in the financial management kind of regulations. We have put Band-Aids on everything at DOD, and you get so many Band-Aids that you cannot get back to the core of what is going on. We do not go to base documents and build them up so we have contradictions in our own documentation. So we really need to kind of zero base sum of those regulations.

Chairman REED. But your proposals get at that problem, in a way, so if we could adopt many of your proposals, either administratively or legislatively, we would have a much more efficient system, which would be more susceptible to an audit.

Ms. LORD. I just want to say, I think Lara and the team are great resources for the FMR and what could be done, because they have lived with it, they have lived through the complexity, the contradictions. It leaves a lot of DOD employees in a very difficult position. How can they be compliant if they have different directions?

Chairman REED. In fact, I think one of the incentives I have observed over the years is after a while, you just want to make sure you check all the boxes. It is not getting the best product, and you want to avoid being censored later for violating an obscure thing. So that is a great reason why we do not perform as well as we must.

The other aspect of this, too, forgive me, but do you think Microsoft would be successful if it had the PPBE system?

Ms. LORD. No.

Chairman REED. Okay.

Mr. HALE. I just want to go back, just briefly, to the Financial Management Regulations. I have been working financial management now for about four decades. I have never heard of a funda-

mental look at that document, a zero-based look. It is updated all the time, but I am sure there are a lot of out-of-date provisions in there, and I also suspect some of them could be rewarded in ways that gives the Department more flexibility while still preserving your oversight. So it is one of those recommendations that only a comptroller could love, but I think redoing or a basic look at the FMR would be very important.

Chairman REED. That was not in your purview.

Mr. HALE. Well, yes it was. We actually recommend updating the PPBE documents and give the Financial Management Regulations as a specific example. Now we did not try to do it ourselves. That would have gone beyond our capability. It is going to be a big job, and the Department would need to establish a team that had the kind of expertise to deal with that level of detail. But I think it would be very important for them to do it, and yes, we specifically recommended that.

Chairman REED. That is a task that we have to urge on.

Ms. SAYER. They have actually started kicking off a working group for that right now, and they have a plan, I think, for a 20 or 30 percent update this year, and a 40 percent next year, so in 3 years it would be overhauled. So that is encouraging.

Mr. HALE. Yes, I agree, and I hope it is not just an update. I hope they go back. This needs a zero-based treatment, in my view. It has been 30, 40 years, maybe longer, since that has happened.

Chairman REED. Well, again, just to my point is that we have a system that is antiquated, to be kind. Unless we make some significant changes we are never going to be competitive in both financial responsibility as well as keeping up with our opponents. So this is not a question of getting to an order. This is a question of giving our Forces the equipment they need in a timely fashion, and I think we have to follow through.

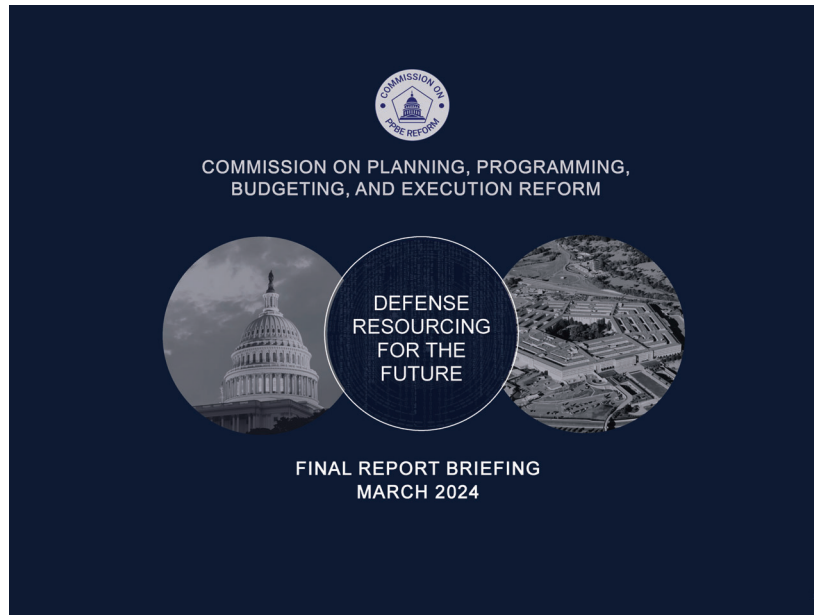
Again, let me commend you on your excellent efforts, and with that I will adjourn the hearing. Thank you.

Mr. HALE. Thank you, Mr. Chairman.

Chairman REED. Thank you, Mr. Hale.

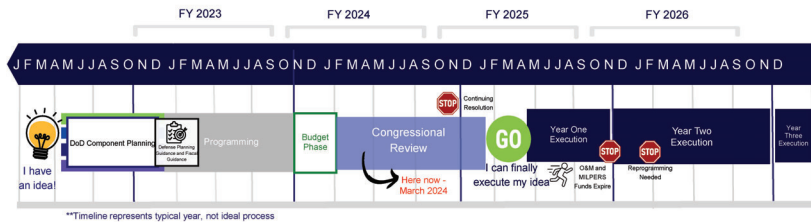
[Whereupon, at 11:21 a.m., the Committee adjourned.]

APPENDIX





THE NEED FOR RESOURCING REFORM



- Delivering capability is a complex process which needs the Requirements, PPBE, and Acquisition processes to all align.
- To acquire or start something NEW in FY 2025, I would have had to have the idea in 2023 or earlier.
- The Commission proposes improvements to speed decision-making and delivery of capability to ensure overmatch with our competitors.

3



FIVE CRITICAL AREAS FOR REFORM

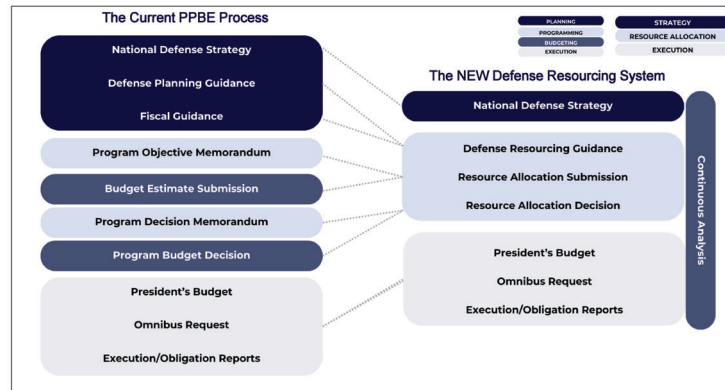


The Commission concluded that a new approach to defense resourcing is required and identified five critical areas for reform, which resulted in 28 actionable recommendations to transform all aspects of the defense resourcing process.

4



STREAMLINED RESOURCING PROCESS



The new DRS and other Commission recommendations strengthen the Department's ability to react to rapidly changing threats and technology to keep pace with near-peer competitors.

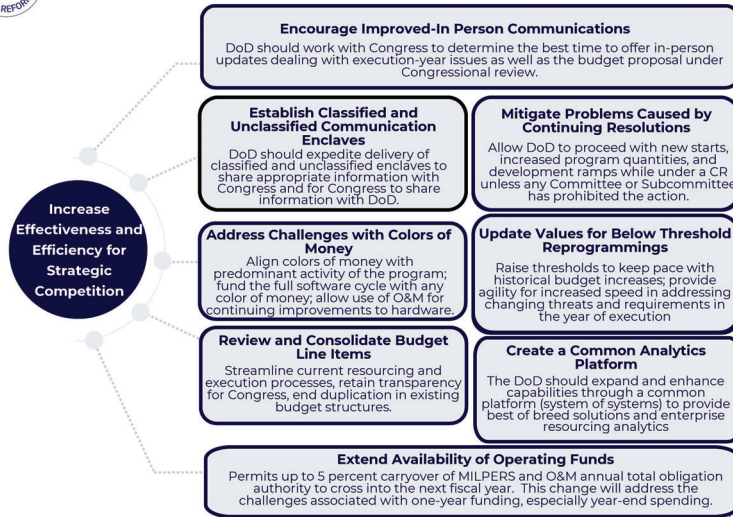
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TRANSFORMING THE BUDGET STRUCTURE

Current Structure	Proposed Structure
Life Cycle Phase (e.g., RDT&E, Procurement)	Service/Component (e.g., Air Force)
Service/Component (e.g., Air Force)	Major Capability Activity Area (e.g., Tactical Aviation)
Budget Line Item (e.g., PE 0604840F, F-35 C2D2)	System/Program (BLI) (e.g., F-35)
Project (if applicable) (e.g., 673501, Air Vehicle Tech Refresh 3)	Life Cycle Phase description(s) (e.g., RDT&E, Procurement, O&M)

6



7



ADVANTAGES OF THE NEW DRS

- The DRS will help DoD react to rapidly changing threats and technology and keep pace with strategic competitors
- Recommendations designed to foster innovation and adaptability allow DoD to respond at the speed of relevance while preserving congressional oversight
- A new budget structure and more definitive guidance better align budgets to strategy
- A focus on communications with Congress, business processes, and data analytics will improve relationships, increase the speed of decision-making, and accelerate delivery of capability to the warfighter
- Streamlining reduces duplication throughout the process

8



IMPLEMENTATION

Establish an Implementation Team for Commission Recommendations

- DoD should establish and resource an implementation team to oversee implementation of recommendations
- Team should be cross-functional, reporting directly to the Deputy Secretary of Defense, and temporary (lasting three to five years)

Congress must be involved in implementation efforts; collaboration is critical

9



FIVE CRITICAL AREAS FOR REFORM



10

BACK UP



COMMISSION CHARTER AND APPROACH

Section 1004 of the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2022 created an independent “Commission on Planning, Programming, Budgeting, and Execution (PPBE) Reform,” within the Legislative Branch, and **directed the Commission to conduct a comprehensive assessment of all four phases of the PPBE process** that governs how the DoD creates its resourcing strategy for the following five years and provides the framework and input for the President’s Budget request. The law directs a specific focus on budgetary processes that affect defense modernization.

400+ Engagements with 1,100 Stakeholders, Extensive Research



COMMISSIONERS



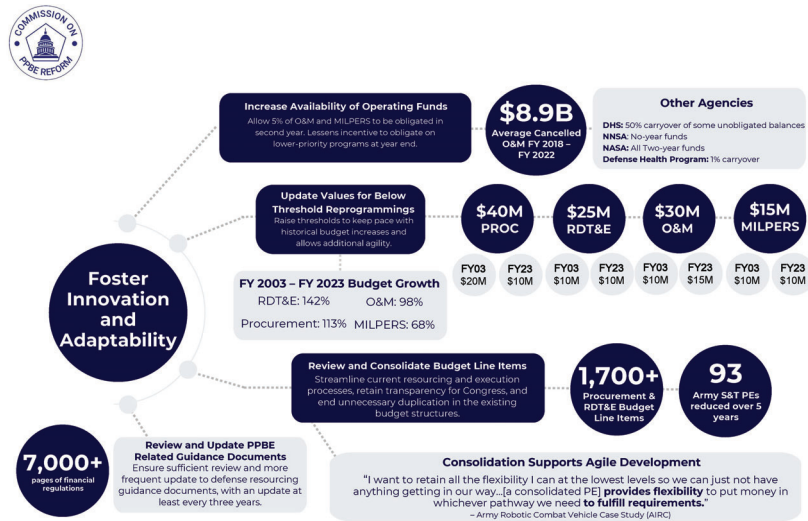
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DEFENSE RESOURCING SYSTEM STRUCTURE

Process	Step	Key Document(s)	OPR(s)
Strategy		National Defense Strategy (NDS)	OUUSD(P)
Resource Allocation	Guidance	Defense Resourcing Guidance (DRG) <i>(replaces DPG and Fiscal Guidance)</i>	AWG (CAPE as executive secretary)
	Build	Resource Allocation Submission (RAS) <i>(replaces POM/BES)</i>	Service/Component Resourcing Staffs
	Decision	Resource Allocation Decision (RAD) <i>(replaces PDMs/PBDs)</i>	OUUSD(C)
Execution		President's Budget	OUUSD(C) and Service/Component FMs
		Omnibus Reprogramming Request	
		Execution/Obligation Reports	
The new DRS is enabled throughout the process with continuous analysis and evaluation.			

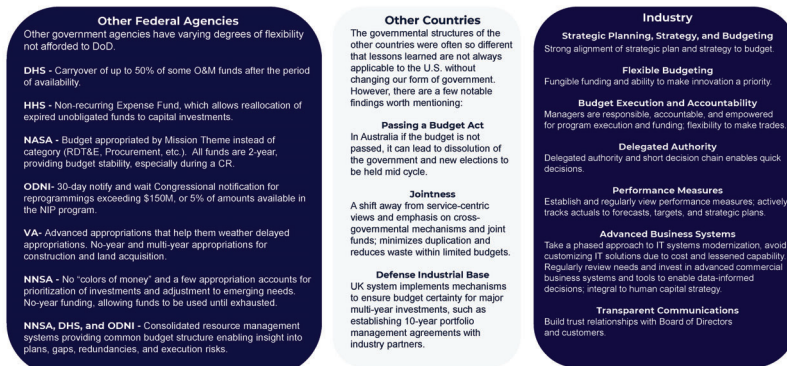
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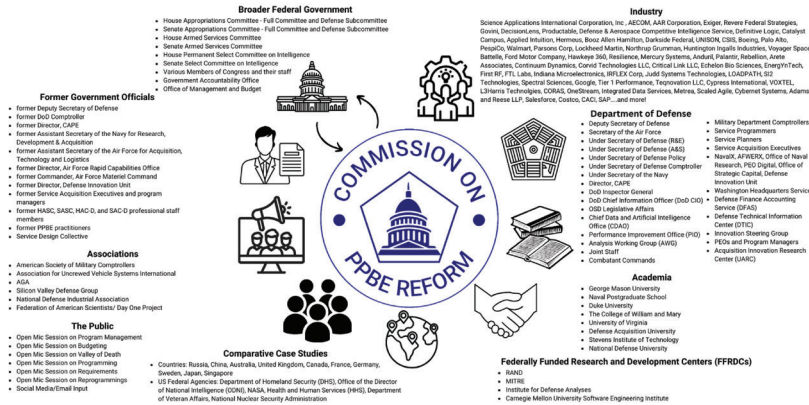
LESSONS LEARNED FROM FEDERAL AGENCIES, OTHER COUNTRIES, AND INDUSTRY



16



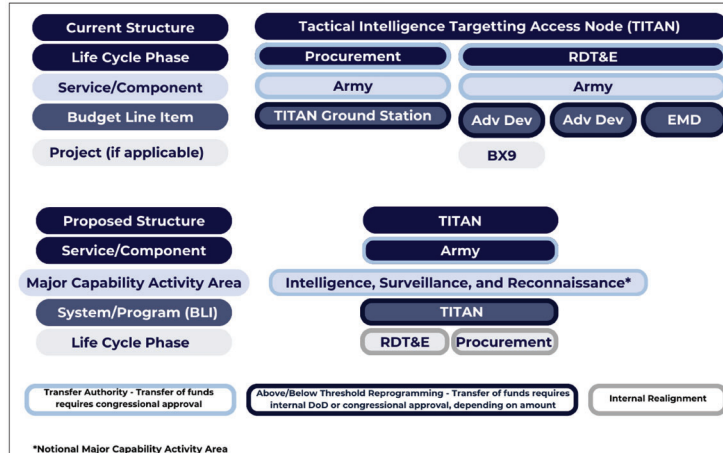
COMMUNITY ENGAGEMENT



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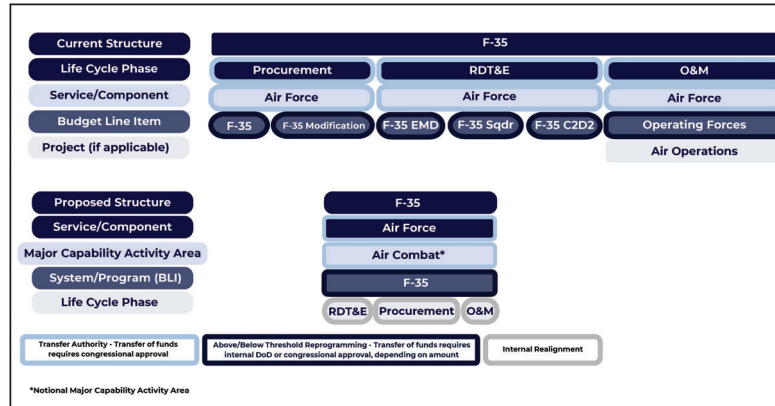
TRANSFORMING THE BUDGET STRUCTURE



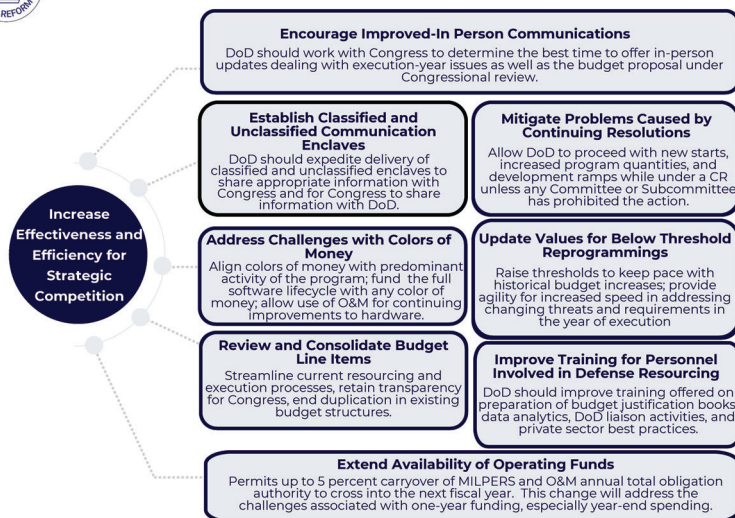
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TRANSFORMING THE BUDGET STRUCTURE



19



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