

HEARING TO RECEIVE TESTIMONY ON DEPARTMENT OF DEFENSE EFFICIENCIES INITIATIVES

TUESDAY, MARCH 29, 2011

U.S. SENATE
SUBCOMMITTEE ON READINESS AND
MANAGEMENT SUPPORT,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:34 p.m. in room SR-232A, Russell Senate Office Building, Senator Claire McCaskill (chairman of the subcommittee) presiding.

Committee members present: Senators McCaskill, Begich, and Ayotte.

Majority staff members present: Peter K. Levine, general counsel; Jason W. Maroney, counsel; Roy F. Phillips, professional staff member; John H. Quirk V, professional staff member; and Russell L. Shaffer, counsel.

Minority staff members present: Pablo E. Carrillo, minority investigative counsel; and Lucian L. Niemeyer, professional staff member.

Staff assistants present: Hannah I. Lloyd and Breon N. Wells.

Committee members' assistants present: Gordon Peterson, assistant to Senator Webb; Tressa Guenov; assistant to Senator McCaskill; Lindsay Kavanaugh, assistant to Senator Begich; and Brad Bowman, assistant to Senator Ayotte.

**OPENING STATEMENT OF SENATOR CLAIRE McCASKILL,
CHAIRMAN**

Senator MCCASKILL. The Subcommittee of the Senate Armed Services Committee on Readiness and Management Support will begin. And today we're going to have a hearing on the Department of Defense Efficiencies Initiatives.

The Subcommittee on Readiness and Management Support meets this afternoon to hear testimony on the efficiencies initiatives—say that three times real fast—[Laughter.]

announced by the Secretary of Defense.

We're pleased to have the Department of Defense Comptroller, Robert F. Hale, and the chief management officers of the three military departments—Under Secretary of the Army, Joseph Westphal, Under Secretary of the Navy, Robert Work, and Under Secretary of the Air Force, Erin Conaton—here today to address this important issue. I welcome you all, and I thank you not only

for your testimony, but for your contributions to the Secretary's efforts at efficiencies.

I fully support the Secretary's objectives in reducing the duplication, overhead, and excess in the Defense enterprise and instilling a culture of savings and restraint across the Department of Defense. As I stated at our previous hearing, I do not believe there is anything the Department is doing that we cannot do better, and I do not believe there is any part of the budget that can be off limits as we look for savings.

I believe that the Secretary was on the right track when he announced a reduction in funding for service support contracts by 10 percent per year for 3 years, a freeze on the number of OSD, Defense agency, and combatant command positions, a freeze on the number of general officer, flag officer, and senior executive service positions, a review and reduction of the number of reports, studies, and advisory boards, new limits on senior executive service positions and support contractors for DOD intelligence functions, and the elimination or consolidation of several Defense commands and agencies.

I'm also pleased that the military departments have followed up by proposing additional economies, including consolidations of functions and facilities, cuts to funding for recruiting and retention, increased use of flight simulators, reductions in inventories in pre-positioned stockpiles of materials, the deferral of military construction, and the termination of lower-priority acquisition programs.

I also want to thank you witnesses today for the additional detail you have provided on the Department's efficiencies initiatives over the last few days. As you know, that information includes written rationales for specific elements of the effort and detailed funding tables showing the expected savings. It has seemed like pulling teeth to get the detailed information we need to understand exactly what you plan to do and why you think it's going to save money, but the information that you have now provided is a huge step in the right direction, and puts the entire effort on a much sounder footing. We really appreciate it.

Nonetheless, the proposed efficiencies initiatives raise some difficult questions, which I hope we will begin to answer in the course of today's hearing. For example, although the Secretary stated on August 9th that he intended to reverse the dramatic increase in the Department's use of service support contractors, the Department now proposes to cut spending on service contracts by just 1.3 billion this year, less than a third of the 4.5 billion it plans to cut from the much smaller amount spent on the Department's civilian workforce. Will this disproportionate cuts to the civilian workforce accelerate the outsourcing trend that the Secretary has promised to reverse?

In his August 9th speech, the Secretary of Defense announced that he would conduct a "zero-based review," quote/unquote, of the Department's intelligence organizations, require a 10-percent freeze in reduction in funding for the advisory and assistance contractors, and freeze the number of senior executive positions in the Defense Department intelligence positions. Yet, the budget calls for a savings in the Defense Department intelligence budget of only 41 million in fiscal year 2012 and 372 million over the Future Year De-

fense Program, which is—represents another additional 5 years. Is that really the best we can do?

In addition to the Defense-wide initiatives and the service-specific initiatives, we have a third set of initiatives, the, quote, “better buying power,” end of quote, acquisition reform initiatives announced Secretary Carter. While the Defense-wide initiatives are expected to achieve 78 billion in savings, and the service-specific initiatives are expected to save 100 billion—however, no savings at all are credited to this acquisition reform initiative. Why not?

I understand that the chief management officers of the three military departments, our witnesses here today, are responsible for the implementation of the service-specific initiatives in this efficiency effort. However, the chief management officer and deputy chief management officer of the Department of Defense appeared to have played little role in the Defense-wide effort to date. Who will be responsible for implementing the Defense-wide efficiencies initiatives? Who can we hold accountable?

Over the last decade, the Defense budget has grown from just under \$300 billion in fiscal year 2001 to almost 550 billion in fiscal year 2011, an increase of over \$250 billion on an annual basis. And that’s the base budget. That is not counting the cost of overseas contingency operations. I want to repeat that, make sure that we understand what the numbers are we’re working with. In a decade—less than a decade—we have gone from a base budget at the Pentagon of \$300 billion to a base budget of \$550 billion, not counting any of the costs that we have incurred in Iraq, Afghanistan, or the current international assistance operation that is ongoing in Libya.

Measured against that yardstick, the Secretary’s proposal to find savings of 24 billion and reduce the top line of the Defense budget by about 14 billion in fiscal year 2012 seems much more modest than draconian. In fact, I question whether, in this time of economic and fiscal duress, can we afford to allow the military departments to reinvest the 10 billion they plan to save this year through cuts to excessive bureaucracy and underachieving programs? When we move forward with the National Defense Authorization Act for fiscal year 2012, I may offer an amendment to strike this added spending from the bill so that we can apply the full savings against our rising budget deficit.

I welcome all the witnesses today, again, and thank you.

And now, I will ask the ranking member, who we are—I’m so—it’s so great to have her on board, Senator Ayotte.

[The prepared statement of Senator McCaskill follows:]

[SUBCOMMITTEE INSERT]

STATEMENT OF SENATOR KELLY AYOTTE

Senator AYOTTE. Thank you very much, Madam Chairwoman.

And I thank the witnesses for appearing before our committee today, and for your service to our country during these difficult times.

This hearing really goes to the heart of the fiscal crisis that we face as a Nation. And certainly, I’ve heard from people in New Hampshire that—in sending me to Washington, that we need to address our Nation’s fiscal crisis and reduce Federal spending. And

I certainly plan to honor that commitment. We cannot continue to spend what we don't have, and we must closely scrutinize every Federal agency, including the Department of the Defense, to identify and eliminate wasteful or duplicative programs. As the National Commission on Fiscal Responsibility and Reform stated in their final report, *A Moment of Truth*, quote, "Every aspect of discretionary—the discretionary budget must be scrutinized. No agency can be off limits. And no program that spends too much or achieves too little can be spared."

I commend the Secretary of Defense for his commitment to review the Department's operations to find better ways to do business. The services now plan to fund new modernization initiatives from within the budgets that will remain steady, as adjusted for inflation, in the next few years. In addition, the Secretary's review of all Department functions reduces overhead costs by \$78 billion over the next 5 years, starting with \$13 billion in fiscal year 2012, from the amount projected in last year's President's budget for the Department.

But, let's be clear: only in the current climate here in Washington, D.C., can an agency propose a cut in the rate of growth of future budgets and call it a triumph. In a year when we are facing what—close to a \$1.6 trillion deficit accruing at over \$200 billion a month, cutting \$13 billion from projected \$566 billion requests hardly makes a dent. Local and State governments around the country are looking at their outlays today and cutting back now just to remain solvent. We need to instill that—this same mindset and same sense of urgency in the Department of Defense.

DOD funds provided for specific purposes, but no longer needed or in excess of that requirement, should be returned to the General Fund of the Treasury, as opposed to funding lower priorities. For example, our committee has challenged requests to use savings from the Base Realignment and Closure accounts to fund new military construction projects, and will continue to do so. We should not fund additional projects that did not make the cut the first time.

I would also like to hear how the witnesses plan to change the widespread mindset in the Pentagon, which encourages program managers to spend all the money available in order to justify future budget requests. I ask the witnesses to consider an overarching efficiency initiative for the Department's budgeting system to provide incentives to program managers to be rewarded for spending less, as opposed to being penalized, in the future budgets, for not spending every dollar that's given to them.

In addition, the Department needs to stop carrying out earmarked programs that are not core DOD activities. Substantial savings will not be realized until the Department commits to spend only what is absolutely essential for the warfighter and critical Department—Defense Department functions.

I'm also concerned that some of the efficiencies may actually defer expenditures critical to our military readiness, which increases risk to our military forces and to our National security. Reduced funding for facility maintenance, aircraft maintenance, military construction, and flying hours are not savings or efficiencies. The negative consequences of the CR on our core readiness func-

tions, like ship availabilities, we're already seeing and are bad enough. We should not compound the damage of the CR on our military's readiness by pushing core readiness requirements to future years that will eventually have to be funded.

I ask our witnesses today, for the record, to delineate those spending cuts proposed in the budget request that defer requirements, assess the risk of each one, and propose a plan for their eventual payment. This committee needs to honestly and accurately assess this risk, on top of the years of accumulated risk, to the readiness and training of our forces. In a time of turmoil and uncertainty around the world, which we've certainly seen with the recent events in Libya and the Middle East, we must be clear about the true effects of reduced military spending in critical readiness areas proposed under the guise of efficiencies.

I also support the Chairman's previous call for financial statements for the Department that can be audited. Given how defective the Department's financial processes and systems are, I have to wonder how the projected savings will actually be realized without having a strong system in place that can be audited. Without tracking and understanding current expenses, the Department has no way to establish a baseline to measure the performance of any efficiency initiative. I'm concerned that the Air Force, for example, does not have a plan to be audit-ready until the end of 2016. I think the average American would be surprised and disappointed to know that the Department does not currently have fully auditable statements, and does not expect to have them until 2017. This is too late. The Financial Improvement and Audit Readiness Initiative should be the Department's top efficiency priority.

Finally, Madam Chairman, I hope you will share my commitment to avoid, today—which I know you have said in previous hearings—to avoid using gimmicks to get around the ban on earmarks that Congress has adopted this year. Adding unspecified lump sums to certain DOD accounts without a vote by this committee or the full committee, and then allowing the Department to pick and choose the special-interest items to fund with the additional money, is not consistent with my definition of fiscal responsibility and accountability.

I look forward to a productive and open discussion with our witnesses today, and appreciate, again, your commitment to our country. This is a very important hearing, and I appreciate you all being here today.

[The prepared statement of Senator Ayotte follows:]

[SUBCOMMITTEE INSERT]

Senator McCASKILL. Thank you all for being here.

And I will go down the list in the order that I have them listed on the witness sheet, which means we will begin with Secretary Hale.

**STATEMENT OF HON. ROBERT F. HALE, UNDER SECRETARY
OF DEFENSE, COMPTROLLER**

Mr. HALE. Thank you. Well, good afternoon, Madam Chairman, Senator Ayotte, Senator Begich. Thank you for the opportunity to discuss our efficiencies initiatives.

I'm joined today by the Under Secretary's chief management officers. We've submitted a statement. I hope you'll include it in your record. In the interests of time, I'll summarize. I'll start. And then I'm going to ask each of the service secretaries to discuss issues for their service. And I'll end with a short summary about implementation.

At the outset, let me note that, like Congress, we're mindful of the fact that the United States is dealing with significant fiscal and economic pressures that affect our Nation and our Nation's defenses. As a result, our past budgets for fiscals 2010 and 2011 included steps to curtail or eliminate weapons. The secretaries' reform agenda didn't begin with the budget we submitted to you. We've terminated seriously troubled programs. We've ended some where we thought we had bought enough. We terminated or restructured more than 20 weapons programs in the 2010 and 2011 budget.

But, the one that we just submitted in 2012, we shifted our focus to streamlining our business operations. There are some further terminations of weapons, but the focus is on the business side. We've created plans that will save \$178 billion in fiscal years 2012 to '16. And I'll say, I've been looking in and around Defense budgets for more than 30 years. I have never seen one with as far-reaching a set of business streamlining as this one.

The under secretaries will briefly describe how their plans are to save about \$100 billion of that amount, which they have retained and reinvested in high-priority warfighter capabilities.

I'll now speak to the 78 billion in Defense-wide savings. These savings were used to accommodate a reduction in the top line in support of the administration's deficit reduction efforts. Now, note this 78 billion, as you pointed out, results in a reduction in the rate of growth in Defense spending, not a cut from current—from the current level. Even with the 78 billion, we'll go from 553 billion request in 2012 to 611 by 2016. And there is some modest real growth there. And we can discuss this more later. But, I would say, we not only have a deficit problem, we also have some very significant national security challenges. And we feel that we need this funding to handle, whether it's Afghanistan, getting—finishing the mission in Iraq, Libya, Japan, and many things that we are responsible for undertaking.

In order to protect the capability for the warfighter, most of our top-line savings, that 78 billion, came from efficiencies and other changes in the portions of our budget less closely related to warfighter capability. About 68 billion of the 78 came from improving business practices, reducing personnel costs, and changing economic assumptions.

Let me cite a couple of examples to give you a flavor for what we did. We're proposing steps to slow the growth in military medical costs. While we continue to provide, and will continue to provide, the troops and the families and retirees with high-quality medical care, we're concerned that DOD's medical care costs are skyrocketing. They've gone from \$19 billion in fiscal 2000 to \$52 billion in fiscal '12. To slow that growth, we've proposed incentives to increase the use of generic drugs and mail-order delivery. We've proposed a modest increase in TRICARE enrollment fees for work-

ing-age retirees, the first since the mid-1990s, and we've indexed those fees to a medical deflator. We also propose to end some special subsidies for private-sector hospitals that currently receive premium claims rates. Expected savings will total 340 million in fiscal '12 and 7.9 billion through fiscal 2016.

And I ask the Congress's help here. I know these are hard things to do, but we have to make some of these tough decisions if we're going to find ways to hold down the growth in Defense spending.

A second example of Department-wide cost-cutting involves personnel decisions. We've proposed a DOD-wide freeze on civilian billets, with some limited but important exceptions, such as the one for the acquisition workforce. That will save 2 and a half billion in fiscal '12 and 13 billion over the fiscal yearDP.

We also proposed a 30-percent reduction in the number of contractor employees performing staff augmentation work. It's an important distinction. That is people that are essentially—we've hired to do jobs that could be done by government employees. That'll save 812 million next year, 5.7 over the fiscal yearDP.

Over the next 2 years, we plan to reduce or downgrade 140 general officer and flag billets, and more than 200 senior civilian billets. The savings there will be modest, but it does go toward Secretary Gates' goal of flattening the Department's organization.

Third, we're streamlining the Department's organizational structure. That includes disestablishing the Joint Forces Command, at a savings of 2 billion over the fiscal yearDP, and the Business Transformation Agency, which will save another 337 million.

All together, actions affecting the portion of the budget least directly related to warfighting account for about 87 percent of that top-line reduction. The remaining roughly 10 billion involve decisions more directly related to combat capability: a \$4 billion restructuring of the Joint Strike Fighter—but, frankly, we would have done that anyway, because of slips in the program—and \$6 billion from a—proposed decreases in the end strength of the Army and the Marine Corps in fiscal 2015 and 2016, assuming that future security circumstances allow such reductions with minimal risk.

As I said earlier, in addition to the 78 billion in Defense-wide savings, the services have gone through their own cost-cutting exercises, which saved more than a billion dollars, or plan to, in fiscal 2012 through '16. These are organizational improvements, changes in business practices, termination of underperforming or unneeded weapons. Of those savings, 28 billion were reinvested to pay for higher operating costs or pay for readiness enhancements, essentially. I think that this—rather than hollowing out or decreasing readiness, we're actually—this initiative is designed to improve it. Certainly in Secretary Gates' mind. It included depot maintenance. It included more flight hours and training. The remaining 70 billion, they reinvested in other higher priorities.

So, now let me ask each service Under Secretary to provide some details, beginning with Army Secretary—Under Secretary Joseph Westphal. That will be followed by Under Secretary Robert Work and Under Secretary Erin Conaton.

Joe?

**STATEMENT OF HON. JOSEPH W. WESTPHAL, UNDER
SECRETARY OF THE ARMY**

Mr. WESTPHAL. Madam Chair, thank you very much for having us here today. Senator Ayotte, thank you. Members of the Committee.

I will also have a little statement. And rather than read that, I'll just maybe make a few summary points. I think you know everything that's on it already. So, not to belabor the committee's time.

I will say that, actually from our perspective as chief management officers, we actually welcome a dialogue with the committee about these issues. I think we're entering upon a very, very turbulent period of time, both in terms of the fiscal standing of our Nation's budgets, but also in terms of the nature of operations out there. And as we try to draw down out of Iraq and gain momentum in Afghanistan, and do all the things that we need to do to support this Nation's security, I think these discussion are going to be very important.

In the Army, as you know, the—what we call the generating force—that is, all those elements of military and civilian that support our operational force—has been reduced, in significant ways, to support and to be part of the operating force. So, part of what we need to do as we move forward, in terms of efficiencies, is to ensure that we don't further undermine the generating force so that we always have ready and trained troops ready to go. And so, a lot of the efficiencies that we identified, in our efforts to gain approximately 29—\$28 to \$29 billion, were aimed at ensuring that we didn't undermine the generating force.

For example, we made sure that support for base operations was an important investment in ensuring the maintenance and growth and sustainability of the generating force, as opposed to simply moving all resources over to—to shifting resources from one side of procurement to another side of procurement. We did some of that, as well.

But, the gist of it is that we believe that the Secretary's efficiency initiative for the Army was the beginning—as I think Secretary Hale mentioned, the beginning of an effort to really, really become much more adept at addressing the very, very difficult issues of, How do we reduce, how do we shift resources? Whether you're reducing the workforce or whether you're eliminating programs, or whether you are reducing or taking down structure, the processes that we have to follow to do that are complex and often difficult to maneuver through. So, we've had some valuable lessons learned in this process. And I think we've employed some techniques that we could talk about during the question-and-answer that I think will help us address many of the concerns that both of you have mentioned in your opening statements.

I think you know, and for the record, what we did to gain that 29 billion in savings, both on the procurement side, on the infrastructure side, on the personnel side. And so, I won't detail that to you now. But, I'll be glad to answer any questions and address it as we go forward in the interview.

Thank you very much.

Senator MCCASKILL. Thank you, Mr. Secretary.

**STATEMENT OF HON. ROBERT O. WORK, UNDER SECRETARY
OF THE NAVY**

Mr. WORK. Madam Chairwoman, Senator Ayotte, Senator Begich, I echo Joe and Robert's "thank you very much for having us here today." And we are very, very interested in continuing a dialogue with both the committee as—and Congress, writ large.

I'd like to echo that this is something very different, this entire efficiencies effort, than anything that I've seen through my 27 years as an Active-Duty Marine and since my retirement. The breadth of the effort was quite striking. We had aggressive top-down targets. Each of the Departments were given \$30 billion to hit on their efficiencies targets. And we were given very explicit types of targets. So, I think you know that one-third were supposed to come from what we referred to as "tooth and two-thirds from tail," or, pretty much, overhead.

We had vibrant debates within the Department on the type of codes that we should actually map the efficiencies. We had close interaction with all of the Unders. The Under met, if not weekly, biweekly. You had a question with the DCMO. We met frequently with the DCMO. We also met with Bob Hale and Christine Fox from CAPE. It was a very iterative process. We were pushed very hard after the first 30 billion rounds, for example, we were given another track II.

So, the way the Department of the Navy went about this is, we tried to have four kind of broad areas. One through reorganizations, which we've given several examples of what we might do, but we disestablished staffs, the Second Fleet, et cetera. And we've reduced personnel ashore. And we did that by going through each of the 200 and—over 200 bases and stations, and went through and asked what we might be able to do with fewer people. We did better business practices. And that included buying smarter. But, to answer Senator Ayotte's question, we actually looked at all of these input metrics like FSRM, which are really just models where you would just dial in 90 percent or 80 percent. You take a look at your flight hours and you dial in a certain percentage and you take a look at your ship depot maintenance. And we tried to do everything from a percentage—from the perspective of, How could we do this better? So, example on FSRM, rather than just taking a look at a—

Senator MCCASKILL. Would you say what FSRM is?

Mr. WORK. Oh, I'm sorry, ma'am. It's Facilities Sustainment, Restoration, and Modernization. So, there would be a model that said you were supposed to do 90 percent of all of the different types of requirements. What we would do is try to go to each base and say, "Okay, what's really wrong on this base, the highest priority thing, is to replace this specific roof, because if this roof caves in, you would have much harder problem. So, we have a much better idea of what the prioritization of all of these things are. And we think we will be able to be far more efficient in this way. And the same way on flight hours, for example. We went through each type and model series of aircraft and looked to see how that might work. We also looked at program eliminations, as Mr. Hale said, like the expeditionary fighting vehicle and the SM2 missile.

And we took all of this money. And what really made this different is each of the Under and the service chiefs and the service

secretaries were told to reinvest this money into high-priority warfighting, since this was the initial goal of this effort. So, we were able to put more people to sea. We were able to accelerate programs like the next-generation jammer. We were able to buy and accelerate new capabilities, like the medium-range unmanned aerial system. And we were able to fully pay for things that we had planned but had yet to put in the budget, like SLEPs, on our aircraft. And we were able to take all of the money from, for example, the expeditionary fighting vehicle, and put it into Marine Corps ground combat equipment strategies, which made the force much more whole.

We also were able to convince the Department—it didn’t—actually, it didn’t really take a lot of convincing—that energy should be considered “tooth.” And so, we put an awful lot of investment into energy, because we expect that to save us a lot of money downstream.

I can’t overemphasize that one of the most important things on this efficiencies drill is to try to get the CR resolved. An efficiencies effort has to have a baseline. And with the baseline constantly changing, this really causes us a problem. So, the CR itself will allow us to be much more efficient than we are now. We are, quite frankly, doing things that are inefficient. And I think any other businesswoman or businessman would say, “What in the heck are you doing this for?” So, we hope that the CR, in conjunction with this effort, will allow us to be much more efficient.

I look forward to your questions.

Senator McCASKILL. Secretary Conaton.

**STATEMENT OF HON. ERIN C. CONATON, UNDER SECRETARY
OF THE AIR FORCE**

Ms. CONATON. Chairman McCaskill, Senator Ayotte, Senator Begich, members of the staff, thanks very much for having us here today. I join with my partners in appreciating the opportunity to continue the dialogue on where we go from here with efficiencies.

Like the rest of the services, the Air Force worked hard to meet the targets that Secretary Gates set out for us; in our case, about \$33 billion in efficiencies. And, as Bob was saying, to do this, we looked at all aspects of our work. We looked at all categories of support activities, from installations to sustainment to acquisition, overhead, and through those whole range of processes.

We also looked at how we do business. Secretary Work gave, I think, a good example with the facilities sustainment account, and we can talk more about that. But, there are other areas where we’ve changed our business process in order to become more efficient. And then, we also looked at industry best practices to see what folks in other parts of the country are doing that could lend lessons for us.

At least within the Air Force—and we can go into any number of these details, as you like—but, we had organizational and headquarters consolidations with some of our air and space operation centers and with numbered air forces. We had a number of logistic support efficiencies, everything from how we sustain our weapons systems to over \$700 million in fuel savings from additional efficiencies there.

And in the space arena, we've tried to improve our acquisition processes, and we're proposing, for your consideration, and would like to work with you as you get ready for the Defense Authorization Act, on a new approach for how to buy two of our advanced extremely high frequency satellites in a way that we think will reduce costs and provide greater stability to the industrial base.

We were able to use the funds made available through these efficiencies in a range of enhancements that we believe enhance both warfighter capability and readiness. For the Air Force, we put a significant amount of money, about \$4 billion, into weapons systems sustainment, which has a direct bearing on our readiness rates. We've developed and are pursuing an affordable long-range penetrating bomber as part of the Department's long-range strike family of systems. We're procuring more evolved expendable launch vehicles, both to ensure access to space and to stabilize our industrial base. And we're transitioning our MC-12 ISR aircraft, that's doing such amazing things over in Afghanistan, into our base budget to be an enduring capability.

We know that in order to achieve these goals we need to make senior—individual senior leaders accountable for developing and executing detailed implementation plans. And I'd be happy to talk about this more as we get into your questions.

The Air Force is using our existing corporate governance structure, including the Air Force Council, which is chaired—cochaired by myself and the Vice Chief of Staff, to regularly review the progress we're making on achieving these targets. We're particularly looking at the readiness impacts to make sure that there's no unintended consequences when it comes to the readiness of the force. But, from the Secretary and the Chief on down, we're committed to achieving these goals. And we know that in order to do that, we have to work with our partners in the Department of Defense and with you all in order to be successful.

So, I think, with that, I'll turn back my time and just look forward to answering your questions.

Thank you very much.

Senator MCCASKILL. Thank you very much.

Mr. HALE. Can I just finish up with—

Senator MCCASKILL. Sure.

Mr. HALE.—a point on implementation, which is, the chief management officers, as you said, will monitor for the services. I'll join with the OSD deputy chief management officer to look at the OSD-wide initiatives. And all of us will report to the Department CMO, Deputy Secretary Lynn.

We will work with the Congress. You asked, in the letter, about legislative requirements. Generally, these don't require that. But, there are a couple of cases that do; one in the medical care area, one that Erin referred to as the space efficiency. We need legislative authority there. I'm a little embarrassed to say we don't have the language to you yet, but I'm told it's coming soon.

Let me just say, lastly, we're talking a lot about efficiencies. Unfortunately, in fiscal '11, I think we're moving in the opposite direction with the continuing resolution. I know we are. I mean, it is causing inefficiencies. We are forcing our contracting officers to go to short-term contracts to preserve capability. We've got several

hundred military construction projects on hold, as well as a number of procurement actions. I'm concerned that an already understaffed and under-experienced contracting workforce is going to have trouble catching up in a way that's efficient. So, anything that you can do—I know that there's difficult issues here—but to get us a budget for fiscal '11 would be very helpful.

And let me just end by thanking you for your support of the men and women in the military. We very much appreciate it. We can't maintain our National security without the Congress, and we appreciate it.

With that, we'll stop and answer your question.

[The prepared statement of Mr. Hale, Mr. Westphal, Mr. Work, and Ms. Conaton follows:]

Senator McCASKILL. Thank you very much. Thank all of you.

Let me start with the idea that the Secretary authorized the military departments to bring down 100 billion and then spend 100 billion. And I—you probably can guess what my question's going to be. Last summer, none of this spending was in any of your budgets. And so, you were ready to submit your budgets to the Secretary of Defense without this additional spending. And now—you felt you could do without it—and now you're presenting to us a budget that includes this additional spending, at the exact moment that we can't get a CR passed because we can't agree on how much money to cut from the budget. And clearly, you see what's coming down the road. I mean, this is going to be an exercise in cutting the size and scope of the Federal Government for the foreseeable future.

So, how can I agree to allow you to spend the money that you find in efficiencies on something that you didn't even have in your budget before the Secretary announced the effort?

Mr. HALE. Well, let me start by saying that simple number cuts are math, not strategy; we need to consider what we won't do if we have to walk back through those cuts. I hear your point; they weren't there last year. But, many of them probably would have been. We would have looked at other programs, including, frankly, some readiness-related ones, and cut them in order to do the sorts of things we were able to achieve through these efficiencies: adding ships so that we could maintain a 300-ship force; starting a new bomber program, because we feel we need it for interdiction—access interdiction in the future; upgrading some of the Army's older weapons, which we feel we need, because we're going to have to keep them out on the battlefield for many years.

So, we face some very significant national security challenges. And Secretary Gates believes, and I certainly agree—I know all of us will, here—that we need these funds to invest in order to meet those challenges.

Let me ask my colleagues here. You want to—

Mr. WESTPHAL. Well, I'll—

Mr. HALE. You want to start, Joe?

Mr. WESTPHAL. Yeah.

I think you bring up a good point. There certainly were things in the budget that we weren't possibly going to be able to fund. But, by finding these efficiencies and these savings, we were able to shift money. In the Army, for example, we knew we had a tremendous need to bring in more folks into the workforce to help us

with counseling and substance abuse, suicides. We have a pretty significant personnel need there. We were able to shift some of the resources from one end of the savings efficiency initiative to that. We were able to do the recap of some of these older systems as a result of also eliminating or terminating major weapons systems, as a result of our portfolio reviews.

The network, which is one of the most critical and most important priorities for the Army, something that is very costly, we're able to shift more resources to pushing the network further ahead, in the hopes of really—really, really making great, great progress in that particular area.

So, we moved resources to things that—some things that we were funding that we needed to fund at higher levels and to things that we really needed, really needed to provide to the warfighter today.

Mr. WORK. Ma'am, I think Senator Ayotte said it very well. Having the incentive structure to do any type of effort like this is very important. So, Senator Ayotte mentioned trying to have incentives where contracting officers wouldn't be rewarded for spending all their money.

In this case, Secretary Gates, who said our rate of growth is going to slow down—and he anticipated this—he said we would have to find or free up resources within our expected top line, last summer. And the incentive was that the services would be able to keep the money.

Now, this was a significant effort. There have been other efficiency efforts that I've been into where the incentives, if you don't get to keep the money, then you don't get as many or as bold reorganizations or efficiencies as you might otherwise expect.

So, this year is kind of the third year of an extremely turbulent time. We went through the QDR, which was really trying to match our budget to the strategy. Last year, it was really trying to be more efficient within that expected budget. And as you mentioned, this year is going to be trying to accommodate the new fiscal realities.

So, I see this as all part of a long three-term effort. I'm certain that the Secretary of Defense did. And he anticipated us going out. But, having that incentive for us to look for efficiencies and being able to invest it into warfighting was, I think, the key thing that allowed us to do what I consider to be many, many innovative things.

Senator MCCASKILL. Okay.

Quickly, if you would.

Ms. CONATON. I'll give you two quick examples. Before we got started in this effort, the Air Force was having to consider taking down major parts of its force structure just to balance the books. So, I would say that if we didn't have the ability to reinvest, we'd be looking at making adjustments to the size or capability of the force.

The other thing I'd say, on the readiness side, is that it was only because we had the ability to reinvest that we were able to sustain our readiness rates through weapon systems sustainment. The growth in cost there, because of the new intelligence, surveillance, and reconnaissance platforms and others coming into the fleet,

have driven the costs up to a point where it would have been very difficult for us to maintain those rates that contribute to readiness.

Thank you, Madam Chairman.

Senator MCCASKILL. Thank you.

Let me get to the—this will be my last question for this round, and then we'll all come back, after my colleagues have a chance to question—but, let me talk about the balance between contractors and civilian employees.

I mean, the announcement was welcome news to me, and it was, “We’ve got to wean ourselves off of this incredible explosion of contractors within the Department of Defense.” And I am very aware of the size and scope of that explosion. And—but, then I look, and in reality what’s happened is, you’ve cut civilian workforce more than you’ve cut the contracting workforce. And I thought the idea was, we were going to try to go the other way, because the contracting has not turned out to be the kind of cost saver that I think it was touted to be in the last decade.

So, how does—how do we get a handle on this if, even after the Secretary says we’re going to do this, we do the opposite?

Mr. HALE. Well, I need to look at the numbers. The concept was what you said, that we froze civilians, with exceptions for the acquisition workforce. And they were actually cut below current numbers, at least in selected categories of contractors, namely the so-called staff augmentees.

The numbers are slippery. There was an article, a very confusing article, in Congressional Quarterly today, that suggested there was actually an increase in contractor spending. It was measured off the CR level in a rather arbitrary budget that we had to present in ’11, because we don’t have an approved budget, so we don’t have a baseline.

So, I’m not sure I can respond to your direct numbers. I’m going to have to look at them for the record.

[INFORMATION]

Senator MCCASKILL. Well—

Mr. HALE. But, the concept is, civilians stay about the same, or maybe up slightly for acquisition, and we estimate some cuts in the contractor workforce.

Senator MCCASKILL. Well, I—and that’s—let me give you the numbers that we think are accurate. We think that you’re cutting spending on service contracts by 1.3 billion this year. And that represents less than a third of the 4.5 billion you plan to cut in the civilian workforce. So, it looks like close to three times as much. And we’ll — we’d love to get to the bottom of that, also.

Mr. HALE. Let’s do that for you—

Senator MCCASKILL. Senator Ayotte.

Senator AYOTTE. Thank you very much, Chair.

I wanted to ask a followup to what you just raised, Secretary, about—and I believe Secretary Work, as well as Secretary Hale—the incentives for contractors and the incentives within the Department. This—obviously, it’s very important that we’ve undertaken this efficiency incentives to come up with these savings. But, how do we put that into the permanent mindset of the Department? And what do you view, right now, as the way that we carry forward this process so that it is an ongoing process and that we’re not left

where—I see now, where the duty is—people feel like, at the end of the year, they’ve got to spend everything they have, even if they don’t need it?

And then, second, with our contractors, as the Chairman has pointed out, where’s the incentive for the contractors to find efficiencies and save money?

So, I view it in two veins, not only those that work in the Department of Defense, but also those that we contract with. How are we going to memorialize these efforts?

Mr. HALE. Well, let me offer a couple thoughts. One, the end-of-year problem is an endemic problem in government. I’ve watched it for 30 years. In a private business, you have profit. If you meet your customers’ needs and cut costs, you’re going to increase profit. You’ll probably get a bonus. Unfortunately, in the government it’s often the case that if you cut costs, the comptroller, the next year, takes your money. And then there is no—there is no profit. There’s no bottom line in the same way there is.

We are—we have tried a variety of approaches to that. I’ve never found one better than, frankly, just tightening up a bit on the money that is available and waiting to see what—or, watching the effects of that to be sure you don’t have unintended consequences. But, we ought to continue to look for better incentives. I mean, I recognize it’s a tough thing to do.

In terms of the contractor incentives, there I think the best thing we can do is pursue competition in contracting, especially services contracting. We haven’t always been as good at that as we should be. That’s one of Ash Carter’s goals, is to get more competition. Because, if we say to a contractor, “Okay, here’s what we want done. You bid. Several people bid. We’ll take the”—they will have incentives then to provide us efficient services, keep the dollars low so that they actually win. I think that’s—there, it’s harder—you can’t have five navies competing with each other. You can’t have five air forces. It’s much harder to do for the Department as a whole. But, I think competition is the key, in terms of keeping down contractor costs.

You—anybody want to add to that?

Mr. WESTPHAL. I’ll add—

Mr. HALE. All right.

Mr. WESTPHAL.—a couple of things.

What we did is, we immediately did—I directed a data call of all of our service contracts in the Army, across the Army, to look—first of all, to understand what the size and scope of the contracts were. And then, using the financial manager of the Army, the FM, that’s the tool that I will be using to direct commands to ensure that any future contracts, and as they move contracts through the process, that we will gain efficiencies from that. And then we want to balance it out with any insourcing that we do. We also have the directive to move jobs that are inherently governmental to the civil service. And we want to be able to do that in a balanced and strategic and an efficient manner.

So, all of that is something that we’ve created a new Deputy assistant Secretary for Services, under our assistant Secretary for Acquisition, to monitor all those contracts, to look at all of the workforce and give us some guidance as to how we balance out that

work we have to do to sustain our soldiers in the current operations.

Senator AYOTTE. Thank you.

Secretary Hale, just to follow up on what we were just talking about. So, just right now, in place, there aren't any types of incentives, whether they be performance-based—any type of—because, I think that mindset has to come from the top down, in terms of, “We're going to measure your performance, not only on how you perform the qualifications or your”—but, one of your qualifications of your job would be that the more money that you are able to save and return to the Treasury, as opposed to finding something you need to spend it on—and I think—I agree with you, this is a challenge we have across government. But, obviously, with the Defense budget and some of the critical needs we need to use those funds for, given the challenges we face right now in the Middle East, and the challenges we face, obviously, in following through in Afghanistan—to me, making sure those dollars are—instead of just being spent for the sake of being spent.

Mr. HALE. There are incentives. I don't want to leave you—the broad ones are hard to come by. Certainly, all the Defense agencies, or many of them, are business-like organizations. They do have bottom lines of profit, if you will, or net operating result, as we call it in government. And they can, to some extent at least, benchmark their activities against the private sector. So, there, I think there are good incentives.

And we have some specific programs, fast payback capital incentives, where if you invest a certain amount of money and get fast payback, you can keep the savings, which provides an incentive to actually try it.

But, I still would conclude that it's much harder in government, without an overall bottom line, than it is in a private business, to get people not to do things like spend money at the end of the year. And I know it happens, and we need to keep working on it.

Ms. CONATON. Can I give you one quick example in our area? It's not specifically on contracts, but it is on energy.

The Air Force is the largest consumer of energy in the Federal Government. And our mobility air forces is the largest consumer of energy within the Air Force. And so, part of what we've been trying to do is incentivize our commands to be more fuel efficient. And that means being willing to invest some upfront dollars in order to get the payback. But, we're also thinking about: Once they achieve those dollars, how do we help them see that we will then reinvest to get the next level of savings?—so that you're constantly providing the investment needed to get to the next level in the particular area of energy.

Mr. WORK. I would echo Under Secretary Conaton. We're doing the same thing in energy, looking everywhere from nonmonetary incentives, like establishing a battle leave for energy efficiency, things like that, which, in a military organization, can really lead to changes in behavior.

But, on the—what we're really starting to see—where we're really focusing our attention on incentives right now is in the acquisition side, at the PEO level, where we're doing things with change-orders management, and we are purposely looking for innovative

acquisition strategies, et cetera. And we reward these PEOs for being able to free up money for the broader acquisition priorities of the Department. I can't speak to specific incentives, but that is where we're focused right now—energy and acquisition—on the incentives.

And as far as the contractors and civilian side, we're now going in with our budget-submitting organizations and we're talking with them and saying, "Do we have the right balance of contractors and civilians and military in the budget-submitting organizations to do the business of the Department?" And over this whole—this next year, as part of POM-13, we hope to establish the incentives for those budget-submitting organizations to be able to work within their means and free up money for the Department.

Senator AYOTTE. Well, I certainly appreciate all of your comments on this issue. And it's an issue I would very much like to work with you on, because I think that's something we not only face here, but across government.

I'd like to follow up with one other question. And I obviously give, with the Chair's latitude, the opportunity to the other Senator here, Senator Begich, to ask questions. But, I have a concern—wanted to get your view on—right now, we're obviously in a CR situation. Secretary Hale, you talked about inefficiencies. When you say "inefficiencies," are there ways where we're actually failing to save money and spending more money, because we haven't passed a budget resolution and the Defense appropriation for the rest of the year?

Mr. HALE. Yes, I think that, unfortunately, is true. One example, in order to preserve funding flexibility—I'm sure—it's hard to see this from Washington, but I'm sure that our bases are signing short-term contracts, because they don't know what funding they'll have in 2 months. Those are just inherently inefficient. We have had to pull back—the Navy, for example—a number of ships that were intended to go into the shipyards for repairs, because of limits on funds. It'll cost more when we do that again. Sometimes we won't be able to do the repair until some future point.

We have—I worry—again, this is a problem that—I can't quantify this, but I worry that we've got a contracting workforce that's treading water out there, to at least some extent, because they can't move forward, because the CR limits new starts, and therefore, they'll have to try to catch up. And when they do that, they won't have as much time to compete and do a good job of contracting. They will do their best. I'm not criticizing them. But, I think there are a variety of inefficiencies inherent in this Continuing Resolution. And as I said before, we very much need a budget.

Senator AYOTTE. Well, I can tell you that certainly—I know, members of the Armed Services Committee—we appreciate that we are at war right now, and that—I would like to see us, even if it comes up as standalone Defense appropriations bill, come forward for the remainder-of-the-year funding.

Related to that is also, right now, with the conflict that we're now involved in Libya, and of course the Japanese relief effort—is the Department preparing a request to Congress for an—emergency supplemental funds to address both of those situations?

Mr. HALE. The answer is no. Actually, we couldn't submit a supplemental now. We don't have a budget.

Senator AYOTTE. Well, right.

Mr. HALE. We'd have to amend the budget, which—ironic—half-way through the year. But, the administration has said they don't plan to submit a supplemental request at this time. We are looking for a dedicated source of funding for the Libyan operations. If we can't arrange that in the fiscal '11 budget, then we will have to use reprogramming to allow us to move the money around to cover those funds.

Senator AYOTTE. Has there been an—my time is expired—but, has there been an estimate prepared yet of what the cost of the Libyan conflict is?

Mr. HALE. Yes. Our estimate, we actually—just this morning. So, the added cost incurred to date, about \$550 million. About 60 percent of that is for munitions, primarily the TLAMs, that have been used widely. The future costs are very uncertain, because we don't know the duration or, frankly, the operating tempo. But, given the current plans, it looks like maybe \$40 million a month, if we stay. We're coming down sharply, in terms of the U.S. commitment, as NATO takes control. If we stay at that lower level, it would be around \$40 million a month in added costs.

Senator AYOTTE. Forty million dollars a month?

Mr. HALE. Uh-huh.

Senator AYOTTE. Thank you very much. I appreciate your answers.

Thank you for the latitude, Chairman.

Senator MCCASKILL. Sure.

Secretary—excuse me—Senator Begich.

Senator BEGICH. I don't know if that was a promotion, or what.

Senator MCCASKILL. I don't think, right now. [Laughter.]

Senator BEGICH. Right now, probably not.

Senator MCCASKILL. They've got challenges right now.

Senator BEGICH. That's right. Well, thank you, Madam Chair.

And thank you, all of you, for being here.

I have several areas of interest. And I'll try to be concise, here. But, I want you to know, you know, I come from a State that's very strong in the area of military support. As a former mayor, that literally was right next door to Elmendorf and Fort Rich, an incredible partnership. I'm a hawk when it comes to these issues. But, I'm also frugal with the dollars. And I want to walk through some of this with you. Because, I want to make sure that the resources we are spending are being utilized for the best interests of our fighting men and women on the front line, as well as the families that are necessary, obviously, back home. So, that's my intention here. I don't want you to assume, at the end of the day, that I'm not supportive of the military mission, whatever it may be, depending on the time and year and day we are engaged in. And, as you know, we have multiple conflicts right now.

But, let me walk through one, first, easy one. And, Secretary, I'd love to have you come up to Alaska on energy.

We would love to show why, strategically, Alaska is critical, not only for the Air Force and the resources there, but, also, we know aviation fuel and the connection with some of the work you're doing

on gas-to-liquids and some other efforts you're doing in the military could benefit not only what's going on in Alaska, but throughout the country. So, I would love to—

Ms. CONATON. Be happy to.

Senator BEGICH. It's only because she mentioned energy; the rest of you didn't mention it, so you're not invited yet. They're coming in the winter. You can come in the summer.

[Laughter.]

Senator BEGICH. But, I think it's really a good point you made about the energy issue. And that is, as I know, your energy budget's already 1.2, maybe 2 billion over budget already for this fiscal year, for a lot of reasons. And you are the largest producers of renewable and alternative energy. And you're doing a lot of stuff in that arena. I've asked the Chairman of the full committee to actually have a hearing on energy in the military, because I think it would be an incredible story, but also get us all focused on what's needed and the resources and the technology you're all developing that not only could help the military, from a national security perspective, but our economic security. So, I do mean to invite all of you. But, she mentioned energy, so I wanted to share that as a comment.

Second, on the CR, I want to add to what you said, Secretary Hale. That is, I know what it's doing to my State. And that is, I know we have over \$400 million in MILCON projects—and no disrespect to the Ranking Member and the Chairman—I like earmarks. I like a lot of earmarks. And a lot of these MILCON projects are a mixture of earmarks, as well as program money. The problem is—and these are all needed projects, critically needed for our military families and our military strategic needs up in Alaska—440-plus million, 200-and-some million ready to go, right today. But, they cannot sign the contracts, for all the reasons you just said. This CR method that's going on here—and I'm new here—I'll tell you, is the worst thing you could ever do. And it's the worst kind of business that—I mean, if—I just can't imagine how anyone in the private sector looks at this. I know how I would, I know how my wife does, who's in the private sector, running businesses. This is appalling, how we do the business.

I know contractors, right now—to your question, Senator Ayotte—and that is, I have contractors in Alaska who have maxed out their bonding capacity waiting for the contract to be signed. We have a seasonal construction season. We have an \$80 million hangar that was built in World War II. It has to be replaced or it will cave in and ruin multimillion dollars worth of equipment. So, when you talk about examples, I can give you a shopping list. And it's appalling that we can't do 'em. And in a couple of months, by May 15th, in our season, we'll be out of the business of constructing, especially in the northern sector of Alaska, where Fairbanks has missile defense system, Air Force, Army, Clear Air Force Base, needed for our military around the world.

So, I just wanted to echo what you said. And, one way or another, we've got to get this done. It's appalling. And it is a—and it's not hurting the military, in the sense of personnel, off by themselves. It is the private sector that is getting hit, all—in conjunction. Because, these are contractors that come and do the work.

When the Corps of Engineers lets the contracts in Alaska, it's a private contractor who's going to do that construction, along with the military personnel. It's a combo. So, when I hear people say, "Well, it's just the government"—it's not just the government. It is private-sector contractors that do an enormous amount of work on behalf of the Federal Government. Is—am I off on that? Or—

Mr. HALE. Well, I think it's hurting military personnel.

Senator BEGICH. Oh no, I agree with that. No, no. I'm saying, in conjunction.

Mr. HALE. And it is not issuing PCS orders with the—

Senator BEGICH. That's right.

Mr. HALE.—right notice. You know, we've got a hiring freeze in civilians in the Army and—

Senator BEGICH. Yeah.

Mr. HALE.—the Marine Corps, so we can't hire the people we need.

Senator BEGICH. Right. No, I agree with you. I think some people say it's just a bunch of government workers we're affecting. Not true. It's a combo. It's both private sector.

To some of my quick questions here, and that is on saving some money and trying to figure this out. I know, in the recent GAO report, they talked about the Joint Medical Command. This seems to be a \$200- to \$400-million potential savings. There's a—there seems to be a conflict of how to do it among the different service agencies. It seems a logical thing to save money. What are you doing to help make that happen?

Mr. HALE. Well, I think it is on the list to look at next year. There are—we want to be sure we manage the medical capabilities of the Department carefully. And I respect that there are probably different approaches to doing that in the services. But, I know our chief management officer is interested in looking at that. And I think we will do it. Whether we come forward with that proposal, I'll have—we'll have to wait a year. We haven't done so yet. But, we—

Senator BEGICH. Will you—

Mr. HALE.—will look at it.

Senator BEGICH. Thank you very much.

Will you respond to the GAO report in saying, if you do not do it, why you won't do it? And—because, it seems like we—again, I'm only here for a couple years, so far, but I see a lot of these reports that talk about all these savings. Then people say, "Well, maybe we'll look at it." Then they look at it. Nothing happens. Four years later, five years later, a new report comes out, cites the old report. So, are you going to look at it and say, "This is why we can do it or can't do it," and then report back to—if it's this committee or somebody within Armed Services, so we at least have knowledge of—

Mr. HALE. My guess is, you'll give us a chance to do that next year if we don't recommend it. But—

[Laughter.]

Mr. HALE.—I will say, this is a very far-reaching set of proposals that we have put forward. As I said in my opening remarks, having watched Defense budgets for 30 years, I've never seen one more far-reaching, in terms of business streamlining. There are a lot of

things in here that people have been urging us to do that we are now proposing. We need help from Congress on some of them. I'll come back to the medical care initiatives. I know how hard they are, but many groups have urged that we do it. Now we need the Congress to let us do it. In most cases, they don't require legislation.

Senator BEGICH. Does this require—

Mr. HALE. They require the absence of legislation.

Senator BEGICH. Does this require legislation?

Mr. HALE. One part of them. There are four proposals we've made. One does require legislation. That's the one where I discovered, yesterday, we haven't got the legislation here yet. But, it will be here soon. The others don't. But, they require the absence of legislation. Congress has, for example, prohibited us from increasing TRICARE fees for working-age retirees for a number of years. You—we—you have to not do that, and let us go forward—

Senator BEGICH. I understand. But—

Mr. HALE.—and let us go forward.

Senator BEGICH.—just specifically on this one, does it require legislation?

Mr. HALE. Which one, now? The Joint—

Senator BEGICH. Yeah.

Mr. HALE.—Medical Command?

Senator BEGICH. Yeah.

Mr. HALE. Ooh. I don't know. I'd have to check on that.

Senator BEGICH. Okay.

Mr. HALE. I'm not sure.

Senator BEGICH. I'd like to know if it does—

Mr. HALE. Okay.

Senator BEGICH.—because—

Mr. HALE. We'll find out.

[The information referred to follows:]

[INFORMATION]

Senator BEGICH. I don't think it will. But, that's—

Mr. WESTPHAL. Yeah, I think you bring up a really important type of issue that we need to be looking at. And the three Under Secretaries—you know, we've already started engaging, partly because of BRAC, where we're, for example, merging Walter Reed and Bethesda Naval.

Senator BEGICH. Right.

Mr. WESTPHAL. So, we've had lots of issues associated with that, partly because of our need to connect better with the VA and the medical records—

Senator BEGICH. Right.

Mr. WESTPHAL.—and all of the efforts to make that process easier. The three Under Secretaries—we've been engaged in those discussions and working with our surgeon generals to get them to work together better. I think we've achieved a lot of success in that area. The military cultures are there that are going to block—naturally block an effort to do anything like a unified medical command.

Senator BEGICH. I have faith—

Mr. WESTPHAL. But, we're going to look at that. We're going to look at it hard. We're going to bring folks into the room to talk

about that. And we need to engage you, in the Senate and this committee and others, to help us figure the best way to do that.

Senator BEGICH. Good. Let me, if I can—there—I have talked about it in a couple meetings, especially in the Budget Committee, on MEADS and the termination and the process that that will go through, and the cost. And I know what I've been told. And I think the termination cost is around \$800 million—not “terminate,” I'm sorry—to bring it to concept. I forget the exact phrase, but it's the concept that we'll never use. But, it's—we're going to pay \$800 million to get there.

Mr. HALE. MEADS has had a troubled history.

Senator BEGICH. Yes.

Mr. HALE. Our choice was to continue it through fiscal '13, because, had we terminated it, our estimate was, we would have spent as much to—in termination liability as we would have to continue the program through '13. And we believe that there are some technologies we can use and that important allies can use. So, we think we will get something out of it. But, I would agree it is a program that's had a very troubled history.

Senator BEGICH. If I can—my time has expired. So, let me just try to summarize here on that one point. What's the guarantee, especially—it has had cost overruns—correct?—as part of the equation here. So, I've been told it's 804 million to get to this concept of—I forget the exact phrase—but, concept of design versus termination, which is a capped number. So, that's what I understand. So—unless someone's misinformed me. But, I just want to make sure. I have no faith, to be very frank with you—this project has cost overruns, so why would I think that, when I'm told \$804 million will be the number to continue to design it through '13—is there a way to say, “Okay, it's 804. That's the number.” That's what I've been told now, in the record, more than once—804 million. We're capping it. You won't get another dime, even though you have that money already, according to testimony received in the Budget Committee—that you won't receive another dime. How do—can you guarantee me, right now, that that's the cap?

Mr. HALE. Well, I suppose you could put that cap into law. I'd have to get—

Senator BEGICH. Let me ask you. Do you think—can you guarantee it will be \$804 million—versus the termination cost, which is a little bit more than that—can you guarantee that?

Mr. HALE. I can't sit here and tell you that. I need to get you a MEADS expert. I don't like making statements I can't back up. And I'm not an expert in MEADS.

I can tell you that there were debates within the Department of Defense. And the judgment that Ash Carter and others made were that we would pay more, at least as much, in termination costs and that, therefore, continuing the program through fiscal '13 and garnering some benefits, which he feels we will, in terms of technology that we could use or allies could use, that was the better approach. And that's the one we recommend.

Senator BEGICH. Let me end there, Madam Chairman, and just say that my faith is weak here on this. And I would love to have, if you want to get something for the record back to me or the committee explaining MEADS—the developers of MEADS—and clearly

making sure that they—how they come to this conclusion that number will be it, versus termination, which, today, we can be done with, and you have the money in your budget, according to what was testified. So, part of me says, “Cut our losses. Move on.” It’s going to—and the last thing I’ll say there is multiple terminations—you have two or three more terminations in your efficiency study—do those have clauses? And you don’t have to get that now. You know, I guess—

Here’s my thought, and I’ll just leave on this, Madam Chair. This is—it drives me crazy. Every time—so, we get a project, we—let me finish—we contract, has cost overruns—it’s a private contractor we’re working with, along with our folks—has cost overruns, not working out like we thought, then we have to pay to get out of it. Now, if that’s the case with these other ones, I’d like to know what those termination costs are. And then, the last thing I’d like to know how many other contracts do we have like this. Because, I’ll tell you, as a mayor, when I had—and I had multimillion-dollar contracts—we never had termination deals like this. If you talk about the competitive nature, this is not one thing you put into it, because it’s a guaranteed cashflow. If they screw it up, they still get paid. I don’t—you know, maybe I’m too simplistic on this, coming from the private sector, or just the mayor from Anchorage, but I’m telling you, it doesn’t make sense to me and it doesn’t make sense to taxpayers, when I talk to them. I’ve just—little bit of frustration—

Mr. HALE. Well, just briefly, we are required to fund termination liability for cost-plus contracts, which is the ones where these occur. Fixed-price contracts, generally you’re not going to see this, because there’s a certain requirement to perform, and a certain number of dollars. But, on cost-plus contracts, if we terminate for the convenience of the government, which—that’s what we’re doing in the case of MEADS—there is a termination liability, and it’s usually negotiated. And so, you don’t know it up front. But, we do budget for the most likely amount. We’re required to do that under the full-funding concept.

Senator BEGICH. The simplest—

Mr. HALE. I don’t know if that reassures you. It probably doesn’t. But—

Senator BEGICH. The simplest thing we could do is just not appropriate it. Because all the contracts say, “subject to appropriation.” I’d put money on that. Every contract has “subject to appropriation.” So, all we have to do is say we’re not going to appropriate money for that project. Guess what? It saves us \$800 million. So, I’ll just leave it at that. Thought for discussion.

Senator MCCASKILL. Thank you, Senator Begich.

You know—and let me just—before I go on to my questions, let me just talk a little bit about—I think the challenges you have in terms of the culture—there are real challenges. Cost-plus contracts is a good example. In my opinion, having looked at a lot of contracting work over the last 4 years since I’ve been here, way too often were we using cost-plus, much less noncompetitive cost-plus.

Second, performance awards for nonperformance. I mean, that is on my hit list, that we have contractors that perform terribly, but it’s been the culture to pay them performance awards anyway, be-

cause we always pay performance awards. It's like—it's just an added cost of doing business, as opposed to any kind of alignment of incentives, like Senator Ayotte was talking about.

And let me just put out there, today, as we're talking about culture, there is also an entourage culture that is interesting. I mean, let me ask, How many people in the room work for the Defense Department or one of the branches of the military?—if you'd raise your hands. That's a lot. I mean, I have hearings with a lot of different Federal agencies. And typically, they don't bring as many people to meetings or to hearings. And I'm trying to figure out why we need so many people to do this, and the culture behind that.

I remember how pleasantly surprised I was when Admiral Mullen came to see me one day and only had one person with him. I was going, "Now we're getting somewhere." You know, it—you know, I'm trying to figure out what all these people do and why they all need to be here at one time. It seems to me that there could be efficiencies if they would be doing other jobs right now besides sitting in this hearing room.

So, I mean, those are three good examples. And I've got a long hit list of things like that. And I think that's part of the challenge of what you're trying to do. And it's part of the challenge about the brass creep that the Secretary of Defense talked about. And it's part of the challenge of trying to flatten the organization and reduce the number of flags and all of those things. And I am so proud of our military. And we do so many things well. But, you know, if you take out the medical expenses, which is part of the increase—but, I reduced the numbers I talked about earlier by what we paid for medical care 10 years ago and what we're paying now; it still went from 280 billion to \$500 billion in a decade. You know, that is an amazing increase in a relatively short period of time. So, I know we can do better. And that's one of the reasons we're having this hearing today.

Let me ask about the Army business transformation cut. Now, I—this is where—you know, I get a headache on this one, because—I've got to be honest with you, I never really quite understood what the Army business transformation was. And now what, basically, you're saying is, you're going to reduce expenditures for transforming business operations through, now, something called the Enterprise Governance Approach. And, you know, Enterprise Governance Approach sounds like gobbledygook to me. I mean, what is the Enterprise Governance Approach? And can we get more detail about what that really means? And how do you come up with \$3.6 billion in—underneath this Enterprise Governance Approach in 5 years?

Mr. WESTPHAL. Well, Senator, we submitted, just recently, a report to the Congress that details, in the form of about 26 to 27 projects, what we are doing to transform our business operations. And that's not directly related to the efficiencies initiative; it's—there are parts of it in there. But, that's an overall transformation effort that deals with everything from logistics to our enterprise systems to our personnel management to our auditability to all of the issues that you, the GAO, and many others have raised about our business transformation.

One of the things that I have done, as the CMO, is to institute governance for all of those kinds of efforts to transform our business operations. That is, to really say that performance evaluations and performance measures will be—that people will be held accountable for transforming the kinds of—and the metrics that they have laid on the table for that—for those activities. The way we’ve done that is, we’ve formed what we call the Army Campaign Plan, which is a series of priorities across the gamut of activities of the Army. I’ve asked each assistant Secretary and each Command to develop the matrix by which we measure transformation in those business operations. Those metrics then—I have sat down with those commanders and those assistant Secretaries, reviewed the metrics, criticized some of them, sent them back to the drawing board to redo them.

And it’s a slow process. But, we are making progress. And we have change in the culture. We’re changing the attitudes. The Enterprise Approach really means that we are trying to do this in a more integrated fashion. We’re trying to align better with OSD so that, as we transform our business operations, we’re not only aligning with the transformation efforts at the ECMO level at OSD, but we’re also aligned with our sister services, as well.

So, it sounds like gobbledygook, but I tell you, that report is fairly detailed. And I would be glad to come back and sit with you or your staff and—

Senator MCCASKILL. Well, I think it’d be helpful—if this is about performance metrics—I think it’d be helpful for us to get top-line performance metrics, for the various departments, that you’ve developed. I just want to make sure that we’re not investing a lot of money in having a whole bunch of people work on PowerPoint presentations that have titles on them, and then we come back later, and what we’re really trying to do, now we’re going, you know, call it something different and try to do it again. And it feels like that sometimes. It feels like you’re running uphill and you’re not getting anywhere.

Mr. WESTPHAL. Right.

Senator MCCASKILL. And frankly, obviously, it’s been a problem, writ large, because we can’t even audit. I mean, for—how many years have we been trying to be able to audit, and we can’t even audit the Department of Defense. So, I just am frustrated that we aren’t getting to, kind of, the commonsense bottom line. But, maybe get another name that—

Mr. WESTPHAL. Can I give you one more—

Senator MCCASKILL. sounds good, but we’re not really sure what it means.

Mr. WESTPHAL. Yeah. I’m going to give you one more point on this. You mentioned the growth of the Federal budget. I was here in 2001, before 9/11, as the acting Secretary of the Army, and I defended a 70—approximately \$76 billion budget back then for the Army—base budget. And, as you know, that has more than doubled in recent years. So, I understand where you’re—what you’re getting at.

I will tell you that, in this effort, what’s critically important for all of us is to be able to look at those metrics and actually make

the folks that are applying them accountable for implementing and executing on those metrics.

Senator MCCASKILL. Right.

Mr. WESTPHAL. And that is the hardest part that we have—

Senator MCCASKILL. That is the hardest part. There's no question about it.

The Navy energy efficiency cut, you've got savings of 566 million in 2012 and 2.3 over the fiscal yearDP by reducing energy consumption. But, these investments were already included in the budget prior to the efficiencies initiative. Are you double-counting them or are you just saying, "We already did the work, and here it is"?

Mr. WORK. I'm not exactly certain of the 500 million.

What we did is, we added—we—it is true that what happened is, we were able, as part of the efficiencies drill, to include energy investments and energy savings as part of the overall efficiencies drill. That is absolutely true. We have tried to add—Secretary Mabus has extremely ambitious goals, both to reduce energy at our bases and stations, to reduce the—also to have achieved, by 2020, 50-percent alternative energy sources for all of our fuels. That has been taken into account by our new assistant Secretary of the Navy for Energy Installations and the Environment. This is the first time we have an assistant Secretary that really focuses all the time on energy. And they were able to put together a pretty broadbased plan on where we would get the biggest return on investment. So, in 2012, for example, there are three steam plants that we will have a return on investment in about 10 years. And we—our average return on investment on our energy programs across the fiscal yearDP is about 7.1 years. So, some of them were probably in the program, but they are all included as part of the efficiency savings that we're reapplying back into our basic program.

Senator MCCASKILL. Okay. Well, we will ask you to give us specifics—what was in, prior to the initiative, and what you then used as part of the initiative after the initiative was announced.

Mr. WORK. Yes, ma'am.

Senator MCCASKILL. Senator Ayotte.

Senator AYOTTE. Thank you very much, Madam Chairman.

I want to follow up on—first of all, just given that we can't—we don't have auditable financial statements, how are we going to know that we're actually achieving the savings and efficiencies that—if you don't have the way to measure it by the financial statements that you would in most organizations, how do we know we're even going to achieve the savings? And—I'm new to this, so—I'm a new Senator, and—so, why don't we?

Mr. HALE. That's two questions. Let me take the first one.

[Laughter.]

Senator MCCASKILL. First of all, you need to get a sleeping bag and a pillow.

[Laughter.]

Senator MCCASKILL. Because, it is longer than one hearing. Trust me. I asked—

Mr. HALE. I'll complete the first.

Senator MCCASKILL. the same question 4 years ago, coming from—

Mr. HALE. We do——

Senator McCASKILL. an auditor's office.

Mr. HALE. We do have financial systems. And I might add, I think we have the best-trained financial managers in government. I'll go to the second question briefly in a moment. But, there are systems. They can't meet commercial audit standards, which means we can't—our systems are old—they can't track, as auditors require, information back to the transaction level. But, I think they do present the dollars that you give us reasonably accurately. And if you want external collaboration, we've got probably 2,000 auditors looking over our shoulders. And the number of times we actually violate the Federal Antideficiency Act, kind of the major crime, is pretty small. It's 20 cents out of every \$1,000 that we spend—20 cents out of every \$1,000. And that's 20 cents more than I'd like. And we're trying to get it to zero. But, I don't think it suggests we have no idea where we're spending the money you give us. I know it doesn't.

Incidentally, I might add that our rate of Antideficiency Act violations is a lot lower than the nondefense agencies, even though they have auditable statements.

That said, sometimes we can just take our financial statements and—or systems—and immediately tell what's saved. The civilian pay freeze would be a good example of that, the civilian billet freeze, because there are lines that govern that. More often, we have to have our analysts look through a variety of lines and make estimates. And that takes some time. But, they can almost always give us a pretty good idea where the savings occur. So, yes, I think we can tell whether we saved the money.

Now, do you really want the answer about why we don't have auditable statements?

Senator AYOTTE. Given what the Chair—The Honorable—

Mr. HALE. I'll be glad to do it.

Senator AYOTTE.—Chairwoman just told me, I don't think so.

Mr. HALE. It hasn't been—

Senator AYOTTE. I will—

Mr. HALE.—as systematically—

Senator AYOTTE. I will find out.

Mr. HALE. Let me just say, I think we've done some things right, but it has not been systematically a high priority. I believe we have a streamlined and focused structure. And with the help of these guys to my right and left, I think that we will—we are committed to meeting the goal in 2017. But, more importantly, we're trying to get somewhere in the next 2 years. Part of the problem is, we keep setting these goals way out in 2017. I'm not going to be the comptroller in 2017. Or, as I like to say, if I am, I will definitely have a new wife, because she's made it real clear that it ain't going to last that long. So, we need near—

Senator BEGICH. But, you've got the legacy you could leave by putting this in place.

Mr. HALE. We need some near-term goals, and we have some. And maybe, if you'd like, I can come and explain them to you and not take the time now.

Senator BEGICH. Well, and I think, really, in all seriousness, this—having those—the auditable financial statements should be one of the top efficiency—

Mr. HALE. It is one of—

Senator BEGICH.—initiatives, because—

Mr. HALE.—of our nine—we have nine high-priority business goals, and that is one of them.

Senator BEGICH. Thank you. I appreciate that.

I wanted to ask you about some of the assumptions on the savings, just to make sure that, if those assumptions don't come to fruition, that we aren't in a place where the savings really don't come to fruition. And a couple of them, for example, Secretary Work, that we're seeing a troubling rise in the price of oil right now as a result of—in part, because of the activities in the Middle East. How realistic do you think that the Navy's projected savings of 566 million in fiscal year 2012 is for reduced energy consumption?

Mr. WORK. Well, our estimated energy savings across the fiscal yearDP—excuse me; I just turned it off—our estimated energy efficiencies are—we track the number of millions of barrels of oil that we will save. So, if the price goes up, we are actually going to save more money. It would only, if the price goes down—if the price goes up for oil, we are going to save that—a certain number of barrels; we don't project a specific cost based on the oil. We also estimate that 70 trillion BTUs across the FYDP, for sure—we will save those as a result of the energy investments we are making. And that's both in shore and tactical. So, we hope that we will achieve the 6 million barrels. If we don't achieve the 6 million barrels, that's where we will start to say we were really—you know, we didn't make the right projection.

Senator AYOTTE. But—I mean, I'm trying to follow this, because if you don't track it by cost of barrel, and you just do it by barrel, and the—let's say the price of oil doubles, then even if you are able to achieve the number of barrels you want to save, it's really not going to result in the end savings. So, that's what I'm trying to understand.

Mr. WORK. I see. What—well, what will happen—what we did in the—as part of the entire efficiencies drill is, we had very high—what we consider to be very high-risk, medium-risk, and low-risk approaches to achieve efficiencies. And that was worked out both at the service level, then at the Department level, and then at the OSD level. And if we—there are fact-of-life increases, like increases to fuel, inflation rates, that we make in our economic adjustments, and those will be accounted for through—we'll either have to find other efficiencies to offset those or we'll have to stop—you know, reduce the amount of operations that we're doing. We'll have a wide variety of things. Once the efficiencies and our execution start to work together, we'll be making adjustments every year, as we always do.

Mr. HALE. Can I build on that and just say, with price at 105, and now it's \$110 billion, there will be some substantial added cost; if it stays there, about a billion and a half dollars over the rest of this fiscal year. It won't be quite as high, because we are able to reduce consumption. There are going to be net increases of costs when we see when fuel is up that much higher. And it is of concern

to all of us. We're going to have to reprogram funds from somewhere—I don't know where, for sure yet—in order to meet those.

Senator AYOTTE. How are we reaching the consumption reductions that you're proposing overall? Is it reduction in flying missions? A reduction in naval operations? Or, are we just receiving—purely through energy efficiencies?

Mr. WORK. A wide variety, ma'am. On shore, for example, we're doing—we're changing—we're having steam plants replaced. There's a wide variety of photovoltaic systems, solar energy, that we're putting on tops of roofs. On tactical sides, we're putting hull coatings on our ships. Marines who are deploying to Afghanistan are using portable solar cells. All of that takes fewer numbers of fuel trucks to bring fuel out to the forward operating bases. We're doing smart voyage planning software, so that we can get the most efficient uses. We expect to achieve these savings through true energy efficiencies, not by cutting operations.

Senator AYOTTE. Well, and I would add, also, with the public shipyards, for example, the one—the Portsmouth Naval Shipyard—I know that there are many energy efficiency projects that will save—that you—the Secretary has approved. And I want to say that I'm very supportive of those efforts.

I wanted to follow up, just on a couple other assumptions within the efficiencies, just to see where we're at. The assumption with regard to unemployment rates—Secretary Westphal, I think you've—in the Army's proposal, the unemployment rate, we assume, is going to stay at 9 percent. And I'm sure that Senator McCaskill shares this with me. We, in Congress, hope that that is not the case. So—but, that is an assumption that is made, in terms of retention and recruitment throughout, in terms of savings. And if our economy does pick up, are we going to see those savings disappear? Can you comment on that, and why that assumption was included over those years?

Mr. WESTPHAL. We were trying to model this based on what we thought were at least trends over the next—the current fiscal year and the next fiscal year. But, we knew that there was some danger in doing that, in terms of predicting, you know, fluctuations in the marketplace.

We don't think it's going to affect our models in a significant way. I think we'll still obtain the savings. But, we are watching that. I mean, all of these kinds of assumptions have to be based on things we cannot predict. And if we can't—if we don't get them right, we'll have to adjust.

Senator AYOTTE. Well, thank you.

I also have some additional questions that I would submit to all of you for the record, and certainly appreciate your coming before the committee today.

[The information referred to follows:]

[SUBCOMMITTEE INSERT]

Mr. WESTPHAL. Thank you, Senator.

Senator MCCASKILL. I just have three things I'd like to cover, hopefully fairly quickly, and so we can let you all get back to work.

Can somebody explain why Ash Carter's Better Buying Power Initiatives have not resulted in any savings?

Mr. HALE. Well, there are actually a number of items—and I'm going to ask Bob Work and Erin Conaton to comment—that are in here. LCS savings, in littoral combat ship, multiyear procurement savings, and the evolutionary acquisition for space efficiency.

Could you—maybe, Erin, you could—you want to start, Erin?

Ms. CONATON. Sure, I'd be happy to address the specific that Bob mentioned. But, I would say, at a more general level, a lot of the ideas that Dr. Carter's put forward, reducing overhead rates in acquisition programs, we've laid that into any number of our—

Senator MCCASKILL. I see.

Ms. CONATON.—acquisition programs. So, we can show you, we can show the staff, where we've—

Senator MCCASKILL. So, you have pollinated your various efficiency efforts with—

Ms. CONATON.—by program.

Senator MCCASKILL. the ideas, and they just aren't identified as part of Dr. Carter's program?

Ms. CONATON. Correct. We've laid them in by individual acquisition program. And we can do that crosswalk for you to—

Senator MCCASKILL. Okay.

Ms. CONATON.—put them in.

Senator MCCASKILL. Okay.

It looks like we've got 90-plus major Defense acquisition programs that we currently have ongoing. Are—and this touches on some of the frustrations that Senator Begich has—do you think we're putting enough energy behind the notion of identifying, as quickly as possible, the ones that we're not going to be able to afford to carry forward, and doing everything we can, in terms of early termination? And is there anything about the CR that keeps you from being able to terminate? Because we've heard rumblings that they're saying, "We can't terminate things, because we're only under a CR." And I'm thinking, "Well, the CR is a really good excuse to terminate things."

Mr. HALE. Well, there are a few specific provisions for items where Congress increased funding where we would be prohibited from. But, in general, for the major weapons, I don't think the CR is stopping us.

We haven't done as good a job—and I'll copy my boss's answer here—Secretary Gates's answer—as good a job as we probably should have of trying to identify, early on, programs that weren't promising. Some of that's a problem in the building. There's a can-do attitude. Everybody wants to make it work. And even though some people might start to realize it's not going to, there's a—strong tendencies. Some of it, quite frankly, is in the Congress. It's very difficult to terminate major weapons; often run into a lot of opposition.

But, we need to do better. I think we've probably pruned out a number of the problems in the herd over the last couple of years. We need to be alert, realizing that times will be tight, and try to not let them go on as long. I think that's a fair point.

Senator MCCASKILL. I really think that that's a place where some incentives would be great, the early identification of programs that aren't going to work out. And I know defense contractors do a good job of salting various States with parts of programs to keep

them from being cut, because it's politically difficult, especially politically difficult in a recession, when everyone's really focused on jobs. But, having said that, I thought the Secretary of Defense's strong, strong leadership on the second engine made a difference. It really made a difference. And I'm confident—even though, unfortunately, Secretary Gates won't be around for the long haul, I'm confident that anytime someone in your position, Secretary Hale, or any of your-all's positions, or any of the leadership of the military, you are so revered—the leadership of our military in this country, for all the right reasons, is revered, and I think the stronger that you all lead on trying to shut down programs that, in the long run, are going to cost money that we don't have, I think, the more responsive that Congress will be. And I thought it took a lot of courage for Secretary Gates to go out as far as he did on the second engine. And ultimately, I believe it is his leadership that made a difference. I really do.

Mr. HALE. You won't get any objection from me on that.

Senator MCCASKILL. Yeah, I do.

Mr. WESTPHAL. Senator, can I add—

Senator MCCASKILL. Sure.

Mr. WESTPHAL.—can I add to what you were just saying?

What we did in the Army is, we did these portfolio reviews. So, we took weapons systems across a portfolio, and we looked at the range of weapons we were using, the ones we were not using, the quantities and the effects. That was a lot of hard work. The Vice Chief of Staff, Pete Chiarelli, took on the front part of that. And I came into that with him. And we made recommendations for courses of actions. And we terminated some of the major weapons systems as a result of that, and canceled some others—and made some decisions about where we should invest.

But, what we're doing now, that I think is significant for what you're trying to say here, is that we've taken that approach, which was just something that was ad hoc, we had never done before, because we knew that our requirements process was out of control; we just simply weren't managing the requirements the way we should. And this was an attempt to validate longstanding, old requirements. So, what we are doing now—and I've been doing this work with the Chief—the current Chief of Staff for the Army—he and I have embarked on an effort to try to reform the PPBE process, so that we incorporate this kind of review process at the front end. We reform the requirements process, align it with the resourcing so that when we make requirements decisions, they are informed by the resourcing available to make those decisions.

Senator MCCASKILL. So, you're not doing it in a vacuum anymore.

Mr. WESTPHAL. Yes. And—

Senator MCCASKILL. That's great.

Mr. WESTPHAL. Now, that's—we're—I can't tell we're there. What we're doing is, we're going to have to—

Senator MCCASKILL. I assumed you weren't there yet.

Mr. WESTPHAL.—reorganize and train to the way we are—we do business. And we're—

Senator MCCASKILL. Yeah. And it's hard.

Mr. WESTPHAL. It is.

Senator MCCASKILL. But, I think that you all are—the more quickly you adapt to some of these strategies, the less painful the next decade is going to be for the Department of Defense and for our military.

The senior-level positions, there was a system of—that the Secretary announced, at—announcing at least 50 general and flag officer position, eliminating, and eliminating 150 senior civilian executive positions. Now, I—and I look, and 21 senior-level scientific positions were eliminated. I'm worried that the people that were deciding what to eliminate were not looking as closely at organizations that they were close to. I mean, you guys got rid of senior research scientists, combat casualty care; senior research scientists, nanomaterial science and engineering; the Navy's chief scientist for nonlinear science; and senior scientists, rocket propulsion. Are—is that—I mean, when I hear 150 SES, I think of, you know, folks that are—I don't—that sounds sarcastic and flippant, and I don't mean to, but folks that are doing more PowerPoints, maybe, than the scientists. And I'm trying to figure out if that's because the folks that were making the decisions didn't feel as close to the scientists as maybe to some of the other senior executive positions that need to be eliminated.

Mr. HALE. Well, let me tell you the process, at least—and each of the services did their own process. But, each manager was required to rank all their senior executive positions from 1 to N, and we focused on the bottom third, and then, frankly, the bottom of that group. And then there was an across-the-board group that made tradeoffs among them. So, you weren't just—everybody didn't take the same proportional cut.

So, I can tell you, first off, I don't think we have any SES just doing PowerPoint. I mean, I hope not. They're well beyond that. They have others to help them, or are doing it only very small part of their time. They're supposed to be managers, and I think most of them are.

Senator MCCASKILL. That was kind of sarcastic—

Mr. HALE. All right.

Senator MCCASKILL. and inappropriate. Unfair to the hard-working senior executives staff, I should say.

Mr. HALE. I think—I'll accept that.

Senator MCCASKILL. I was trying to make a point, and—

Mr. HALE. I hear you.

Senator MCCASKILL. didn't do it very well.

Mr. HALE. But, there was a very systematic process. It was painful. I mean, I did it myself, for the Defense Contract Audit Agency, for DFAS in my own staff. It's not easy to do. But, it's healthy, because, in the end, there are a few that you can say, "Hey, these probably are lower priority." And the Secretary was adamant that he wanted us to stop doing things. And that was hard, also. And we did a little; not as much as he wanted, but we did do some. So, I think this was a systematic process.

Let me ask my colleagues—I know we're running short on time—but, if they might briefly comment on your process, because they did it for their organizations.

Mr. WESTPHAL. Yeah, not be repetitive, yes, I think we followed a similar process. We—the numbers that I have are 10 SES—

there's 28 Defense intelligence senior level folks, five HQEs—that's highly qualified experts—which are folks that are—can be in a range of different jobs. And then six of the science and technical folks. And all this was done with a very rigorous process, because obviously we wanted to be very analytical and creative about making these decisions in the right fashion. Now, whether we hit it right or wrong, or not, or whether those numbers are significant or sufficient, we'll—I think we're going to continue looking at all that. And of course, you know, we came down seven general officers in the Army.

Mr. WORK. The way we tried to keep it at a strategic level is, once the managers, as Mr. Hale said, ranked all of their SESs 1 to N, then it went into a departmental level that was actually managed by the CMOs, through the DCMOs, in the case of the Department of the Navy. And you had a department—a CNO and a CMC—excuse me—a Chief of Naval Operations and Commandant of the Marine Corps rep. And they tried to look across the Department and say, strategically, did we make a bad choice? We did the same thing at the Secretary Stanley level.

And in the end, there is a requirement process. So, for example, we had a T&E—testing and evaluation—position that didn't make the cut. Mike Gilmore said, "Hey, what—why did this happen?" And we were able to go back in and say, "You're probably right. We shouldn't have taken this cut. We might have taken another one." So, there is a self-correcting method to try to get us the SESs that are the highest priority for the Department.

Ms. CONATON. The only thing I'd add, Madam Chairman, is that within the Air Force, we asked our major commands to help us with that 1-to-N list. And then what we did was, we took a functional look across. So, we looked at all the scientists, we looked at all the financial management folks, we looked at all the acquisition folks to make sure that we weren't taking individual cuts from different commands that, in the aggregate, had a severely negative impact on a particular career field. So, we did try to be conscious of the different functional specialties.

Senator MCCASKILL. I just realized there was one other area I wanted to cover. And that was the zero-based review of the Department's intelligence organizations. That's what the Secretary indicated was going to happen. Yet, we only ended up with 41 million in cuts for 2012, and it looks like, from reviewing the documentation, that only the budget of Defense Intelligence Agency was cut. Did a zero-based review occur? And, if so, why are these results so de minimis?

Mr. HALE. Your staff is very good at picking out the areas where we didn't do too well. Secretary Gates has said he was disappointed in the review. It is ongoing. The major thing that has come out of it—but, I don't think it made it in time for the budget—is a significant change in the Joint Intelligence Operating Centers. These are groups in each combatant command that provide intelligence advice to the COCOM. We were essentially staffing these to go to war or for a significant operation—all of them. And yet, they don't—except for CENTCOM, they don't do—they only do it periodically. We're going to go to a different approach, which is have enough people at each combatant command to—for the peacetime needs,

and then, during the ramp-up period—but, have a group, probably at Defense intelligence agencies—kind of a roving group of people who will augment them. We think that they'll be—I can't give you the number; I'll have to do it for the record—but, a number of hundred of positions of reductions there.

[The information referred to follows:]

[INFORMATION]

Mr. HALE. And we're looking at some others, but it has been difficult. Counterthreat finance and counterterrorism, we think there may be some consolidations that are possible.

But, we tried, and I don't think we've gotten as far as we'd hoped. And I think it deserves some continued effort. And I think if Secretary Gates were here, he'd probably state it even more forcefully.

Senator MCCASKILL. Well, I agree with him.

Mr. HALE. I'll tell him.

Senator MCCASKILL. And, as usual, I think he's correct. And I think that this is probably not the kind of zero-based review that he had envisioned when he used that terminology. And we'll look forward to hearing additional work in the area of a zero-based review, in terms of that work.

I don't have any other questions. We may have some more for the record.

Senator Ayotte, do you have any more?.

Senator AYOTTE. No, I'm all set. I have some for the record, but that's it. Thank you.

Senator MCCASKILL. Okay.

I want to thank all of you for being here today. I thought it was very productive. And we'll continue to work closely with you to figure out ways we can continue to be the best military in the world with less money spent.

[Whereupon, at 4:13 p.m., the subcommittee adjourned.]