TESTIMONY OF

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Mr. Chairman and distinguished members of the committee, thank you for the opportunity to appear before you to discuss the Department's efficiency efforts.

During his speech in May of this year at the Eisenhower library, Secretary Gates outlined how in order to maintain and modernize America's key military capabilities at a time of war and fiscal pressure, the Defense Department would need to fundamentally change the way it does business.

The reason is this: To sustain the current military force structure – which the Secretary believes we must do given the security challenges this country faces – requires the equivalent of real budget growth of two to three percent. The overall defense budget, however, is projected to rise in real terms by about one percent, based on DoD inflation assumptions. And the Department cannot, and should not, ask Congress for more increases each year unless we have done everything possible to make the dollars we already have count for more.

Bridging that gap requires culling the department's massive overhead costs and structures, the "tail," and directing them to our fighting forces and modernization accounts, the "tooth." This is not an effort to reduce the Defense budget. This is about shifting resources and priorities within the existing top line. That requires reducing the department's overhead costs by targeting unnecessary excess and duplication in the defense enterprise.

This effort is not just about the budget, it is also about operational agility. The Secretary wants to ensure that the Department is operating as efficiently and effectively as possible. He has directed us to take a hard look at how the Department is organized, staffed, and operated; how we can flatten and streamline the organization; reduce executive or flag-officer billets and the staff

apparatus under them; shed overlapping commands and organizations; and reduce the role and costs of contractors.

Since the Secretary's speech in May, DoD has embarked on a four-track approach towards a more efficient, effective, and cost-conscious way of doing business. I will briefly touch on our activities in Tracks 1-3 and then go into more depth about Track 4.

Track 1: The Secretary directed that the military services find more than $100 billion in overhead savings over the next five years. The services will be able to keep any of the savings they generate to invest in higher priority warfighting and modernization needs. This effort is underway and we have already begun to review the service submissions. The FY 2012 budget will reflect the results when it is submitted in February.

Track 2: The Department is also seeking ideas, suggestions and proposals regarding efficiencies from outside normal channels. We have solicited input from experts, from think tanks, industry, and the department's external boards. We have also established a DoD suggestion program to solicit our employees' ideas. The Department is willing to consider any reasonable suggestion to reduce our overhead.

Track 3: The Department is also conducting a broad review of how it is organized and operated to inform President's 2012 budget process. This "Track 3" review focuses on affecting long-term systemic improvements in several key areas of DoD operations. Through this review the Department seeks to adjust processes, regulations, and systems that add needless layers of bureaucracy and serve as roadblocks to efficient operations. As a first step, Under Secretary of Defense for Acquisition, Technology, and Logistics, Dr. Ash Carter recently

unveiled his acquisition initiatives, which includes 23 significant changes to the way the Department contracts for goods and services. Dr. Carter will address these in more detail in his opening statement.

The Secretary's Track 4 initiatives, announced on August 9, address specific areas where the Department can take action now to reduce inefficiencies and overhead. These steps are intended to jump start the reform process ahead of and separate from the normal programming and budget submission process. In particular, they represent the Secretary's lead effort to reduce headquarters and support bureaucracies, military and civilian alike that have swelled to cumbersome proportions, grown over-reliant on contractors, and become accustomed to operating with little consideration of costs. Though all these efforts will result in measurable savings, an equally important purpose is to instill a culture of cost-consciousness and restraint in the Department—a culture that sets priorities, makes real trade-offs, and separates unrestrained appetites from genuine requirements.

To see these Track 4 initiatives through from his announcement to action and to produce measurable results in the near-term, the Secretary established a task force chaired by his Chief of Staff. This task force has chartered study groups from within the department which are developing action plans aligned to the Secretary's guidance. The Task Force is overseeing the implementation of these plans and their eventual transition to the appropriate department leadership. Secretary Gates will personally approve all action plans later this fall to ensure that his vision is translated into concrete results.

I will briefly recap the Secretary's guidance in each of these eight areas and then outline the reasons for his decision, as well as the general approach the Department is taking to execute it.

Contractors: The Secretary directed funding for service support contractors be reduced by 10 percent per year for three years. There have been significant efforts to outsource non-core tasks to contractors over the last several decades. However, since 2001 the availability of resources from supplemental appropriations, coupled with the urgency of supporting combat operations, resulted in dramatic increases in the number of contractors working for the Department, who have risen from 26 percent of the DoD workforce in 2000 to 39 percent today. The sheer number of contractors is not the only problem. Many of these recently outsourced service support and advisory contractors are actually carrying out functions that should be performed by government employees. The Secretary intends to reverse this trend. The task force is establishing a baseline for these contractors and will develop specific targets for reductions.

Civilian Personnel: The Secretary's initiative froze the number of OSD, Defense Agency, and combatant command positions and directed a zero-based review of each organization. The growth in the size and expense of the Office of the Secretary of Defense, the defense agencies, and the combatant commands since 2001 provides a ripe area for review and subsequent realignment. The zero-based review of organizational missions, funding, and staffing is intended to ensure that each organization is aligned to the Department's priorities, and to allow reductions or realignment of personnel and resources as appropriate. We are in the midst of gathering data and reviewing initial organizational self-assessments. As we consolidate the data, and conduct our own analysis, the

Secretary expects to receive a series of recommendations aimed at flattening the Department's headquarters and staff structures, resulting in efficiencies and savings that can be applied to higher priorities. The effort to seek efficiencies in our civilian staff will not undercut the ongoing process of adding contracting officers, system engineers, and weapons testers in our acquisition system.

Senior Positions: Secretary Gates froze the number of senior civilian executives, general and flag officers, and presidentially appointed and senate-confirmed officials. After a senior-level review, he intends to reduce the numbers of these positions. Since September 2001, the number of general and flag officers has increased by more than one-hundred, while senior civilian leaders have increased by more than 300. This "brass creep" – where higher ranking personnel now perform tasks that could be more appropriately and efficiently performed by lower ranking personnel – is associated with increased layers of bureaucracy and proliferation of new staff. The effort in this area is intended to assist in the transition to fewer organizations and into flatter and more responsive and agile structures. We have two senior study groups reviewing the distribution of senior positions across the Department and expect, at a minimum, to substantially trim the growth that has occurred since 2001.

Economies of Scale: To take advantage of the Department's economies of scale, the Secretary directed that key areas of the Department consider consolidation of duplicative or redundant infrastructure and processes to reduce costs and increase capabilities. We are pursuing several key initiatives, particularly concerning the consolidation of information technology infrastructure, that appear to offer significant savings.

Oversight Reports and Studies: The Secretary directed a freeze on the overall number of DoD-required oversight reports and immediately cut the FY10 funding for advisory studies by 25 percent. A team is conducting an aggressive review of the value of all internal and external oversight reports with the goal of reducing their volume and the burden they place on Department staff. This team is currently reviewing an initial set of more than 1,000 internal oversight reports and studies, weighing the oversight value against the manpower it takes to produce them, and will make initial recommendations within weeks. We are also examining several hundred recurring reports required by Congress in the annual spending bills to better understand the cost of production and the value they provide to you and other defense decision-makers. As part of this evaluation, we look forward to engaging this and other committees on ways to seek efficiencies as we meet your oversight needs.

Boards and Commissions: A team is also working to review about 60 defense advisory boards and commissions, along with a large number of advisory subcommittees, to assess the value of their advice and to recommend disestablishment, streamlining and restructuring of those that are not providing the highest impact to senior decision-makers. Remaining boards and commissions are expected to see their funding for studies reduced by 25 percent. Within the Secretary's authority, those boards and commissions that are assessed to provide little value to the Department will be disestablished. If our analysis indicates that any board or commission established in statute is no longer needed or should be restructured, we expect to engage your committee and others in dialogue about options for statutory changes to help implement desired efficiency gains while ensuring Congressional oversight responsibilities are met.

Intelligence Organizations: The Secretary reduced intelligence advisory and assistance contract funding by 10 percent and froze the number of senior executive positions in defense intelligence organizations. He also directed a zero-based review of the department's intelligence missions, organizations, relationships, and contracts by 1 November. There has been a proliferation of new intelligence organizations and operations since 2001, primarily based upon the demands of fighting two wars and combating terrorism. Because much of this growth was not centrally directed or coordinated, there is a high probability of redundancy and overlap with intelligence organizations that can be reduced or eliminated. This offers the opportunity to redirect the savings to other, more important intelligence efforts. In addition, this effort is being conducted in close collaboration with the DNI who is pursuing a similar review across the intelligence community. We expect that the fruits of the zero-based review and subsequent realignment will be a flatter and more responsive intelligence structure that better supports both national priorities and operational forces.

Organizational Disestablishments: The last decade has seen a significant growth of new offices and organizations including two new combatant commands and five new defense agencies. Therefore, in addition to flattening and trimming structure, the Secretary directed the Department to consider the outright elimination of organizations that either perform duplicative functions or have outlived their original purpose.

We reviewed a variety of information regarding Combatant Commands, Defense Agencies, and the OSD staff, including missions, staffing levels, and other data. However, the Secretary was particularly interested in organizations that had outlived the original argument for their existence, whose missions had

changed or no longer existed, or had a mission or conducted activities that duplicated other organizations.

We spent considerable time reviewing the input of his most senior advisors, including the Chairman and Vice Chairman of the Joint Staff, myself, and others. Over thirty meetings were held with senior leaders, in both small forums and large, to help understand the contributions that these organizations provided to national security and the risks and pitfalls that might be associated with any decision to disestablish an existing organization.

The Secretary concluded that Joint Forces Command (JFCOM), the Assistant Secretary of Defense for Networks and Information Integration (NII), Joint Staff J-6 Directorate, and the Defense Business Transformation Agency (BTA) no longer effectively satisfy the purpose for which they were created. Some missions and tasks that each perform remain vital, but can be managed effectively elsewhere. Other functions that each perform are either already performed elsewhere, or are no longer relevant for the Department.

Therefore, after several months of review, the Secretary made the decisions announced on August 9th to disestablish the NII, J-6, and BTA, and also to recommend to the President that he approve the disestablishment of Joint Forces Command (JFCOM).

NII was created in 2003 when the Office of Communications, Command, Control and Intelligence split off its intelligence functions due to the increasing need for intelligence in the post 9/11 world. At the time, there were questions about the necessity of creating a separate organization within OSD to handle the remaining Communications, Command, and Control functions, such as the replication of responsibilities and processes.

The speed at which information technology is changing is outstripping the Department of Defense's ability to adapt to the changes. The modern US military is increasingly dependent on its ability to get the right information to the right person at the right time, while preventing critical information from getting into the wrong hands. The Department continues to expand its technology solutions to support both goals. But, at the same time, the Department is hindered by its internal bureaucracy – primarily the duplication of processes by multiple organizations – which limits our ability to be as agile as we would like in this crucial area.

Many of the functions performed by NII are also provided by other organizations within the Department. For example, NII performs:

- Information assurance functions that are similar to those provided through U.S. Cyber Command (CYBERCOM), the Joint Staff, JFCOM and the Defense Information Systems Agency (DISA);
- Resourcing functions that are similar to those provided through the Under Secretary of Defense for Comptroller;
- Acquisition oversight for command and control are similar to those provided through the Under Secretary of Defense for Acquisition, Technology, and Logistics;
- CIO functions that are similar to those provided through CYBERCOM, STRATCOM, the Joint Staff, JFCOM and DISA, and;
- Command and Control (C2) functions that are similar to those provided through CYBERCOM, STRATCOM, the Joint Staff, JFCOM and DISA.

These redundancies represent more than a waste of resources—they also increase the potential for confusing or even conflicting policies and plans. Based on these observations, the analysis indicates that removing these functions from NII and J-6 and then consolidating them within other organizations will likely increase overall effectiveness and save money.

A specific consideration for allocating these functions among existing DoD organizations is the value of representing the user and provider perspectives within the same organization. The goal is to support evolving operational needs and thwart equally adaptive threats. These goals are best served by an organization that is simultaneously responsible for setting policy, implementing plans, performing C2 and directly supporting users.

There are multiple ways that key responsibilities can be reallocated. The Task Force working group is developing options to determine the best allocation strategy to achieve the goals of meeting operational needs, improving security, and being prudent fiscal managers.

The Business Transformation Agency (BTA) was created in 2006 to assist in business transformation activities, to integrate and improve the Deaprtment's business processes to include numerous Enterprise Resource Planning (ERP) implementations. The Agency encompassed the Financial Management Modernization Program and Business Management Modernization Programs that had previously existed in the Under Secretary of Defense for Comptroller and Under Secretary of Defense for Acquisition, Technology, and Logistics respectively. When established, BTA was envisioned to centralize business transformation and system modernization efforts into a unified and focused organization.

In 2008, the Congress, through the National Defense Authorization Act, instituted the position of Deputy Chief Management Officer (DCMO) to assist the Deputy Secretary of Defense, acting as the Chief Management Officer, to organize the business operations of DoD. The mission of the Office of the DCMO duplicates many of the BTA functions. Specifically, the DCMO has the principal responsibility for invigorating and improving business operations in DoD in order to enhance support to the warfighter and provide better financial accountability. Therefore, rather than lead in the development of better business practices, BTA's prime focus has essentially devolved to being the caretaker and manager for several relatively small business systems, and providing direct support to the DCMO for various policy issues. This narrower function does not justify continuing BTA as a stand-alone defense agency.

Accordingly, Secretary Gates approved disestablishment of BTA and directed that its remaining functions be reviewed and transferred to other organizations in DoD as appropriate.

The Secretary has recommended that the President approve the disestablishment of U.S. Joint Forces Command (JFCOM). This recommendation is based on a review of the missions assigned to JFCOM in the Unified Command Plan and the determination that these missions can be accomplished effectively and more efficiently, elsewhere within the Department.

JFCOM was formally established in 1999 as the successor to the U.S Atlantic Command. The central mission of JFCOM was to infuse and, to some degree, compel jointness into everything the military does, especially training, doctrine development and the provision of forces for operations. It was understood at the time that the creation of JFCOM would result in the addition of a new

organizational layer in how the Department managed military forces. But, the imperative to encourage and advance the principle of jointness among our military was judged to outweigh the costs associated with the extra bureaucracy. Over the years, JFCOM has had success in advancing this goal. However, it has also grown dramatically in size, budget, and personnel. In 2000, its first full year of operation, JFCOM employed approximately 2,100 military and civilian personnel and had an annual operating budget of approximately $300 million.

Today, JFCOM employs more than 3,000 military and civilian personnel in addition to approximately 3,000 direct support contractors and has an annual operating budget of nearly $1 billion. However, unlike many DoD organizations that have grown since 2001 due to new missions or the need to support operations in Iraq and Afghanistan, JFCOM has continued to grow without any significant expansion of mission or responsibilities.

More fundamentally, the principal purpose for the creation of JFCOM in 1999 – to force a reluctant service-centric military culture to embrace joint operations and doctrine – has largely been achieved. Jointness is a cultural and behavioral principle that is evolutionary and not easily measured; however, there is little debate that today the United States military has doctrinally, operationally and culturally embraced jointness as a matter of practice and necessity. As with similar matters of cultural behavior, jointness remains a policy objective that requires continued development, vigilance and emphasis by civilian and military leadership. But I am also firmly convinced that our military institutions have now reached a point where there is no risk of reverting back to the pre-Goldwater-Nichols Act period, where the military services sometimes planned, trained, fought and bought as if the other services did not exist. The evidence of this

achievement is manifested on today's battlefields, in military schools, and among the ranks of current and next generation military leaders who have grown up in and inherently accept this new joint world.

Accordingly, we believe that we can no longer justify the expense and overhead associated with maintaining a separate four-star combatant command for this purpose.

Finally, I am mindful that the recommended actions will have economic consequences for displaced employees, their families and local communities. The Department is committed to work with the affected communities and will devote significant attention to the challenges employees will face during this transition. We have asked Dr. Clifford Stanley, the Under Secretary for Personnel and Readiness, to take direct responsibility for this aspect of the Department's planning in order to ensure we take the steps necessary to help impacted employees with appropriate assistance and support.

In closing, Mr. Chairman, I understand that some of these reforms may be controversial and unwelcome to some people both inside and outside the department. No doubt many of these changes will be stressful, if not wrenching for the organizations and employees affected. But I would ask the members of this committee, and the Congress as the whole, to consider this reform agenda in terms of our responsibilities as leaders to set priorities and move resources from where they are needed least to where they belong: America's fighting forces, investment in future capabilities and, most importantly, the needs of our men and women in uniform. That is what the Secretary and the President are proposing, and we urge your strong support.

Thank you for the opportunity to discuss this initiative with you today. I look forward to your questions.