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Before the

COMMITTEE ON  
ARMED SERVICES

**UNITED STATES SENATE**

HEARING TO RECEIVE TESTIMONY ON DEPARTMENT  
OF DEFENSE REFORM: OVERCOMING OBSTACLES TO  
EFFECTIVE MANAGEMENT

Tuesday, November 17, 2015

Washington, D.C.

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1 HEARING TO RECEIVE TESTIMONY ON DEPARTMENT OF DEFENSE  
2 REFORM: OVERCOMING OBSTACLES TO EFFECTIVE MANAGEMENT

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U.S. Senate

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Committee on Armed Services

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Washington, D.C.

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10 The committee met, pursuant to notice, at 9:35 a.m. in  
11 Room SD-G50, Dirksen Senate Office Building, Hon. John  
12 McCain, chairman of the committee, presiding.

13 Committee Members Present: Senators McCain  
14 [presiding], Inhofe, Ayotte, Fischer, Cotton, Rounds, Ernst,  
15 Sullivan, Lee, Reed, Nelson, McCaskill, Manchin, Gillibrand,  
16 Blumenthal, Donnelly, Hirono, Kaine, King, and Heinrich.

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1           OPENING STATEMENT OF HON. JOHN MCCAIN, U.S. SENATOR  
2 FROM ARIZONA

3           Chairman McCain: Well, good morning, all.

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

20          The committee meets this morning to continue our series  
21 of oversight hearings focused on defense reform. Today, we  
22 will focus on reforming the management of the Department of  
23 Defense. This is a perennial and enormously costly problem,  
24 precisely because it's one of the most difficult. But, if  
25 the Department is to meet the diverse and complex national

1 security challenges that our Nation confronts around the  
2 world both now and in the future, it must make far more  
3 effective and efficient use of its resources, especially  
4 when budgets are tight.

5 We're very fortunate to have a distinguished group of  
6 witnesses to discuss how to overcome the obstacles to better  
7 management in the Department of Defense: The Honorable  
8 David Walker, former Comptroller General of the United  
9 States, who has a long and very productive relationship with  
10 this committee; Major General Arnold Punaro, member of the  
11 Defense Business Board, as well as former Staff Director of  
12 this committee, which he did a terrible job while he was a  
13 member --

14 [Laughter.]

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

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

14           What we do know is, these reductions in combat power  
15 have occurred while the Department's overhead elements,  
16 especially its contracted workforce, have exploded. Nearly  
17 1.1 million personnel now perform overhead activities in the  
18 defense agencies, the military departments, and the service  
19 staffs. And the money spent on these overhead functions is  
20 staggering. Indeed, of the top 10 entities that contract  
21 for business with the Department of Defense, half of them  
22 are the Department's own agencies. In annual dollars, the  
23 Defense Logistics Agency does nearly twice as much business  
24 with the Department as Lockheed Martin.

25           A few years ago, an analysis by McKenzie & Company

1 found that less than one-quarter of Active Duty troops were  
2 in combat roles, with a majority instead performing overhead  
3 activities. Recent studies by the Defense Business Board  
4 and others confirmed that little has changed in this regard.  
5 The U.S. tooth-to-tail ratio is below the global average,  
6 including such countries as Russia, India, and Brazil. For  
7 years, decades in some cases, the Government Accountability  
8 Office has identified some of the major overhead and  
9 headquarters functions of the Department of Defense as being  
10 at high risk of waste, fraud, abuse, and duplication of  
11 effort. Business systems modernization and transformation,  
12 supply chain management, contract management, infrastructure  
13 management, and financial management have all been on GAO's  
14 high-risk list for years. And yet, these problems have  
15 grown through administrations of both party, and persist to  
16 this day.

17 It is not as if the Department has not tried to address  
18 these problems. Indeed, it has spent billions of dollars to  
19 bring so-called, quote, "private-sector best practices" into  
20 the Department of Defense through the adoption of commercial  
21 off-the-shelf information technology programs.  
22 Unfortunately, these efforts have little to show for them.  
23 Information technology programs intended to create lasting  
24 business transformation at the Department have either  
25 collapsed from their own weight and size, such as the Air

1 Force's Expeditionary Combat Support System, or were merely  
2 reconfigured, at great cost, to replicate the inefficient  
3 and outdated business processes that the Department of  
4 Defense was already employing.

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

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

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

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

14           Senator Reed.

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1           STATEMENT OF HON. JACK REED, U.S. SENATOR FROM RHODE  
2 ISLAND

3           Senator Reed: Well, thank you very much, Mr. Chairman.

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

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

14          I'd like to extend a special welcome to Lisa Bisaccia.  
15 Lisa is an Executive Vice President and Chief Human  
16 Resources Officer for CVS Health Corporation, which the  
17 Chairman noted is headquartered in Rhode Island, but it has  
18 a much larger presence in Arizona. So, that's why they're  
19 -- she -- he's -- she's here today, I think.

20          Chairman McCain: I understand why they moved there.

21          Senator Reed: Yes, yes. Yeah.

22          [Laughter.]

23          Senator Reed: CVS is also the recipient of the 2015  
24 Secretary of Defense Employer Support Freedom Award for its  
25 support of employees who serve in the National Guard and

1 Reserves. So, thank you for joining us today, Lisa, very  
2 much.

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

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

24 During last week's hearing, Jim Locher proposed that  
25 DOD adopt the concept of cross-functional teams, a private-

1 sector innovation that is designed to integrate  
2 representatives with relevant organizational components to  
3 rapidly address a specific problem or set of problems. Mr.  
4 Locher made the point that there is currently noplacement in the  
5 DOD where such functional expertise can be brought together  
6 quickly by the Secretary or Deputy Secretary of Defense. I  
7 hope today's witnesses will build upon that discussion by  
8 relating examples from their corporate experiences that will  
9 help us better frame the question we need to ask, the scope  
10 and the changes we need to make, and the likely resistance  
11 we will face when we do so.

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

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

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

4 Thank you, Mr. Chairman.

5 Chairman McCain: I welcome the witnesses.

6 Mr. Walker, welcome back.

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

3 Mr. Walker: Chairman McCain, Ranking Member Reed,  
4 members of the Armed Services Committee, thank you for the  
5 opportunity to be here today.

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

10 Chairman McCain: Before you continue --

11 Mr. Walker: Yes, sir.

12 Chairman McCain: -- all the written testimony of the  
13 witnesses will be made part of the record.

14 Please proceed.

15 Mr. Walker: Thank you. Thank you, Senator. I will  
16 move to summarize.

17 As you mentioned, Mr. Chairman, DOD has seven high-risk  
18 areas directly. It also shares two other high-risk areas.  
19 DOD, in its latest January 2015 report, noted that they are  
20 making progress to differing degrees, but yet none of the  
21 items have come off the list in recent years. GAO has  
22 consistently stated that the responsibility for the overall  
23 business transformation effort needs to be a full-time  
24 endeavor, and it needs to be led by a person with an  
25 appropriate level of expertise and prior experience. The

1 new Under Secretary of Defense for Management and  
2 Information position is at a higher level, but I am  
3 concerned that the way that it's structured will not  
4 maximize the chance of success, nor will it maximize the  
5 ability to integrate a number of other submanagement  
6 functions within the Department of Defense.

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

25       Importantly, it will take more than one person. Any --

1 one CMO is not going to make the difference to achieve  
2 sustainable success. DOD needs to review and reconsider its  
3 approach to the appropriate appointment process and  
4 reporting lines for the military services and fourth-estate  
5 CMOs, as well. In my view, all military service and fourth-  
6 estate CMOs need to be appointed by the Secretary of  
7 Defense, with the advice of the new DOD Deputy for Chief  
8 Management Officer. These appointments should be based,  
9 also, on statutory qualification requirements, and should  
10 involve a requisite period of time with a performance  
11 contract.

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

24 In addition to that, we know that more and more of the  
25 budget of DOD is being spent on healthcare, disability, and

1 other types of costs. These programs also need to be  
2 reviewed and reconsidered.

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

20 The DOD culture is very mission-focused and chain-of-  
21 command-oriented. When a decision is made to take a  
22 specific action, no matter what the nature of the action is,  
23 and when it's no longer realistic or when there have been  
24 changes in conditions on the ground or within the  
25 Department, there is a hesitancy to change course. There's

1 also a hesitancy to tell -- to state the ground truth with  
2 regard to where things are. And, as a result, there are  
3 significant expectation gaps that exist within the  
4 Department with regard to major management and other  
5 activities. These expectation gaps result in additional  
6 cost and other adverse outcomes.

7 In summary, DOD personnel are capable, caring, and  
8 totally committed to the mission of protecting the national  
9 security interests of the United States. We have good  
10 people in a bad system. We also have the best military  
11 capabilities in the world, and no one else is close at this  
12 point in time. At the same point in time, the Pentagon has  
13 become a bloated bureaucracy, and overhead costs are way too  
14 high. There are too many layers, players, and hardened  
15 silos in the DOD. This is both undesirable and  
16 unsustainable. The Pentagon needs to be streamlined and  
17 simplified in order to free up resources for direct mission-  
18 critical activities. This will involve deciding what needs  
19 to be done, who needs to do it, and how best to accomplish  
20 the objective between public- and/or private-sector  
21 personnel, as well as how we measure success.

22 We can succeed in this effort, but we need to have the  
23 right people in the right job for the requisite period of  
24 time, and we need to change our performance measurement  
25 reward systems to incent innovation and to hold people

1     accountable for real results or the lack thereof.

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

4             [The prepared statement of Mr. Walker follows:]

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1 Chairman McCain: General Punaro.  
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1           STATEMENT OF MAJOR GENERAL ARNOLD L. PUNARO, USMC  
2           (RET.), MEMBER OF THE DEFENSE BUSINESS BOARD

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

9           Mr. Chairman, as part of my prepared statement you put  
10          in the record, I included a presentation that I made as  
11          chairman of the Defense Reform Task Force to Secretary Don  
12          Rumsfeld in March 2001 with a series of recommendations on  
13          how to control DOD's infrastructure, which, at the time, was  
14          \$100 billion. Today, it is \$240 billion, and larger than  
15          the GDP of the country of Ireland. So, the growth in  
16          defense infrastructure has been continuous. The tendency  
17          has been to add, rather than subtract. As we have added  
18          more staff, more layers, and more infrastructure, we have  
19          slowed the decision process, expanded the number of players,  
20          and made the over system more risk-averse at a time when we  
21          need to take more risk and make quicker decisions. If we  
22          wait for certainty, we will have waited too long and  
23          imperiled our warfighting forces as they continue to  
24          decrease.

25          We must distinguish between working hard and working

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

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

16 A major problem in defense today, as you pointed out,  
17 Mr. Chairman, is the internal composition of the defense  
18 budget, how the internal Pac-man of growing costs in  
19 personnel, acquisition, and overhead are gobbling up our  
20 warfighting forces. In constant dollars, we are spending  
21 more today than we spent at the peak of the Reagan buildup,  
22 roughly 30 percent more, but the warfighting forces are 40  
23 to 50 percent smaller. You've made this point very clear.  
24 However, defense-wide spending has gone from 5 percent to 20  
25 percent of the budget. And again, infrastructure running

1 about 240 billion, with over a million people. The defense  
2 agencies have grown in number, scope, and cost. And they're  
3 not just defense agencies, these are large business  
4 enterprises that account for over 20 percent of all the  
5 money that DOD spends. And you have the ballooning of the  
6 defense agencies, the OSD, the combatant commands, and many  
7 other overhead organizations. The Office of the Secretary  
8 of Defense alone, we believe, has 5,000 people. Some argue  
9 it's even higher. The Defense Department would probably  
10 argue it's lower. And there are too many layers in the  
11 bureaucracy. Twenty-eight layers of --

12 Chairman McCain: Excuse me. You said the Office of  
13 Secretary of Defense has 5,000 people?

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

20 Chairman McCain: Thank you.

21 General Punaro: Twenty-eight layers, way too many.

22 Another problem is -- David Walker has pointed out --  
23 too many of our Active Duty military personnel, over 330,000  
24 Active Duty military, are performing commercial activities  
25 that could be done by civilians or contractors, and frankly,

1 many not done at all. So, before listing my recommended  
2 course of actions, you need to address the basics of DOD  
3 infrastructure and overhead. How big is it? How much does  
4 it cost? What size do you want it to be? Questions are  
5 easy. The answers are very difficult. Let me give you my  
6 suggestions on some of the answers:

7       Number one, establish a firm benchline of headquarters  
8 organizations and activities, including OSD, JCS, combatant  
9 commands, defense agencies and field activities, service  
10 headquarters and commands, including the layers of  
11 management. Mr. Chairman, we have got to come to an  
12 agreement on the definitions and the baseline.

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

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

24       Number four, legislate end strengths for military,  
25 civilians, and contractors to be assigned to and employed by

1 the various overhead and infrastructure functions once these  
2 headcount costs are firmly established. And I know there  
3 will be a lot of pushback when you say, "Let's legislate end  
4 strengths for overhead." But, in the late '70s, there were  
5 no end strengths for Active Duty, personnel, or Guard or  
6 Reserve. This committee put them into law, and they've  
7 worked pretty well, so I believe that's something that you  
8 could do.

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

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

19 Number seven, approve another round of BRAC using an  
20 improved process. Carrying excess facilities costs billions  
21 of dollars every year.

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

25 Number nine, eliminate duplications. There are

1 numerous places in the Pentagon --

2 Chairman McCain: Let me --

3 General Punaro: -- where we have significant --

4 Chairman McCain: Let me -- for the benefit of the  
5 record, describe A-76.

6 General Punaro: Mr. Chairman, I'm not a -- the A-76 is  
7 the opportunity where a local base commander will look at a  
8 commercial function and decide whether it ought to be done  
9 by government employees or it ought to be contracted out.  
10 And they will have a competition. The way the Office of  
11 Management and Budget has written the rules, there's always  
12 tilted towards the government. They get a 10- to 20-percent  
13 advantage on cost. So, most of big companies don't even  
14 want to go through with it, because it's kind of rigged.  
15 And Congress doesn't like outsourcing the government jobs,  
16 so they put a moratorium on them. So, we don't even do the  
17 competitions anymore.

18 Chairman McCain: Thank you.

19 General Punaro: Eliminate duplications. There are  
20 numerous places in the Pentagon where we have significant  
21 duplications of effort. An obvious place is the overlaps  
22 that exist between OSD and the Joint Staff. Also in the  
23 military departments between the military and civilian  
24 staff.

25 Number ten, reduce the 28 management layers. Between

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

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

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

24         So, thank you, Mr. Chairman and Senator Reed and the  
25 committee, for giving me this opportunity. And I'll look

1 forward to your questions.

2 [The prepared statement of General Punaro follows:]

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1 Chairman McCain: Thank you.

2 Mr. Spencer.

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

3           Mr. Spencer: Chairman McCain, Ranking Member Reed,  
4           distinguished members of the committee, I'm really  
5           invigorated to be here to testify before the Senate Armed  
6           Service Committee addressing the topic of managing the DOD.

7           My testimony today is based on my time in the private  
8           service -- sector, but, more recently, 6 years on the  
9           Defense Business Board, most recently as vice chairman.

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

17          When it comes to the subject of enhancing the operation  
18          of the Department of Defense, my point of view is  
19          concentrated on one thing: the mission. The mission of the  
20          Department of Defense is to provide the military forces  
21          needed to defer a war and to protect the security of our  
22          country. The Department is charged to protect the citizens  
23          of the United States of America. The Department is not an  
24          entity to support full employment nor a petri dish for  
25          managerial or social experimentation. And today it

1 certainly cannot afford to be all things to all people as it  
2 strives to support its missions.

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

12         As an early outsider attempting to understand the  
13 building and its attendant issues of an ecosystem so immense  
14 in size, diversity, and span, it was akin to drinking from a  
15 fire hydrant. One walked away with an appreciation for the  
16 organization's communications systems, neurosystems,  
17 digestive and equally important immune systems. What  
18 impressed me the most, both historically and in the present,  
19 is the core competency of the Department's ability to solve  
20 problems associated with its mission. Since inception, the  
21 Department has been tasked with the excruciating and amazing  
22 goals -- daunting goals. In the early years, they were  
23 trailblazers, providing unique successful solutions for  
24 their organization that was similar to none. But, therein  
25 lies the rub today. Progress in the private sector has

1 increased at a logarithmic rate. The solutions that were  
2 applied inside the building, in many cases, were  
3 immortalized, with no call for current benchmarking or  
4 impact assessment. And, as the private sector became  
5 equally as good, if not better, industry-specific problem-  
6 solvers, there was little ability in the building, nor  
7 cultural inquisitiveness, to compare core competencies.

8 Cases in point. The commissary system was a solution  
9 to provide basic consumables to bases and posts that were  
10 off the beaten path. DOD education was a solution for  
11 dependent education during the days of segregation. DLA was  
12 borne from a diverse cabal of buys and distributors of  
13 resources. Maintenance depots, created to repair unique  
14 systems. Research labs, personnel management, the cases are  
15 numerous. That was then. This is now.

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

19 You heard, earlier this month, that one should not  
20 expect candlestickmakers to develop electricity. In many  
21 cases, external forces are needed to motivate or -- for  
22 organizations to change. There are few example of groups  
23 that have voluntarily downsized themselves or self-selected to  
24 cease doing business. This committee and the Congress have  
25 the ability to provide some elegantly clean solution to

1 certain issues at hand while freeing resources to be used  
2 more -- on more meaningful initiatives within the DOD.

3 Here are some topics to consider:

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

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

18 Defense Logistics Agency. Arguably one of the better-  
19 run organizations in the DOD, but there's room for  
20 improvement. The DBB group addressing DOD logistics  
21 interviewed a multitude of organizations that were highly  
22 dependent upon their supply chain: retailers,  
23 manufacturers, assemblers. And their responses were  
24 constant. Supply-chain management is a critical contributor  
25 to the value of the enterprise. As an example, upon

1 restructuring their supply chain and instituting strategic  
2 sourcing, IBM believes their logistical efficiency adds \$16  
3 billion in the value to the -- of their enterprise while  
4 providing a competitive advantage over others in their  
5 industry. In every case, we saw there was one person  
6 ultimately responsible for the organization's logistics.  
7 The DOD should strive for the same efficiencies and have a  
8 chief logistic officer combining both the acquisition and  
9 distribution resources under one command. The mission of  
10 the DOD is to deter war, not to maintain the status quo.

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

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

22 Let me quickly address what I believe is one of the  
23 largest internal issues within the Department. Successful  
24 organizations state that the quality of their employees is  
25 the driver for their performance. Human capital is a

1 critical component of success. The DOD, still using the  
2 1950 departmental title of Personnel, needs to address this  
3 issue in earnest. I don't want to steal any thunder from my  
4 colleague from CVS, who is an expert in the area, but we do  
5 owe it to the Department to put a light on the topic.

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

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

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

24 I stand by to assist in any way.

25 [The prepared statement of Mr. Spencer follows:]

1 Chairman McCain: Thank you.

2 Ms. Bisaccia.

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

3           Ms. Bisaccia: Thank you. Chairman McCain, Ranking  
4           Member Reed, and distinguished members of the committee,  
5           thank you for the opportunity to testify today.

6           Chairman McCain: Would you correct my pronunciation,  
7           please?

8           Ms. Bisaccia: "Bizotchia."

9           Chairman McCain: "Bizotchia." Thank you very much.

10          Ms. Bisaccia: Thank you.

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

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

20          To give you a glimpse into how our company developed  
21          into the diverse enterprise that it is today, let's consider  
22          where we began. In 1963, we started out selling name-brand  
23          health and beauty merchandise at discount prices when  
24          brothers Sid and Stanley Goldstein opened our first store in  
25          Lowell, Massachusetts. In 1967, we began building trusted

1 relationships with patients when we opened our first CVS  
2 pharmacy in Rhode Island, where we are still headquartered  
3 today.

4 In addition to our 7900 retail drugstores, today CVS  
5 Health brings together CVS/Caremark, our pharmacy benefit  
6 management business; MinuteClinic, our 1,000 walk-in retail  
7 clinics; Omnicare, our senior pharmacy care business; and  
8 our expanding specialty pharmacy services. In all, we  
9 employ more than 215,000 colleagues, with major hubs in  
10 Scottsdale, Arizona; Irving, Texas; and Northbrook,  
11 Illinois; in addition to our home in Rhode Island. We work  
12 in almost every State represented here today.

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

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

1 success. What have been some of our other key lessons  
2 learned? First, developing a culture around our company's  
3 purpose. Our president and CEO, Larry Merlo, made this  
4 concept real for all of our colleagues when he championed  
5 our purpose, which is helping people on their path to better  
6 health. This simple purpose, just eight words, has had the  
7 power to unite our colleagues behind a common cause. Our  
8 purpose has permeated our organization, improved colleague  
9 engagement, which, in turn, improves all of our business  
10 outcomes. Embracing our purpose from the top down has been  
11 an example of the type of leadership we prioritize in career  
12 development for our colleagues, which is another core  
13 principle for us.

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

25 As we've grown, a third fundamental lesson has been the

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

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

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

22 [The prepared statement of Ms. Bisaccia follows:]

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1 Chairman McCain: Thank you very much.

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

14 I guess we'd begin with you, David.

15 Mr. Walker: Thank you, Mr. Chairman.

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

1 to that. At the same point in time --

2 Chairman McCain: I've only got 5 minutes, now, David.

3 Mr. Walker: Sure.

4 [Laughter.]

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

16 One of the things I mentioned in my testimony is, the  
17 Secretary has the authority to appoint people for term  
18 appointments. And I think that, in the area of financial  
19 management, as an example, information technology being  
20 another, you should use that authority to try to take people  
21 who have had successful business careers -- for example,  
22 partners in international accounting firms who may have  
23 auditing experience and financial management experience, who  
24 have made money, and who want to spend a period of time --  
25 let's say 3 years to 5 years -- to serve their country. I

1 think there are supplies of people like that, that could be  
2 tapped to be embedded within the Department of Labor --  
3 pardon me -- Department of Defense. And I think that that's  
4 something that needs to be pursued much more aggressively  
5 than it has been in the past.

6 Chairman McCain: Thank you.

7 General?

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

13 Chairman McCain: You know -- go ahead, but -- I think  
14 you could get the head guy, but what about others that --  
15 you know, you need more than --

16 General Punaro: Well, if you --

17 Chairman McCain: Go ahead.

18 General Punaro: Mr. Chairman, if you get the head guy,  
19 and you give them -- allow them to put a lot of their assets  
20 in a true blind trust, which I believe you could do, have  
21 different divestiture rules and things like that, a more  
22 speedy vetting process in the executive branch, they would  
23 be able to bring in other people below the levels to do the  
24 same kind of things. But, the most important thing would  
25 be, they have to understand they're going to be able to have

1 a meaningful job and make meaningful reforms. And I truly  
2 believe you would motivate people like that to come in.  
3 There's too many disincentives now.

4 Chairman McCain: What about the audit?

5 General Punaro: On the audit, I mean, you've got to  
6 the audit expert right here. I know the Department is  
7 struggling with that.

8 Chairman McCain: For 15 years.

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

16 Chairman McCain: Doesn't that mean bringing in some  
17 outside organization, like a good, crack outfit in Silicon  
18 Valley, to try to tackle it themselves? I don't --  
19 obviously, internally, it hasn't worked.

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

24 Chairman McCain: Mr. Spencer.

25 Mr. Spencer: I would echo both David and Arnold's

1 comments. Having simply been exposed for my first time,  
2 coming on the Defense Business Board, the disclosures and  
3 the -- which, at the Defense Business Board, aren't nearly a  
4 onerous, but, I mean, we have to streamline the ability for  
5 private sector to come into the system. They're out there.  
6 The people are out there. They want to help. We've been  
7 wandering around, looking for candidates on the Board. They  
8 are there. When they look at what is encumbering to enter  
9 the system, they shy away.

10 Chairman McCain: And the audit?

11 Mr. Spencer: The audit, we talked a little bit about  
12 this earlier. I think a streamlined way is just to do the  
13 actual consolidated audit. We're working on building up to  
14 the final audit, which is the way it is done in the private  
15 sector. But, I think, for the matter of expedience, what  
16 you really want as a tool is the audit of the consolidated  
17 entity, and that's what should be audited, without getting  
18 into too much technical jargon in auditing. But, we're  
19 spending so much time and money working our way up -- you  
20 can do a buildup and then audit the actual consolidated  
21 entity. And it is needed for control and management.

22 Mr. Walker: Mr. Chairman, as a CPA --

23 Chairman McCain: I've got to --

24 Mr. Walker: -- could I come back on that real quick?

25 Chairman McCain: I've got to go to Ms. Bisaccia, and

1 then --

2 Mr. Walker: Sure.

3 Chairman McCain: We'll come back.

4 Mr. Walker: Yes, sir.

5 Chairman McCain: Thank you.

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

21 In terms of the audit, we are a metric-driven company.  
22 It is not just financial, it's operational; it's people  
23 results, as well. And our leaders are only successful if  
24 they own all their metrics, if they know their numbers, if  
25 they're able to speak to their whole portfolio of numbers,

1 and, more importantly, explain any variances and do  
2 something about them. So, what that has required is a  
3 significant investment in measurement tools, including  
4 outside support from big-four accounting firms and other  
5 partners. But, the ownership is internal.

6 Chairman McCain: Very quickly, David.

7 Mr. Walker: Thank you, Mr. Chairman.

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

25 Chairman McCain: Senator Reed.

1           Senator Reed: Well, thank you very much.

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

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

15          Ms. Bisaccia: At CVS Health, what we found is, we  
16 moved from a pharmacy drugstore chain that had a very  
17 hierarchical model, in terms of vice presidents, regional  
18 managers, district managers -- that, once we expanded our  
19 business commitment and once we came more diverse, we needed  
20 to look horizontally as well as vertically, and we needed to  
21 realize that the key to success as an enterprise was  
22 collaboration and shared resources, that we could no longer  
23 count on owning everything we needed to get our particular  
24 portfolio done, that, in fact, we needed to share resources  
25 across the enterprise and frequently make difficult

1 decisions about what to prioritize. And, in fact, some  
2 businesses found that their needs had to be subordinated to  
3 those initiatives which benefited the enterprise. It's a  
4 difficult process. It goes beyond budget. But, what we  
5 have focused on is what's best for the company as a whole  
6 and then, as a leadership team, aligning behind that, in  
7 terms of making the decisions to support those priorities.

8 Senator Reed: Mr. Spencer -- I'll go right down the  
9 line -- Mr. Spencer, please. And --

10 Mr. Spencer: I think you --

11 Senator Reed: -- I have one other question.

12 Mr. Spencer: -- you hit the nail on the head, Senator.  
13 If you were to just take a look at one probably big lever  
14 that you could really change the organization over across  
15 the river, performance metrics on the civilian side. The  
16 military has had it for years. The fitness report system.  
17 Yes, it has some flaws, but it works. Yes, there's a  
18 performance management system on the civilian side, but I  
19 think there needs to be a retool of that and an education of  
20 the managers on how to use that. If you take the old adage  
21 of Jack Welch, every single manager ought to have a list in  
22 his back -- his or her back pocket anytime, having the A, B,  
23 and C players, because, at any one time, you want to  
24 challenge the A's, you want to nurture the B's up to A's,  
25 and you probably want to get rid of the C's. We have to

1 start doing that actively in the organization. It's going  
2 to cause, I think, more energy to be focused in the  
3 appropriate places, and get the right people in there.

4 Senator Reed: Thank you.

5 General.

6 General Punaro: We're talking about DOD significantly  
7 improving its management chain of command. And many times,  
8 critics will say, "Well, wait a minute. It's not a  
9 business." Correct. And every business -- world-class  
10 business practice is not applicable to government or DOD,  
11 but many are. And let me list them. And I would say the  
12 staff could look at, "Here are the world-class business  
13 practices that are applicable. Assess where DOD is today,  
14 and then say, What's the application?"

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

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

25 In companies today, you have widely shared information

1 and knowledge, and they don't do that in the Department, so  
2 you need a powerful CIO. I believe you need to get rid of  
3 some of the unders and bring back the Assistant Secretary  
4 for Command, Control, Communication, Computers, and Cyber to  
5 have that kind of cross. And you need performance goals.  
6 They don't have them.

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

12 Senator Reed: Mr. Walker, please.

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

1           Senator Reed: Let me just quickly follow up, if the  
2 Chairman will allow, for one question to you, Mr. Walker.  
3 Sometimes I get the impression that, you know, we look  
4 across to the river, and it's their problem, but many times  
5 it's our problem. The way we do budgets, for example, it  
6 looks cheaper to hire lots of contractors than to hire one  
7 civilian long-term with pension benefits and other benefits.  
8 Would it be useful for us to look the way we sort of do the  
9 budget or give them credit, in terms of to incentivize them,  
10 to bring more full-time government employees, rather than  
11 hiring contractors left and right to do the problem? That's  
12 --

13           Mr. Walker: I do think that you have to look at how  
14 you keep score. I do think that we have to have an  
15 understanding as what is inherently governmental, what  
16 should be done by the government, and what could be done by  
17 the private sector. I agree with General Punaro that we  
18 ought to revitalize the A-76 process. I also agree that we  
19 need to look at fully absorbed cost accounting. Okay? We  
20 have to have a level playing field. What is it costing for  
21 an outside contractor? Frankly, what is it costing for a  
22 government worker, including pensions --

23           Senator Reed: Right.

24           Mr. Walker: -- retiree healthcare benefits --

25           Senator Reed: Right.

1           Mr. Walker: -- and all these other things. So, how we  
2 keep score matters, and the way we keep score now does not  
3 facilitate sound decisionmaking, in my view.

4           Senator Reed: Thank you.

5           Thank you, Mr. Chairman.

6           Chairman McCain: Senator Lee.

7           Senator Lee: Thank you, Mr. Chairman.

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

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

20           Mr. Walker, I'd like to speak -- like to ask you some  
21 questions first. You spoke, in 2008, about the striking  
22 similarities between America's current circumstances and the  
23 circumstances that led to the decline of the Roman Empire.  
24 Now, it's a pretty big assertion. And you backed it up by  
25 analyzing a number of factors that you think warrant the

1 comparison. You mentioned, I believe, that we're  
2 experiencing declining moral values and political civility  
3 domestically, and an overextended military in foreign lands,  
4 combined with fiscal irresponsibility by the central  
5 government. And you identified all of those as  
6 characteristics displayed by the late Roman Empire, and  
7 characteristics that we can see within the United States  
8 today.

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

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

21 Senator Lee: Have we solved all those problems since  
22 --

23 Mr. Walker: Well, first, I think we have to  
24 understand, in order to stay strong militarily, in order to  
25 be the leading nation around the world, you have to be

1 strong economically. And if you don't put your financial  
2 house in order, then all those aspects -- the military will  
3 suffer, our position in the world will suffer, our economy  
4 and job opportunities will suffer. So, we have to put our  
5 finances in order.

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

21 Senator Lee: Now, in 2008, you appeared in a  
22 documentary called "IOUSA." You talked about some of the  
23 threats we might face, some of the crises we might face as  
24 our national debt continues to rise. At the time,  
25 significantly, our national debt was \$8 trillion. It's

1 funny how we can look back on that now and say "only \$8  
2 trillion," because, of course, that's a staggering sum of  
3 money. But, since then, our debt has significantly more  
4 than doubled. And so, other than facing possible  
5 insolvency, sooner rather than later, what consequences,  
6 specifically to our national security, do you project from  
7 this trend if we stay on our current path?

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

25 At the same point in time, as we've testified in this

1 hearing, there is a tremendous amount of waste with regard  
2 to overhead and management practices within the Defense  
3 Department. And so, we need to have an adequate allocation  
4 of the budget to defense. At the same point in time, we  
5 need to improve the economy, efficiency, and effectiveness  
6 of the resources that are being allocated to the Defense  
7 Department at the present point in time.

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

14 Mr. Walker: Two percent. A hundred years ago, the  
15 U.S. Government was 2 percent of GDP. Now we're -- you  
16 know, now we're about 21 percent of GDP, so it's 10 and a  
17 half times bigger. A hundred years ago, we controlled 97  
18 percent of spending, Congress did, every year, now it's 38,  
19 going down. It's out of control.

20 Senator Lee: Well said. I see my time is expired.  
21 Thank you, Mr. Walker.

22 Thank you, Mr. Chairman.

23 Chairman McCain: We all yearn for those golden days of  
24 yesteryear.

25 [Laughter.]

1 Mr. Walker: It's not too late, Senator.

2 Chairman McCain: Senator Manchin.

3 Senator Manchin: Thank you, Mr. Chairman.

4 Thank all of you for being here.

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

16 I'll ask a simple question, basically. Is there enough  
17 money in the system? We put around \$600 billion in defense.  
18 Is there -- is that enough money to defend this country, to  
19 keep our people safe and defend the homeland? And what we  
20 seem to have a inability to do is to legislate good  
21 management. I don't know how you can do that. So, my point  
22 is this. If there's enough money -- and they don't think  
23 there is enough money, the way they're managing now -- will  
24 they change their management practices, since we can't seem  
25 to do it through legislation? Do you think it will change?

1 Will it hit a crisis to where we're -- basically have to  
2 change? So, we can start, Mr. Walker, with you, if you  
3 don't mind.

4 Mr. Walker: Thank you, Senator.

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

11 Senator Manchin: Sure.

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

18 Senator Manchin: Well, what we hear, if I don't -- I'm  
19 sorry to interrupt -- what we hear is, basically,  
20 sequestering is choked, and basically, everybody, Democrats  
21 and Republicans, want to do away with sequestering. Now, I  
22 understand, because we all want to keep the homeland safe.  
23 We'll do whatever we can to defend this great country.

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

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

7 General Punaro: Well, Senator, as the Chairman pointed  
8 out, we are at historically high spending levels. We are in  
9 constant -- FY16 constant dollars, 100 billion -- at 600  
10 billion, \$100 billion higher than the previous lows. We're  
11 roughly spending at the same peak as the Reagan buildup.  
12 And yet, we -- our warfighting forces are 40-50 percent  
13 smaller. And the problem is, there's so much of it chewed  
14 up in overhead.

15 You've got three big problems in the Department of  
16 Defense that's gobbling up our warfighting forces. You  
17 have, basically, the unsustainable, long-term, fully  
18 burdened cost of personnel, which includes the retired  
19 force, and we certainly don't want to change anybody's  
20 benefits. Everybody would have to be grandfathered. But,  
21 we all know, when Congress deals with the grand compromise  
22 on entitlements, it's going to look forward, it's going to  
23 take 20 to 30 to 40 years to fix it. The same thing happens  
24 in defense. The acquisition system, we spend \$400 billion a  
25 year on goods and services, supplies, and equipment, and

1 about the only polite thing you can say, "We spend more, we  
2 take longer, we get less." Now, the committee's made a lot  
3 of reforms here.

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

14 Senator Manchin: Who's making those decisions?

15 General Punaro: Well, the leadership in the Department  
16 of Defense. It's not the Congress. And they come up with  
17 the budget, and they are allocating -- they are keeping too  
18 much in the tail, and there's too little on the combat side.

19 And I believe -- Albert Einstein had a quote, and I  
20 don't know if I'm getting it just right. He said, "You  
21 can't solve problems with people who created them." This  
22 committee has a history, going all the way back to the  
23 creation of the defense establishment after World War II,  
24 the amendments in '56, Goldwater-Nichols acquisition reform.  
25 It's going to have to have to come from this committee. The

1 Department cannot reform itself internally. It is just too,  
2 too difficult for them. So, the reform --

3 Senator Manchin: Do you believe there's enough money  
4 in the system if we managed it properly?

5 General Punaro: At \$600 billion, and in the FYDP that  
6 the administration requested over the next 5 years, if they  
7 could get control of the overhead, if they could get the  
8 reforms and the acquisition, if they could start containing  
9 --

10 Senator Manchin: I mean -- quickly, but, basically,  
11 you're saying yes?

12 General Punaro: I'm saying yes.

13 Senator Manchin: How about you, Mr. Spencer, very  
14 quickly?

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

25 Senator Manchin: Ms. Bisaccia, yes or no, 600 billion?

1 Ms. Bisaccia: I'm not in a position to comment. I've

2 --

3 Senator Manchin: Okay.

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

11 Senator Manchin: And very quickly, Mr. Walker.

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

16 Senator Manchin: So, by lifting the budget caps and  
17 the sequestering basically going away, that's not going to  
18 be the answer to --

19 Mr. Walker: I think --

20 Senator Manchin: -- better management.

21 Mr. Walker: I think you have to look at the top line,  
22 you have to look at how you're allocating the money. And I  
23 come back to something that General Punaro said. I do think  
24 you have to end up forcing change with regard to overhead  
25 and the administrative functions. I do think you need to

1 figure out what you have, you have to benchmark it, you have  
2 to put caps on it, and you have to force people to drive  
3 that down. That's what's not happening. It's got to be  
4 forced to be driven down.

5 Senator Manchin: Thank you. My time's up. I  
6 appreciate it.

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

9 Senator Rounds: Thank you, sir.

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

20 My question for you is this. And I'll begin with Mr.  
21 Spencer. You've suggested, specifically, areas that could  
22 be looked at for efficiencies. Is it possible to take them,  
23 department by department or location by location -- depot  
24 maintenance, commissaries, Defense Logistics Agency, DOD  
25 education activity and so forth -- is it possible to take

1 one and separate it out and actually reform it, proving that  
2 it is not only doable, but it is desirable within the  
3 Department to actually make change based upon the mission  
4 that that particular part of the organization is responsible  
5 for?

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

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

22 Mr. Spencer: They should be separated out. It's not a  
23 core function.

24 Senator Rounds: But, nonetheless, it is critical for  
25 the operation of the entire -- for the mission of defending

1 the country, correct?

2 Mr. Spencer: Certainly is, but there are more  
3 organizations that can do it more effectively and more  
4 efficiently.

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

11 Mr. Spencer: Yes.

12 Senator Rounds: So --

13 Mr. Spencer: The actual tank getting fixed, yes.

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

22 Mr. Spencer: I see where you're headed, Senator, but I  
23 come back to private sector. If it is not in your core  
24 competency wheelhouse and there are better providers out  
25 there that do it, you access the most efficient path you

1 can, because your mission is not aligned with that. Yes,  
2 it's a subsupport of it, but somebody else can do it better  
3 and more effectively. Why waste resources on doing that,  
4 when you can apply it to your direct mission? -- would be my  
5 response.

6 Senator Rounds: When we look at making reforms, when  
7 -- if we've looked back at it and we've got 24 different  
8 reform proposals that have occurred since 1983, have any of  
9 them actually worked? Is there anything in them which has  
10 actually worked? Can we list an example of where they've  
11 been successful?

12 General Punaro: Well, I would say the Goldwater-  
13 Nichols reforms, which tremendously changed the operational  
14 chain of command in the military pioneered by this  
15 committee, worked. I would say there's very little on the  
16 management side that you could point to from all the various  
17 commissions. I do think you've got a kernel of really great  
18 idea, in that you could take two or three of these areas  
19 that you've talked about and create a pilot program. For  
20 example, we have 18 maintenance depots in the Department of  
21 Defense as part of their \$170-billion-a-year logistics  
22 enterprise. Why not take one of those organic depots and  
23 run a pilot program where outside enterprise could come in,  
24 keep it right where it is, and run it on the base? Let's  
25 take a DOD-dependent school. There are a lot of local

1 school districts that could come in and run that school  
2 system on the base and see if it could be run more  
3 efficiently than the government is running it. With a  
4 commissary, for example, you could take the Marine Corps  
5 commissary at Camp Pendleton, as General Jim Jones was  
6 willing to do in 1998, when he was the Commandant, and bring  
7 in a Walmart or a Costco and let them run it, and see if it  
8 would be more efficient. And then you could -- and then you  
9 would have some data, and then you could deal with some of  
10 the emotional arguments that you run into when people say,  
11 "Well, they can't do it." So, test it out. So, as you look  
12 at these management reforms, which are going to be very  
13 tough and very hard, do some pilot programs and test out  
14 your proof of concept, and then decide if you want to take  
15 it to a broader set. So -- but, I do think, in all these  
16 areas that are not core to the Department, these are the  
17 ripe areas for these kind of pilot programs.

18 Senator Rounds: Thank you.

19 Thank you, Mr. Chairman.

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

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

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

18           Chairman McCain: Right.

19           Mr. Walker: -- you know, that's the elephant in the  
20 room. You know, if you --

21           Chairman McCain: Well, it -- it's more than that in  
22 this issue.

23           Mr. Walker: Yes, sir.

24           Chairman McCain: It's the perception that we are  
25 taking away from our -- particularly our retirees, not to

1 mention Active Duty --

2 Mr. Spencer: Mr. Chairman, can I add something here,  
3 though? Having chaired the -- lucky enough to chair the DBB  
4 Task Force on Modernization of the Military Retirement  
5 System.

6 Chairman McCain: You were lucky?

7 [Laughter.]

8 Mr. Spencer: Thank you, sir. One of the VSOs was nice  
9 enough to publish my home phone number, and I took 127 phone  
10 calls. I kept a log on this. And I actually wanted to  
11 speak to the people. And once you got the expletives out of  
12 the way and realized that I wasn't a communist agent trying  
13 to defer any sort of benefit, you could speak to --

14 Chairman McCain: That took a while.

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

1 Chairman McCain: Well, I appreciate your confidence.

2 Senator King.

3 Senator King: Thank you.

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

14 [Laughter.]

15 Senator King: Unfortunately, I'm keenly aware that I'm  
16 above that level today.

17 [Laughter.]

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

1           One of Lincoln's greatest unappreciated qualities was  
2 as a manager. When he was -- when he became President,  
3 there were 16,000 members of the United States Army. By the  
4 end of the Civil War, they had scaled up to over 2 million  
5 people that fought on the Union side in the Civil War.  
6 Think of that as a management challenge. But, it occurred  
7 because Lincoln cared about it and put people in a position  
8 and required results, in terms of everything from making  
9 buttons to bullets to railroad ties.

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

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

25           Senator King: Absolutely.

1           Mr. Walker: They've got good people with the right  
2 skills in the right position for a requisite amount of time.  
3 And I think, when you look at presidential appointments,  
4 Senate confirmation, for example, there's three kinds of  
5 jobs. There are policy jobs, there are operational jobs,  
6 and there are oversight jobs. And you want different kinds  
7 of people in those jobs. And I would respectfully suggest,  
8 as I did for the CMO position and the sub-CMO positions,  
9 that you need statutory qualification requirements, that we  
10 need to be thinking about term appointments with performance  
11 contracts for those jobs that are operational jobs. They  
12 are not policy. They may be political appointees, but they  
13 are operational jobs.

14           Senator King: But, I would suggest if the oversight  
15 from the White House is more about policy and politics than  
16 it is about running the enterprise -- I mean, there's a  
17 reason it's called "the administration." But, in many cases  
18 -- and again, I'm not pointing the finger at the -- this  
19 particular President, but it's just not in our political  
20 culture to care too much about how the structure at the  
21 Pentagon functions.

22           Let me move on for a minute. Data and metrics. The  
23 fact that you were saying that there's an argument about how  
24 many people work in the Secretary of Defense's office is  
25 unbelievable -- I mean, that we don't have -- we can't

1 possibly make good decisions if we don't have data. Would  
2 you concur?

3 General Punaro: Absolutely, Senator. I go back to  
4 when I was serving on the committee. We couldn't get the  
5 data. When Secretary Cohen asked me to chair a task force  
6 in 1997, Doc Cook, the legendary mayor of the Pentagon,  
7 "Doc, how large is OSD?" "Oh, Arnold, we've only got about  
8 2,000 people." Well, Jim Locher and Rhet Dawson and others  
9 were on that task force. We went around and counted the  
10 names on the doors, we counted the computers, we counted the  
11 badges. There was another 1,300 more than they admitted.  
12 And Secretary Gates, when he -- in 2010, when he tried to  
13 downsize, they couldn't get the accurate baseline. If you  
14 look at the defense wide headcounts that are in the Defense  
15 Manpower Requirements Report, today the Office of the  
16 Secretary of Defense, with military, civilian, and  
17 contractors, 5,273. You could argue that the Office of the  
18 Inspector General, which is 1,823, comes under OSD. You  
19 could argue that the Pentagon force protection --

20 Senator King: Well --

21 General Punaro: So, the problem is, GAO has said they  
22 don't have reliable data. Now, Peter Levine, the new DCMO,  
23 former staff director of this committee, he's working this  
24 really, really hard right now. And in all the years I've  
25 been looking at this and doing this, he's the first senior

1 Pentagon official that has admitted, "You know, Arnold, I'm  
2 not sure we have accurate data. I'm going to try to get the  
3 accurate data." Before, they'd just stonewall you. So,  
4 maybe there's going to be -- but, the committee is going to  
5 have to put pressure on it and mandate and get the  
6 information.

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

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

16 Senator King: Thank you, Mr. Chairman.

17 Chairman McCain: Senator Ernst.

18 Senator Ernst: Thank you, Mr. Chair.

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

21 Effective management of government programs is --  
22 especially in the DOD, is something that I have taken great  
23 interest in since I have come to the Senate. And I've found  
24 out that there really are no government wide standards,  
25 especially when it comes to program management, whether it's

1 in the DOD or some of our other departments. And I do  
2 believe they need to be more in tune with what is going on  
3 in the private sector. And there's a study -- it was done  
4 by Accenture, a group out there -- that says the U.S.  
5 Government could save as much as \$995 billion by 2025 by  
6 increasing public-sector efficiency by just 1 percent. And  
7 that, again, is across the government. And that includes  
8 improving program management practices.

9 And so, this is a great topic for today. And I'm glad  
10 to have the discussion on it. I would like some feedback  
11 from the panel. Mr. Spencer, I'll start with you. But,  
12 it's my understanding that the Federal Government spends  
13 around \$530 billion in procurement. And when we talk about  
14 procurement, a lot of that discussion is really focused on  
15 the \$177 billion that we spend on DOD weapon systems  
16 acquisition. And this type of procurement for tangible  
17 goods -- so, out of that \$530 billion -- for the tangible  
18 goods, only about 45 percent of that is on items in the  
19 acquisition program. The other -- another 45 percent is  
20 spent on service contracts and those types of things, not  
21 actual goods that you receive. And then another 10 percent,  
22 or the remaining 10 percent, is spent on R&D for future  
23 acquisition programs. So, the Defense Acquisition Workforce  
24 Improvement Act only applies to those goods that are  
25 tangible in nature. And so, it leaves those service

1 contracts out.

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

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

21 Senator Ernst: Thank you.

22 Controller General Walker?

23 Mr. Walker: The scope should be expanded. There's a  
24 lot of contracting that doesn't deal with goods. It also --  
25 it deals with services. We have to understand what are our

1 goals, what are our objectives, what are our metrics, what  
2 are our measurement systems. And that applies both to, you  
3 know, defense weapons acquisitions, as well as a range of  
4 services.

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

16 Senator Ernst: Yes, General.

17 General Punaro: I would step it back to broader issue  
18 that Senator King brought up, which is management. The  
19 Office of Management and Budget needs to emphasize more on  
20 the management side and less on the budget micromanagement.  
21 But, the biggest change we -- that would affect what you're  
22 talking about -- because 55 percent of DOD's spend now is on  
23 services -- would be a reform in the Congress in going to a  
24 2-year budget. So, the first year -- because the Congress  
25 and the Pentagon are drowning in budget details. Everything

1 is just tied to these microbudget details. Not as much  
2 oversight and management occurs, either in the executive  
3 branch or in the Congress. So, the first year, you would  
4 deal with the budget request; the second year, you would do  
5 detail oversight on the management side. You'd have much  
6 more time to basically bring in witnesses that could  
7 basically have a back-and-forth. And so -- and, in terms of  
8 the broader management, the Eisenhower Cabinet -- I mean, he  
9 basically believed in true Cabinet line officers, as opposed  
10 to the kind of micromanagement that we've seen White Houses  
11 do today. So, the -- so, you really aren't going to get to  
12 the bottom line until you go to this broader construct.

13 Mr. Walker: May I jump in quickly?

14 Senator Ernst: Yes.

15 Mr. Walker: I strongly endorse the concept of a  
16 biennial budget. I'm 64 years old. I know that may be hard  
17 to believe, but I am.

18 [Laughter.]

19 Mr. Walker: And the fact of the matter is, Congress  
20 has passed timely appropriations and budget bills four times  
21 in my lifetime. We spend a tremendous amount of time -- and  
22 most of the States have gone to biennial budgeting. I think  
23 it's something we need to consider, as well as the  
24 separation between the capital budget and an operating  
25 budget, and to focus not on deficits and debt, but debt as a

1 percentage of the economy. That's what matters.

2 Senator Ernst: All very good points.

3 Thank you, Mr. Chair.

4 Chairman McCain: We thought you were older.

5 Senator Hirono.

6 Senator Hirono: Thank you, Mr. Chairman.

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

11 Mr. Walker: Whether you talk about critical  
12 infrastructure, whether you talk about weapon systems  
13 acquisition, there's a difference between trying to be able  
14 to acquire things that have multigenerational benefit that  
15 end up -- benefit society broadly over an extended period of  
16 time. Most States have capital budgets and operating  
17 budgets. Most corporations have capital budgets and  
18 operating budgets. And that's why I'm saying you have to be  
19 careful. Sometimes people want to play games to say, "Well,  
20 this is really a capital item, this is really an investment,  
21 it's really not an expenditure, so I should have more  
22 flexibility." That's why I'm saying one of the things that  
23 you do is focus on debt-to-GDP. When you do that, when you  
24 focus on debt-to-GDP, which has gone from 31 percent in 1980  
25 to -- pardon me, 30 -- to 54 percent in 2000 to 103 percent

1 today, when you count what we owe Social Security and  
2 Medicare, we've got to get that down to about 60 by '20 to  
3 2035. Let's use best practices from the private sector.  
4 Let's look to the States. And I think they would tell you,  
5 you need separate budgets for that.

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

13 Mr. Walker: Well, it's before --

14 Senator Hirono: With any --

15 Mr. Walker: -- it's before my time, but, you know, our  
16 budget process is -- it's a cash-based -- and it's focused  
17 on 1 year at a time. And I think some people have been  
18 concerned that you might lose control of spending if you  
19 have a separate, you know, capital budget from an operating  
20 budget, "Let's just put it all together." But, again,  
21 that's what I'm saying.

22 Senator Hirono: Oh.

23 Mr. Walker: If we focus on debt-to-GDP, it's -- have  
24 specific targets, triggers, and enforcement mechanisms on  
25 debt-to-GDP, that's the way to manage that problem. Private

1 sector and States separate it. States have 2-year budgets.  
2 We ought to learn from the States.

3 Senator Hirono: Well, do the other panelists also  
4 agree that we should separate out these two budgets?

5 General Punaro: I agree.

6 Senator Hirono: Mr. Punaro?

7 Mr. Spencer: Completely.

8 Ms. Bisaccia: Seems like good management to do so,  
9 yes.

10 Senator Hirono: We probably need to figure out how to  
11 get there, because to make this kind of a -- what I would  
12 consider a really reasonable, fundamental change in how  
13 government operates and how we make decisions around here  
14 would be very challenging, but one that I particularly would  
15 be interested in.

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

22 General Punaro: I'll --

23 Senator Hirono: Mr. Punaro.

24 General Punaro: -- start. The --

25 Senator Hirono: General.

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

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

24           Chairman McCain:  Senator Sullivan.

25           Senator Sullivan:  Thank you, Mr. Chair.

1           Appreciate panelists on a very important topic.

2           I want to drill down a little bit more on the tooth-to-  
3 tail-ratio issue and just get a sense -- you know, General  
4 Punaro, you talked a lot about it in your testimony, what  
5 the Army's trying to do, in terms of their reduction of its  
6 Active Duty Force, which, as you mentioned in your  
7 testimony, seems to be taking a very significant hit on the  
8 trigger-pullers versus the tail part of the Army. But --  
9 and then, if you look at charts internationally, where we  
10 stand as a military compared to other militaries in the  
11 world, we have a very large tail, relative to the tooth  
12 element, relative to other countries, almost every other  
13 country in the world.

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

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

12           So, the problem is -- you know, I have a cartoon that I  
13 drew up years ago called, "Where is Private Waldo?" So,  
14 today you have 1.2 to 1.3 million Active Duty personnel,  
15 roughly 220,000 forward deployed, including troops in the  
16 Middle East and in Afghanistan. So, you have to ask  
17 yourself the question, What is the other 1 million doing?  
18 And 330,000, and particularly a sizable number in the Army,  
19 are working in inherently commercial activities: laundry,  
20 retail, clerks, finance. These are jobs -- and these are  
21 our most expensive personnel, the Active Duty military --  
22 that either a defense civilian or a contractor could do.  
23 And so, the problem in the Department, when you're talking  
24 about tooth-to-tail, is, we have too -- we have so many  
25 people, defense civilians, in military that's in -- part of

1 the tail that really is not fundamental to warfighting.

2 Senator Sullivan: So, how would --

3 General Punaro: Part -- yeah.

4 Senator Sullivan: So, General Miele has talked about  
5 trying to -- as the Army is looking to draw down -- to kind  
6 of make sure that the warfighters are the last elements of  
7 the reduction that the Army is undertaking. However, as  
8 your testimony points out, that's certainly not the case,  
9 that's not what they're doing.

10 General Punaro: That's right.

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

16 General Punaro: I think you're going to have to do  
17 authorized end strengths in the overhead area, just like you  
18 do for Active personnel in Guard and Reserve. For example,  
19 the committee authorizes, let's say, 450,000 Active Duty  
20 Army. That means, on September 30th of each year, the  
21 Army's authorized end strength has to be within one-half of  
22 1 percent above or below that authorized number.

23 Senator Sullivan: And should that look at not only --

24 General Punaro: And so --

25 Senator Sullivan: -- authorized numbers, but the

1 number of BCTs, to make sure there's a heavy tooth element?

2 General Punaro: Well, what I would do -- the way I  
3 would do is, I'd come at it the other way. I would say that  
4 the Army can only have so many people in the institutional  
5 Army. You would legislate end strengths for overhead,  
6 headcounts, things of that nature, in layers, and then, when  
7 they see they can't have as many -- they -- when they see  
8 they can't have a battalion of soldiers guarding prisoners  
9 at Fort Leavenworth, they're going to then put those  
10 soldiers back into the combat side. So, the way you control  
11 it is by controlling the overhead and not letting them have  
12 the tail grow at the expense of the forces, and they -- and  
13 then they're going to say, "Okay, holy smokes, we've got  
14 50,000 soldiers that we can't put in the institutional Army.  
15 Let's create, you know, five more combat brigades." I think  
16 that's the way to do it.

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

25 Senator Sullivan: Mr. Walker?

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

15           Senator Sullivan: Thank you.

16           Thank you, Mr. Chairman.

17           Chairman McCain: Senator McCaskill.

18           Senator McCaskill: You know, I -- one of the things I  
19 find ironic about this hearing is that one of my pet peeves  
20 at all of these hearings -- and it's particularly true with  
21 the subcommittee hearings -- is, usually the first two rows  
22 behind the witnesses are all people from the Pentagon. In  
23 one hearing of a subcommittee, I said -- I asked the  
24 audience how many of them worked at the Pentagon, and almost  
25 every seat in the hearing room, hands went up. I said, "You

1 know you can get this on TV." And it's a symptom of a  
2 Deputy Deputy Deputy Dog, General, that -- I mean, when you  
3 have a three-star come to the Hart Building, it takes four  
4 SUVs to bring one three-star. There is this culture that  
5 you're not really important unless you've got a really big  
6 posse at the Pentagon. And I don't know how to get at that.

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

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

20 But, there's two way to get at the problem you said.  
21 One would be working with the Department of Defense. I  
22 believe Secretary Carter is very reform-minded. He is on  
23 acquisition, on the force of the future. And I know he  
24 would like to get control of these management headquarters  
25 and get agreement on what -- how big is the Office of the

1 Secretary of Defense? How -- you know, and what size should  
2 it be? Then you could put the mandatory caps in.

3 Another way of doing it -- and I would say this has  
4 been my experience when I served on the committee, because  
5 it was always hard to find somebody that was willing to do  
6 something like that in a cooperative way -- I believe Ash  
7 Carter is different, so I would try that first -- is, let's  
8 say we believe OSD should be 3,000, and let's say they say  
9 it's 5,000, but we don't really know. So, put the cap at  
10 3,000. They'll scream and holler and say, "Holy smokes,  
11 that's too small." You'll then get the right number. But,  
12 you're going to have to legislate caps for OSD, the Joint  
13 Staff, the combatant commanders, and the management  
14 headquarters to be able to get control of the overhead.

15 Senator McCaskill: As we cut the money under the  
16 budget constraints, none of those have gone away, right?

17 General Punaro: The --

18 Senator McCaskill: We've reduced end strength, but not  
19 the Deputy Deputy Deputy Dogs.

20 General Punaro: There's too many ways -- the money is  
21 too fungible. Cutting money doesn't do -- will not cut the  
22 headcount. I mean, when Secretary Gates eliminated the  
23 Joint Forces Command, people believed that we eliminated the  
24 Joint Forces Command in July of 2010. The 2,000 military  
25 serving in the Joint Forces Command were added to the roster

1 of the Joint Staff.

2 Senator McCaskill: Right.

3 General Punaro: All the defense civilians were just  
4 put in other locations. The only thing we got rid of were  
5 the contractors. Now, we don't have that headquarters, so  
6 there's -- the shell game -- the Chairman -- I saw something  
7 dealing with the Air Force, where they were taking credit.  
8 Now, I didn't look into the details on this, so -- but,  
9 whatever it is, the problem is, the Defense Department, over  
10 the years, not unique to any one administration, they are  
11 the duty experts at, "Hey, we just cut this defense agency,"  
12 and then you look over here, and, "Oh, my God, they just  
13 created a brand-new field activity that doesn't count  
14 against that total."

15 Senator McCaskill: Right.

16 General Punaro: That's why I'm for these firm end  
17 caps. The Department won't like this. Maybe members of the  
18 committee won't like this. We don't like to try to have to  
19 micromanage in this area. But, to get control of it, I  
20 think --

21 Senator McCaskill: It may be --

22 General Punaro: -- you're going to have to do it.

23 Senator McCaskill: -- necessary, yeah.

24 I'm not going to have time to get to all the contractor  
25 stuff, but obviously this is something I'm spending a great

1 of time on, and I worry a little bit -- I know my dad peeled  
2 potatoes in World War II, and I know we shouldn't have  
3 anybody, an expensive warfighter, peeling potatoes, but we  
4 know that LOGCAP, at least the first two or three versions,  
5 were a disaster, in terms of costs, in terms of handling  
6 costs. And so, I don't want us to lose sight of the fact  
7 that, while we move these functions to a civilian force, a  
8 contractor force, that we lose sight of the fact of the kind  
9 of money we've wasted on bad contracting practices. I just  
10 want to get that on the record, because we've spent an awful  
11 lot of time trying to dig deep on that issue.

12 General Punaro: You have to have -- that's why David  
13 Walker and all of us here believe you've got to bring in  
14 these world-class business managers and manage these  
15 contracts. You all created the Wartime Contracting  
16 Commission. They made a lot of good recommendations. But,  
17 again, you've got to bring -- these are businesses. LOGCAP  
18 --

19 Senator McCaskill: Right.

20 General Punaro: -- is a business enterprise. You need  
21 people that know how to run business. There are very, very  
22 few people in government that know how to manage a business.

23 Senator McCaskill: Finally, just briefly -- and if you  
24 want to answer this for the record, because I know I'm  
25 almost out of time, but --

1 Chairman McCain: No, please go ahead.

2 Senator McCaskill: I want to talk about the audit.

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

16 Mr. Walker: As you know -- you having been the State  
17 auditor for Missouri, myself having been Comptroller General  
18 -- the fact is, internal controls are the most important  
19 thing. In addition, having effective cost accounting  
20 systems with full cost accounting is important. In  
21 addition, understanding what you have, where it is, what  
22 condition it's in, and then performance metrics, those are  
23 the most important things.

24 Peter Levine -- I've spent some time with Peter  
25 recently -- Peter recognizes that he needs to spend more

1 time on controls, on cost accounting, and on performance  
2 management. I agree with that. I think we have to reassess  
3 where they are with regard to the financial statement audit.  
4 As I mentioned before, my personal view is, you need a plan,  
5 a matrix plan that talks about organizations and line items,  
6 focused on getting an opinion on the consolidated DOD  
7 financial statements, rather than the sub-entities.

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

20 Senator McCaskill: Right.

21 Mr. Walker: Let's talk about performance audits --  
22 what's working, what's not working -- so we can focus  
23 economy, efficiency, effectiveness, and continuous  
24 improvement.

25 Senator McCaskill: Thank you.

1 Thank you, Mr. Chairman.

2 Chairman McCain: I thank the witnesses. And the --

3 Senator King: Mr. Chairman? Mr. Chairman?

4 Chairman McCain: Senator King.

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

13 Thank you, Mr. Chairman.

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

20 And again, I still, frankly, am challenged by this  
21 requirement to get particularly Silicon Valley as well as  
22 other wise people into the Department of Defense. And I  
23 agree with you, there's a certain number out there that were  
24 -- are just patriotic Americans. But, that's in spite of  
25 the system that they would be joining, not because of. And

1 so, I'm hoping we can work out some better way of  
2 incentivizing people of the kind of talents we need in this  
3 Information Age, and the cyber challenge that we're facing  
4 to serve the government.

5 So, I thank you for this very important hearing.

6 General Punaro?

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

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

1 that.

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

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

20 This hearing is adjourned.

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

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