

Senate Armed Services Committee Hearing
Department of Defense Management Reform Efforts
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Washington, D.C.
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Chairman McCain, Ranking Member Reed, and members of the Senate Armed Services Committee, thank you for the opportunity to testify today. My testimony is based on my past positions of Comptroller General of the United States and head of the U.S. Government Accountability Office (GAO), as a prior member of the Defense Business Board (DBB), and my current position as a Senior Strategic Advisor for PricewaterhouseCoopers' (PwC) Public Sector Practice. While my comments are based on my experience in all of these positions, they represent my personal views and not the views of the respective organizations.

Today's hearing is on business transformation and management challenges within the U.S. Department of Defense (DoD). As you know, DoD has by far the most items on the GAO's High Risk List. Specifically, DoD has seven direct high risk areas (i.e., Business Transformation, Systems Modernization, Infrastructure Management, Supply Chain Management, Financial Management, Weapons Systems Acquisition, and Contract Management). DoD also shares certain Government-wide High Risk items (e.g., Human Capital, Real Property). These high risk areas cost the DoD and American taxpayers many billions of dollars every year in waste and inefficiency.

Importantly, GAO has noted in its most recent High Risk Report Update that progress is being made on these High Risk areas to differing degrees. GAO also noted that the leadership within DoD has been much more supportive of the needed transformation efforts in recent years, especially in connection with the financial management, supply chain management and contract management areas. However, according to the GAO's latest High Risk Report dated January 2015, the DCMO office had a limited impact on accelerating the business transformation process up to that point in time. Importantly, there has been significant turnover in this office since its creation. Peter Levine was confirmed as the current DCMO in late May. He has been fully engaged in a range of business transformation efforts. GAO has not issued a report on the DCMO office's activities since his confirmation.

GAO has consistently stated that the responsibility for the overall business transformation effort is a full-time endeavor that needs to be led by a person at an appropriate level with requisite prior experience. The new Under Secretary of Defense for Management and Information position has the potential to make a bigger difference if the right type person is appointed. However, I am concerned that this new CMO (PAS Level 2) position is not structured to maximize the chance of success or in a manner that could help to facilitate a needed delayering and integration of the key management functions within DoD.

Specifically, I believe that the new position should be at the Deputy Secretary level and that all key DoD-wide management functions, including the Comptroller, AT&L, Personnel and Readiness, Information Management, etc. should report to this position. By doing so, it would

result in a reasonable separation of duties and span of control for the resulting two Deputies. Specifically, the existing Deputy would be focused on policy and external matters and the new Deputy would focus on internal and management matters, including all business transformation initiatives

The new CMO should be appointed based on specific statutory qualification requirements. Such requirements should include the individual having significant leadership and operational management experience as well as a demonstrated track record of achieving transformational change. In my view, it is highly preferable for the new CMO should have both public and private sector experience given the nature of the DoD and its key stakeholder groups. Ideally, the new Deputy would have a term appointment (e.g., five years) with a performance contract. Under this approach, you would also have an opportunity to reconsider the proper level and titles for various positions that report to the new Deputy - CMO.

The above approach is much more consistent with what GAO and I recommended about 10 years ago to help accelerate and better institutionalize the large, complex and multi-dimensional business transformation effort within DoD. I respectively suggest that Congress reconsider the nature of this new Level 2 position and the related possibility for restructuring related management positions and functions so they could be effective at the beginning of the next Administration. Importantly, it will take more than one key person (DoD CMO) to achieve sustainable success. DoD needs to review and reconsider its approach to the appropriate appointment process and reporting lines for the Military Services and "Fourth Estate" CMO's as well.

In my view, all Military Service and Fourth Estate CMO's need to be appointed by the SecDef with the advice of the DoD CMO. These appointments should also be made based on statutory qualification requirements and should be for a specified term with a performance contract. The SecDef should be able to use his/her temporary appointment authority to fill these positions in a timely manner but that authority should be modified to be able to make such appointments for up to five years. This approach would help to enhance the quality and consistency of DoD CMO's while also increasing continuity within these key positions. The resulting CMO's should have dual solid line reporting authority to the head of the Service or Fourth Estate entity and to the DoD CMO. Any resulting conflicts would be resolved by the SecDef, as and if necessary.

Based on my past experience, the DoD is currently organized and operating under management models that were prevalent in the 1950s and has been doing so for many years. It is also clear that an increasing portion of DoD's budget is being allocated to administrative and overhead costs. For example, according to the Congressional Budget Office (CBO), Defense Health Agency, BAH and housing, and total civilian compensation costs, costs grew by 101%, 59% and 35% in excess of inflation during the period 2000-2014, respectively. The DoD still has far too many uniformed personnel in civilian oriented positions. In addition, DoD's escalating health care, disability and other employee benefits related costs are crowding out the ability to enhance force structure and modernize weapons systems. As a result, there is also a clear need to restructure these programs in a fair and equitable manner.

Given the above, there needs to be a fundamental review and reassessment of the current organizational structure, operational and personnel practices within DoD. Specifically, there needs to be a baseline review of all current organizations and key positions to determine their continued appropriateness. Some need to be eliminated and others need to be consolidated. This fundamental review and reassessment needs to be driven from the top with the clear support of the Secretary of Defense (SecDef) and the committees of jurisdiction in Congress.

I have some first-hand experience making this type of transformational change a reality in the federal government. For example, when I was Comptroller General we undertook a comprehensive review and reassessment of GAO's organization and operational practices. The objective of this effort was to modernize GAO's organization and operations to improve performance in a time of resource constraints. Among other things, I wanted GAO to maximize its mission related resources with adequate but controlled mission support capabilities. My philosophy was to minimize the number of layers, players and organization entities in order improve both flexibility and accountability. This transformation effort resulted in, among other things, an elimination of 1/3 of GAO's footprint, elimination of a layer of management, the consolidation of 35 organizational units into 13, an upgrade of our management information and knowledge sharing systems, a revitalization of GAO's recruiting, training and succession planning functions, an infusion of new talent within the agency, a fundamental restructuring of GAO's performance management and reward systems, and a 13% reduction in the number of personnel. At the same time, GAO's outcome-based results more than tripled during my tenure. This type of transformation effort is transferable and scalable within government, including within DoD, but it takes a commitment from the very top, the right type people to lead it, and adequate time and resources to achieve sustainable success.

Importantly, some progress is being made in certain business lines within the DoD that has resulted in real cost reductions and service improvements. For example, major process improvements and accountability mechanisms within USTRANSCOM have resulted in about \$1.5 billion in real savings and 10-20% service level improvements. This type of cost reduction focused process improvement and performance enhancement is also transferable and scalable. Progress has been made in other business lines in the past, including NAVSEA. The real question is - "How can we best proliferate and sustain these business transformation efforts and promote continuous improvement within DoD."

Despite the above, the American people continue to see periodic examples of clear waste and mismanagement within the federal government, including within the DoD. One recent example is the multi-million dollar warehouse in Afghanistan that was built even though it was not needed and is still not being used. While this does not involve a lot of money given the size of the DoD budget, it is symbolic of a systemic problem within the DoD that needs to be addressed.

The DoD culture is very mission focused and chain of command oriented. When a decision is made to take a specific action, no matter what the nature of the action is, efforts are undertaken to do so even when the action is not realistic or no longer makes sense. Many people within DoD hesitate to speak candidly and to advise their superiors to change course when current conditions and subsequent events dictate that a change in course is clearly called for. In addition, there are

too many cases where DoD leaders are told what people think they want to hear rather than what that need to hear based on the "ground truth". As a result, there are too many cases where expectation gaps exist and bad news comes as a surprise. Furthermore, when failure and mismanagement occurs, there is rarely anyone who is held accountable. This is simply unacceptable and it serves to undercut the American people's trust and confidence in government.

Another key cultural challenge is the fact that too many people in DoD think they have a "veto" over key cross organizational initiatives within the department. Additional steps need to be taken to make it clear that the responsible official for major DoD transformation issues has the full support of the SecDef and playing "rope a dope" or attempting to exercise "pocket vetoes" are unacceptable practices that will not be tolerated. This includes people at all levels, including PAS positions. My previously mentioned recommendations to establish a second Deputy level CMO position and to integrate and modify the reporting lines for various internal management functions can help to address this problem.

In my view, these cultural and accountability issues need to be addressed head-on in the recruiting, training and performance management systems within the DoD. These changes need to be combined with enhanced incentives, transparency and accountability mechanisms for major business transformation projects within the Department. Individuals who make strong contributions should be recognized and rewarded and those who fail to do their part or act irresponsibly should be held accountable, including being demoted or fired in appropriate circumstances.

I believe that additional steps need to be taken to gain additional private sector expertise within the DoD in connection with major transformation efforts. This would be a supplement to rather than a substitution for the CMO positions noted previously and selected independent contractor efforts. DoD could accomplish this through using the temporary appointment authority that the SecDef has to appoint persons at any civilian level to perform specified functions. This could be particularly helpful in connection with addressing highly technical information technology, financial management and other operational matters. I had similar authority when I was Comptroller General. I used it to fill critical mission and mission support positions in a timely manner with qualified personnel. It clearly made a difference in connection with the GAO's transformation effort and it can make an even bigger difference in connection with the DoD's transformation efforts.

Furthermore, adequate resources and control mechanisms need to be provided to the individual who is responsible and accountable for any major transformation initiative. As has been said, individuals must have the authority, as well as reasonable levels of human and financial resources in order to get the job done if they are to be held accountable.

With regard to financial management and audit issues. I am concerned that an "expectation gap" may exist regarding the current state of the audit readiness efforts and when and how a successful audit of DoD's consolidated financial statements can best be achieved in a reasonably timely and cost-effective manner. One possibility is to use the SecDef's temporary authority to bring in a retired audit partner from a major CPA firm on a full-time basis to help with the

Department's FIAR efforts. I am confident that DoD could find a qualified person who would be willing to give several years of public service to his/her country in connection with this important initiative. I am also confident that there are similar people in other disciplines who would be willing to do the same in connection with other key DoD business transformation initiatives if this approach was made a priority within DoD. These could be great Capstone opportunities for successful private sector leaders who have achieved financial and other success and who want to do something for their country.

The new Chairman of the DBB recently asked me to suggest a few areas that the DBB might best address. I suggested several, including the FIAR and related financial management and reporting issues (e.g., financial reporting and the DoD audit, internal controls, cost accounting and performance management information, and related governance issues); DoD bureaucracy streamlining and shared service opportunities; DoD/VA coordination and selected integration, and; disability and retirement program reforms, especially retiree health care for individuals who are working with no service related injuries or serious impairments in light of the ACA. The Chairman has stated that he would like to meet with me in the near future to discuss these areas further.

The truth is, DoD personnel are mission focused and totally committed to the mission of protecting the national security interests of the United States. We have the best military capabilities in the world and no one else is close to us at this point in time. At the same time, the Pentagon has become a bloated bureaucracy and overhead costs are way too high. There are too many layers, players and hardened silos within DoD. This is both undesirable and unsustainable.

The Pentagon needs to be streamlined and simplified in order to free up resources for direct mission critical activities. This will involve deciding what needs to be done, which DoD entity should be responsible, how best to accomplish the objective, whether it should be performed by public and/or private sector personnel, and how we should measure success. In addition, effective internal controls and related performance management systems and accountability mechanisms need to be in place to ensure the economy, efficiency and effectiveness of DoD's ongoing activities. When the new CMO position is filled and operationalized, that person needs to bring a "tough love" attitude to DoD. They will also need to support of the Congress, the President, and the SecDef in order to achieve sustainable success. We can succeed in this effort with the right people and approach; however, it will take years.

Thank you again for the opportunity to testify today. I would be happy to answer any questions you may have.