

[H.A.S.C. No. 111-172]

**MANAGING THE DEPARTMENT OF  
DEFENSE IN A TIME OF TIGHT BUDGETS**

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COMMITTEE ON ARMED SERVICES  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED ELEVENTH CONGRESS  
SECOND SESSION

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HEARING HELD  
JULY 22, 2010



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U.S. GOVERNMENT PRINTING OFFICE  
WASHINGTON : 2011

63-121

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# CONTENTS

## CHRONOLOGICAL LIST OF HEARINGS

2010

	Page
HEARING:	
Thursday, July 22, 2010, Managing the Department of Defense in a Time of Tight Budgets .....	1
APPENDIX:	
Thursday, July 22, 2010 .....	43

### THURSDAY, JULY 22, 2010

#### MANAGING THE DEPARTMENT OF DEFENSE IN A TIME OF TIGHT BUDGETS

##### STATEMENTS PRESENTED BY MEMBERS OF CONGRESS

McKeon, Hon. Howard P. "Buck," a Representative from California, Ranking Member, Committee on Armed Services .....	2
Skelton, Hon. Ike, a Representative from Missouri, Chairman, Committee on Armed Services .....	1

##### WITNESSES

Conaton, Hon. Erin C., Under Secretary of the Air Force .....	9
McGrath, Hon. Elizabeth A., Deputy Chief Management Officer, U.S. Department of Defense .....	4
Westphal, Hon. Joseph W., Under Secretary of the Army .....	6
Work, Hon. Robert O., Under Secretary of the Navy .....	7

##### APPENDIX

###### PREPARED STATEMENTS:

Conaton, Hon. Erin C. ....	79
McGrath, Hon. Elizabeth A. ....	51
McKeon, Hon. Howard P. "Buck" .....	49
Skelton, Hon. Ike .....	47
Westphal, Hon. Joseph W. ....	60
Work, Hon. Robert O. ....	70

###### DOCUMENTS SUBMITTED FOR THE RECORD:

[There were no Documents submitted.]

###### WITNESS RESPONSES TO QUESTIONS ASKED DURING THE HEARING:

Mr. Bishop .....	95
Mr. Forbes .....	95
Mr. McKeon .....	94
Mr. Skelton and Mr. Bishop .....	93
Mr. Taylor .....	94

###### QUESTIONS SUBMITTED BY MEMBERS POST HEARING:

Mr. Critz .....	110
Mr. Kissell .....	109

IV

	Page
QUESTIONS SUBMITTED BY MEMBERS POST HEARING—Continued	
Mr. Larsen .....	109
Mr. Miller .....	105
Mr. Ortiz .....	99
Mr. Owens .....	110
Mr. Turner .....	106

## MANAGING THE DEPARTMENT OF DEFENSE IN A TIME OF TIGHT BUDGETS

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HOUSE OF REPRESENTATIVES,  
COMMITTEE ON ARMED SERVICES,  
*Washington, DC, Thursday, July 22, 2010.*

The committee met, pursuant to call, at 10:04 a.m., in room 2118, Rayburn House Office Building, Hon. Ike Skelton (chairman of the committee) presiding.

### **OPENING STATEMENT OF HON. IKE SKELTON, A REPRESENTATIVE FROM MISSOURI, CHAIRMAN, COMMITTEE ON ARMED SERVICES**

The CHAIRMAN. Good morning, ladies and gentlemen. We welcome you to today's hearing on managing the Department of Defense [DOD] in a time of tight budgets. Our hearing continues the committee's aggressive efforts to protect taxpayers at the same time we protect the troops and ensure our national security.

This discussion is very timely. First, consider the budget. Much to its credit, the Obama Administration this year delivered a budget with real growth in defense spending.

However, the rate of this growth will not support all the spending practices which have arisen over the last 12 years, during which the defense budget more than doubled. Furthermore, the significant federal deficit will make continued real growth in the defense budget a challenge.

Second, consider the Department of Defense's management challenge. As illustrated in the "Top-Secret America" series of articles in this week's *Washington Post*, the growth in contractors and government offices devoted to fighting terrorism since 9/11 is staggering. Most of this growth has occurred within the Department of Defense, though much of it falls in the area of intelligence.

But little of note at Department of Defense was eliminated to make way for the new growth. Instead, the Department has grown bigger.

Managing all this is exactly the job Congress assigned to the Department's Chief Management Officer [CMO], a job currently filled by Deputy Secretary of Defense, Bill Lynn. And while Secretary Lynn could not be with us today, much to my regret, we have an excellent panel of witnesses with us.

Beth McGrath, Deputy Chief Management Officer of the Department of Defense; Joe Westphal, Under Secretary of the Army; Robert Work, Under Secretary of the Navy; and one-time staff director of this committee, one who has done a wonderful job here and is doing a wonderful job for the Air Force, Erin Conaton, the Under Secretary of the Air Force. We welcome you back.

Secretary CONATON. Thank you, Mr. Chairman.

The CHAIRMAN. Under Secretaries were designated by Congress to serve as Chief Management Officers of their respective Departments. Now, I have asked these witnesses to update the committee on exactly how they are creating the tools, the structures and the systems necessary to manage the largest, most complex institution in the world. I have asked them to focus on a few issues in particular.

Congress has mandated that the Department must, as long last, get its finances in order and be ready for an independent audit by 2017. Will the Department comply with the law? What progress has been made?

The Department has asked and received from Congress billions of dollars to modernize its business systems over the past 10 years. What do we have to show for this investment? Do we now have the kind of management information about our business operations that we need? When will we get there?

Last, the committee has followed with great interest the efficiency initiative announced by Secretary Gates on May the 8th at the Eisenhower Library. We want to know how this initiative will work? When the Department intends to share its findings with Congress?

This committee stands four-square behind efficiency. At the same time, we want to ensure that major budget decisions are well considered. We should not attempt to find efficiencies through the kind of mindless across-the-board cuts that President Obama campaigned against.

For my own part, I will note loud and clear that I am not for cutting the defense budget at this time. My understanding is that the Secretary's efficiency initiative is not about cutting the budget, but I look forward to hearing more about exactly how this initiative is designed to work.

I would like to also mention the fact that this committee successfully passed legislation regarding major weapons systems last year—Rob Andrews, Mike Conaway, and the panel—and its purpose was to reform the acquisitions system of major weapons systems. And this committee is to be congratulated on that, as well as those two leaders.

Also, we passed out and passed on the floor acquisition reform, and it is pending in the Senate and hopefully will be taken up with our defense bill that we have passed and sent to the Senate. This is the efficiency we have already stepped up to the plate and passed.

So with that in mind, I turn to my colleague, my friend, the gentleman from California, Buck McKeon.

[The prepared statement of Mr. Skelton can be found in the Appendix on page 47.]

**STATEMENT OF HON. HOWARD P. "BUCK" MCKEON, A REPRESENTATIVE FROM CALIFORNIA, RANKING MEMBER, COMMITTEE ON ARMED SERVICES**

Mr. MCKEON. Thank you, Mr. Chairman, and good morning.

I would like to thank our witnesses, all of you, for being here today. It is unfortunate that Secretary Lynn could not also join us.

As both the Deputy Secretary and Chief Management Officer for the Department, not to mention his role in helping to craft Secretary Gates' efficiencies initiative, it would have been valuable for the committee to hear from him at a hearing specifically dedicated to the Pentagon's management.

As well, given that the formal responsibilities for CMO are still relatively new for the Deputy Secretary, we were also interested in his observations about that construct and his ability to balance his policy and management portfolios.

With that said, we are grateful to have with us the Deputy Chief Management Officer, Ms. Beth McGrath, whose full-time job is to improve the Department's management. I know Ms. McGrath has testified before this committee in the past, but I believe this is our first opportunity to have all of the Under Secretaries, and I welcome all of you here.

Given the important role that each of you play in serving as the Chief Management Officer of your respective Departments, I look forward to the chance to discuss the various management challenges you face and your plans for mitigating risk to DOD's operations while improving efficiency.

Secretary Conaton—notice how that just rolls off the tongue—I know I echo the chairman's sentiments when I tell you how pleased we are to see you again. Welcome home, so to speak.

This is a timely hearing. Although the GAO [Government Accountability Office] and others have identified a series of persistent management risk areas for DOD, the Department faces a looming management crisis in light of congressional delay in passing a clean wartime supplemental spending measure.

The Senate passed its version of the appropriations bill in May, but the House failed to take up either a compromise-version of the bill, or the Senate-passed bill, before the July 4th recess. Instead, the House amended the Senate bill by adding extraneous domestic spending and returned it to the Senate. Secretary Gates made it clear that, if the supplemental was not enacted by July 4th, the Department would have to begin to curtail defense operations.

I know the chairman shares my conviction that the men and women in uniform operating in harm's way in Afghanistan and Iraq deserve better. Therefore, it is critical that we hear from each of you regarding the impacts this delay will have within your Departments and how you intend to manage the risk to ongoing operations.

Lastly, it should come as no surprise that we are interested to learn more specifics about how the services are implementing Secretary Gates' call for further efficiencies. While no one would argue against reducing waste or needless overhead, it remains unclear whether or not the Department can find \$100 billion in prudent savings over the next 5 years simply from efficiencies.

In his May 8th speech at the Eisenhower Library, Secretary Gates stated, "The goal is to cut our overhead costs and to transfer those savings to force structure and modernization within the programmed budget." I support his intent to ensure that we do not accept a peace dividend that will hollow out our force structure and curtail modernization.

What gives me pause, however, is that, according to Deputy Secretary Lynn, the plan calls for a third of this money, about \$33.3 billion, to come from “developing efficiencies within the force structure and modernization accounts.” So I want to make sure that we understand the plan. In order to protect force structure and modernization, we intend to cut force structure and modernization accounts? I hope that you will clarify that for me.

Likewise, press reports indicate that funding may not go directly to these investment accounts, and senior officials have been recently quoted as forecasting gradual drawdown in the investment accounts.

I know our witnesses are unlikely to reveal planned cuts for future fiscal years, but I hope that you will provide greater details regarding the process you are using to identify both the puts and takes and what measures, besides funding cuts, could generate savings, for example, what steps are you taking to improve your financial management and accountability.

We look forward to your responses. And again, thank you for your time at this critical juncture.

Mr. Chairman, I yield back.

[The prepared statement of Mr. McKeon can be found in the Appendix on page 49.]

The CHAIRMAN. Thank the gentleman. Thank you for your comments.

Now for the witnesses, and we, again, welcome each of you for this very, very important hearing.

Elizabeth McGrath, you are on.

**STATEMENT OF HON. ELIZABETH A. MCGRATH, DEPUTY CHIEF MANAGEMENT OFFICER, U.S. DEPARTMENT OF DEFENSE**

Ms. MCGRATH. Sir, thank you, and good morning.

Chairman Skelton, Congressman McKeon, members of the committee, thank you for the opportunity to discuss the Department of Defense’s efforts to improve its business operations.

It is a pleasure to appear before you with my military department Chief Management Officer counterparts. We look forward to continuing our work with you as we strive for greater efficiency, increased effectiveness, and additional agility within the Department.

While the Department has always worked to improve the efficiency and effectiveness of its business operations, the imperative to achieve lasting results in the engagement of senior Department leadership have never been greater.

Secretary Gates and Secretary Lynn have clearly articulated the pressing need for reform. Today, I would like to share with you our overarching management reform efforts, as well as some recent successes. Our approach emphasizes improving our ability to assess execution through performance management; to develop mechanisms to ensure leadership accountability; and to make needed changes to the way we procure information technology [IT].

In each of these areas, we rely heavily on the tools that Congress has provided us through the last several National Defense Authorization Acts. I will review with you our efforts in the areas of strategy, governance, process improvement, and information technology.

The Department has developed an integrated enterprise-wide business strategy to guide our transformation efforts. This strategic management plan aligns the planning and execution documents that exist throughout the enterprise.

The plan identifies five cross-functional enterprise-wide business priorities, each with specific outcomes, goals, measures, and key initiatives that are critical for success. They are: to support the all-volunteer force; to support contingency operations; reform the DOD acquisition process and support processes; enhance civilian workforce; and strengthen financial management.

Of particular interest for today's hearing may be the Department's efforts to improve financial management and move toward audit readiness. We have developed a plan that focuses on improving the quality of the information that we use. By strengthening those processes that execute the dollars Congress provides to us, we also unite the enterprise around an effort that will benefit everyone, but also requires collaboration and support across the defense enterprise.

We have also established long-term and near-term goals for audit readiness, provided programmed resources in establishing a governance structure that includes the DCMO [Deputy Chief Management Officer].

Successful strategies rely on an effective management framework. This area of governance includes the creation of the Chief Management Officer, Deputy Chief Management Officer, and military department CMO positions.

We recognize the committee's priorities include areas that have been designated as high risk by the Government Accountability Office. We share your focus on reducing such risk in working across the Department and the executive branch to address these challenges with the shared goals of removing items from that list.

Personnel security clearances is a good example of where we have made significant progress. In 2005, the average time for the fastest 90 percent of initial clearances took 265 days. Today, that number is below 60.

Additionally, in 2006, the backlog of pending clearance investigations stood at almost 1,000 cases. Today, that backlog is gone.

Speed without quality may result in the wrong outcome. Therefore, we have actively engaged GAO to exchange ideas regarding quality performance measures for clearance investigations and adjudications. Collectively, we believe the quality measures being developed identify specific quantifiable targets linked to goals. This type of engagement is critical to addressing and eliminating high-risk issues.

As the committee knows, information technology is the key enabler of our business operations in an area with potential for major improvements. One of the Deputy's highest management priorities is improving the acquisition and development and fielding of IT systems.

Our current approach to implementing IT takes too long, costs too much, and often fails to deliver the performance improvements we seek. On average, it takes 81 months in DOD from when an IT program is first funded to when it is fielded. We often deliver systems that are outdated before we ever turn them on.

In contrast, the iPhone took 2 years from concept to delivery. It is clear we need a different approach.

To that end, Secretary Lynn has established an IT acquisition reform task force guided by four principles: speed, incremental development, governance and adaptability. We need to match the acquisition process to the technology development cycle. We must also acknowledge the incremental development testing wherever possible in fielding of new capabilities to provide better outcomes in IT than trying to deploy a big-bang approach.

We must carefully examine how our requirements govern acquisition. We must recognize that different IT applications demand different levels of oversight and enterprise integration. With these principles in mind, we are working to outline a series of acquisition tasks that apply high levels of institutional due diligence where it is needed and strip away excess requirements where it is not.

Focusing on business operations at the Department of Defense is an area of great immediate interest to our senior leadership, as well as an area of serious activity and concerted efforts. We are on the way to creating better business processes that would create the kind of lasting results our country deserves. My CMO counterparts and I look forward to the continued opportunities to work with Congress to optimize performance across the Department.

Thank you, and I look forward to your questions.

[The prepared statement of Ms. McGrath can be found in the Appendix on page 51.]

The CHAIRMAN. Thank you very much.

The Honorable Joe Westphal.

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

Secretary WESTPHAL. Mr. Chairman, thank you. Ranking Member McKeon, thank you, distinguished members of the committee.

I would like to ask, Mr. Chairman, that my statement be made part of the record. And I just want to make a couple of brief points.

The CHAIRMAN. Without objection, each prepared statement will be made part of the record. Thank you.

Secretary WESTPHAL. Thank you, Mr. Chairman.

Just want to make a couple of brief points. The first is to bring you greetings from John McHugh, Secretary of the Army. I was with him this morning, and he really regrets not being invited to this hearing. But he is thankful that Erin Conaton is here, and that he figures he couldn't compete against her today.

Mr. Chairman, members of the committee, you know, I think we are all going to be very repetitive in stating to you over and over how grateful I think we all are at the great care and support that you give our sailors, marines, soldiers and airmen, their families and our civilian workforces.

As some of you know, Mr. Chairman, I worked in this great institution many years ago, and we know fully well how challenged you are to make so many decisions across everything from social programs to national security.

But we do know and understand that you know the great sacrifices that our men and women in uniform and their families make in support of our national defense and our freedoms and our

protections and our way of life every single day. And your steadfast support is well known and highly respected by all of us.

And so, I commit to you that we in the Army will do our part to ensure that that support that we have from you is not diminished. So we will increase our efforts to generate savings, reduce cost, enhance performance, and create efficiencies.

Our soldiers' ability to complete the mission depends on it. Their families depend on it. The Secretary of Defense and the President demand it. And as a Chief Management Officer, this is my focus.

My two great colleagues to my left here and I are doing something really unprecedented, having been in the Department before. This is the first time, I think, that you have the three Under Secretaries, not only now as Chief Management Officers, but in their role as Under Secretaries as well, collaborating on a regular basis to exchange ideas. We meet regularly to find ways to make joint efforts work better and create greater efficiency.

So your designation of us as Chief Management Officers has actually created a great opportunity for our military departments to be more co-joined and work together on a regular basis.

We are also very closely aligned with OSD [Office of the Secretary of Defense], and especially through the Deputy Chief Management Officer, Ms. Beth McGrath. Her experience, her leadership, her knowledge of these issues is helping us immensely to get ourselves coordinated so that we are aligned not only horizontally, but we are aligned vertically within the Department.

Finally, Mr. Chairman, on March 1st, the Army submitted a report to the committee on our business transformation. It was an attempt to give you an idea of what we were working on to put together our business transformation plan, which we intend to deliver promptly and on time to you on October 1st of this year.

So with that, I thank you again for your tireless efforts in support of our armed services and our Army.

Thank you, Mr. Chairman.

[The prepared statement of Secretary Westphal can be found in the Appendix on page 60.]

The CHAIRMAN. Thank you very much.  
Robert Work.

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

Secretary WORK. Thank you, Mr. Chairman.

Mr. Chairman, Congressman McKeon, distinguished members of the committee, it really is an honor—I will echo both Joe's and Beth's sentiments on that—to be with you here today with the other Under Secretaries, and with Beth to talk to you about our plans to continue improvement within the Department of the Navy.

I would also like to echo Joe's thanks to the committee. After 9 years of war, your support has just been instrumental to allowing us to maintain the Marine Corps and the Navy to the high level that we have today. So on behalf of Secretary Mabus and I, I would like to echo Joe's thanks.

And Secretary Mabus and I and the entire Department look forward to future collaboration with you on the committee as we part-

ner to achieve these enduring transformation objectives that you have set out for us.

I spent a lot of time trying to divine the intent of the Chief Management Officer position. And as I see it, the committee and Congress envisions this role to be the leader of transformation across the Department enterprise. And I also believe that you thought that business operations was a subset of management, and management extends across the entire Department of the Navy and in both the Marine Corps and the Navy itself.

So we are looking beyond the business side of the enterprise, and we intend to apply the same type of rigor that I think that you are looking for in not only business operations but weapons systems and other programs across the Department.

Secretary Mabus is interested not only in making the trains run on time, but on making the trains run to different places. And we believe that that was your intent.

Our goal is to establish, then, a legacy of transformation in the Department of the Navy, instill a culture of business innovation and ingenuity, and codify the role of the Chief Management Officer and the Deputy Chief Management Officer within the Department.

We also are looking very hard at having the proper government form, so our business transformation council is the way we do this. That is chaired by myself, the Assistant Commandant of the Marine Corps, and the vice chairman, because we have found, in the last year—and this just reinforces a long-known code—that you have to get both the Secretary and the service staffs really invested into business transformation or you are not going to be able to have any lasting change.

So we have the warfighters and the Assistant Secretary of the Navy embedded in this process from the very beginning. We are also trying to strengthen our Deputy Chief Management Officer position. Also, we are doing consolidations within the secretariat to align us better with the business operations that Beth pointed out to you.

We are really focused on business processes, but we are very, very focused on achieving fully auditable financial statements by 2017. We actually are hopeful we will beat that timeline. Implementing ERP [enterprise resource planning] across the Department, really spending a lot of time on acquisition and contracting excellence, following the lines of what Secretary Carter set out a week ago, and really trying to improve energy efficiencies across the Department.

So in closing, we very much appreciate the legislation that Congress has enacted, which really allows us to delve deep and to go into reengineering of our processes in implementing transformational change. We recognize that this is going to be challenging and difficult, but we are committed to working with you to effect this change.

We definitely do want to foster the business transformation. We need to efficiently and effectively support the Navy and the Marine Corps and our civilians. And I thank you again very much for your continued support, and I look forward to working with all of you in the future.

I would be happy to answer your questions after the completion of our statements.

[The prepared statement of Secretary Work can be found in the Appendix on page 70.]

The CHAIRMAN. Thank you very much.  
The Honorable Erin Conaton, please.

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

Secretary CONATON. Thank you, Mr. Chairman, Mr. McKeon, members of the committee. Given everything that my colleagues have already said, I will try to be brief and just echo the high points. But let me start by saying it is really nice to be back in this room. I am convincing myself this is just markup, you know? I am just sitting at the table, just like markup.

But it is great to see you and all my former staff colleagues in the room here. I also, as long as I am in the thanking mode, want to thank my colleagues at this table not only for the partnership that Secretary Westphal talked about in terms of our ongoing interactions, but I am very much the new kid on the block.

I have only been in the job a couple months, and these folks who have been outstanding in terms of not only partnering but lending the benefit of their expertise in the Department over the period of time that they have been there. So I thank them for that.

I think I have to start the same way they did, by acknowledging the work that this committee has done in numerous National Defense Authorization Acts and in the Weapons System Acquisition Reform Act. Your work has had tremendous impact in the Department, and it is hard for me to think of a week going by that I am not at a meeting where people are talking about the implementation of WSARA [Weapon Systems Acquisition Reform Act], what the intent of the Congress was.

So I know you know that your efforts have an impact, but if we can reinforce that, I am happy to have the opportunity to do so.

Like my colleagues, I would say that the Chief Management Officer construct relies on strong leadership from the top. And so, the fact that we have Secretaries and chiefs of our respective services who are committed not only to making this organizational construct work but also to help further the business transformation objectives that we are working on, makes a big deal.

The other thing I would say is that all of us put mission first. So this is about the work that our soldiers, sailors, airmen and marines are out there doing every day, and business transformation can't be separate from that. It has to be very much aligned with what we are asking servicemembers and our civilian workforce to do on a regular basis.

And so, as I have been thinking about the Chief Management Officer job, I think, first, what is the mission that we are asking, in our case, our airmen to do, and then how do we get processes and systems that help support that.

So I think whether it is with the business transformation plans that you all have required or in our own thinking as Chief Management Officers, it is important to align our business objectives with

what the service or the Department, in Ms. McGrath's case, is doing overall.

We in the Air Force have a similar construct, I think, to what Secretary Work talked about, which is that we have an overall governance structure called the Air Force Council. It is how we make our budget decisions every year. It is how we adjudicate policy debates that are occurring inside the service.

And it is also the group that we are using for governance of overall business transformation and the efficiencies initiative. It is critical that all of the folks who are working, whether it be our Assistant Secretaries or the deputy chiefs of staff on the air staff side, are invested in and committed to working these efforts.

Once we get that done, then I think we can focus on the goals on the business side of the house. We obviously have a couple large information technology programs that I would be happy to talk about if you want to get into that. We too are very focused on the efforts led by this committee on getting a clean audit in the fiscal year 2017 timeframe and doing everything we can to do that as soon as possible.

And on the efficiency side, we are partners with the rest of my colleagues in trying to find a way to—again, mission first—get as much money and capability into the force structure modernization and readiness sides of the account. And I think that is what is motivating the work that Secretary Gates has put forward, and it is certainly motivating the work that Secretary Donnelly and General Schwartz are undertaking for the Air Force.

So with that, I will turn it back to the chairman and just say thank you, again, for the opportunity to come home.

[The prepared statement of Secretary Conaton can be found in the Appendix on page 79.]

The CHAIRMAN. Thank you very much. It is great to have you back.

Mr. Work, the spotlight has been on some shipbuilding. On the one hand, we have the USS *Missouri*, *Virginia* attack submarine being commissioned later this month, which, by the way, is in the district of Congressman Joe Courtney, ahead of schedule and under budget.

Compare that to the problems that you have been having with the littoral combat ship effort, the excessive overruns. Add to that the reform legislation that we passed from this committee, and then it became law. Will the legislation that we authored be of help in making the shipbuilding more like what is going on in Groton, Connecticut? And if so, how, Mr. Work?

Secretary WORK. Thank you, Mr. Chairman.

Secretary Mabus set as his number one priority, when he came aboard last year in May, in really taking a hard look at the shipbuilding. And that was followed quickly by the WSARA Act, which really kind of struck a chord within the Department of the Navy, making sure that we get the requirements absolutely right, looking for the right type of contracts, making sure that we demand performance throughout the level.

It is, of course, true, sir, that we have had problems with the LCS [littoral combat ship], but I think as the committee knows, as a result of the WSARA and also our determination to make sure

that that program is right, we completely changed the acquisition strategy. And although we are not quite complete with the down-select yet, I am quite confident in telling the committee we will definitely reach the congressional cost cap regardless of which ship is chosen.

As you said, I think we are having great success in our attack submarine program, on our T-AKEs [dry cargo/ammunition ship] that are being built at NASSCO [National Steel and Shipbuilding Company], and we are having good performance across the yard.

So right now, we are really focused on really making sure we get requirements right. We are doing that on the SSBN-X [ballistic missile submarine-future]. And Secretary Mabus and I are committed to making sure that we get the best bang for the buck for our shipbuilding dollars.

The CHAIRMAN. The GAO originally proposed a second Deputy Secretary of Defense for Management. Is it reasonable to expect the Deputy Secretary of Defense to serve as the Chief Management Officer in addition to all of his other duties?

Ms. McGrath.

Ms. MCGRATH. Sir, thank you. The construct of the Deputy Chief Management Officer working as a day-to-day focus of the financial and other management issues, working with the other Under Secretaries across the Department so far has been extremely effective.

The Deputy Secretary spends quite a bit of his time on management- and business-related issues, from financial management to health, information technology, wounded warrior. A lot of his time is spent on those topics today.

So I believe the construct of the Deputy Secretary as the Chief Management Officer with someone in the Deputy Chief Management Officer role, currently myself, working across the Department from an OSD perspective and also with the Chief Management Officers of the military departments thus far has proven effective.

The CHAIRMAN. Allegedly, there will be savings identified in the effort to have efficiencies across the Department. If that is the case, where do those savings go? I for one am not for cutting the defense budget. Where do they go, Ms. McGrath?

Ms. MCGRATH. Sir, as you articulated in your opening statement, Secretary Gates has identified a call to look across the Department, every aspect of the defense business and everything we do, from our support structures to our organizational construct, to see if there is a better, more efficient and effective way that we can deliver our capability.

The Secretary has articulated that the military departments will keep the savings that they identify. And again, I think it was mentioned in the opening statements that we are looking to shift dollars from support to force structure and operations.

The CHAIRMAN. Let me ask you this. Are the respective services making the necessary investments to meet the 2017 auditing mandate?

Ms. MCGRATH. Each of the military departments' service and defense agencies' components have identified their milestones to achieve the 2017 goal of the clean audit opinion. Those are captured in the financial audit improvement report.

Financial Improvement Audit Readiness, the FIAR plan, is the document where each of the milestones for each of the components are articulated, marching toward the 2017 goal.

The CHAIRMAN. I think it was the gentleman from Texas, Mr. Conaway, who brought it to our attention about the lack of auditing within the Department and the panel's role of putting together the second initiative that we passed and is now pending in the Senate.

How did this ever happen that the Department and its sub-departments were not subject to auditing, Ms. McGrath?

Ms. McGRATH. I am not sure that we were given a pass from audit. I think the responsibility for—our fiduciary responsibility and our stewardship of taxpayer dollars certainly is a responsibility identified and acknowledged across the Department.

I think the challenge in actually delivering an auditable financial statement has many factors to it. Some of it is human capital-based. Other is the fact that our financial systems today—our financial plus our other functional feeder systems are not interoperable, which poses a huge challenge for us.

And then that it must be a Department-wide function to actually achieve auditability. It cannot be viewed as just a comptroller responsibility, given that most of the information comes from other functional areas.

So I think there is a recognition within the Department that we understand what we need to do from a departmental perspective, that we do have a plan in place with goals and milestones. We have appropriate governance that reaches horizontally and vertically in the Department. And without those, we would not be able to achieve that, and I believe we are positioned to do that today.

The CHAIRMAN. Mr. McKeon.

Mr. MCKEON. Thank you, Mr. Chairman.

As I alluded to on my opening statement, I remain particularly concerned about the steps the Department of Defense is having to take to manage its finances in lieu of passage of the 2010 wartime supplemental appropriation. Secretary Gates has told us that, if we don't have it enacted by July 4th, stupid things would begin to happen.

I would like to ask each of the witnesses to address the following: what specific steps are you having to take now to avoid running out of money? Please describe the overall risk and the impacts these steps will have to ongoing operations, routine business, the military and civilian workforce, training, other important parts of the responsibilities that you have.

And when specifically will each of your Departments run out of money? When will you be unable to provide cash flow? What are the additional consequences of your Departments, and the Defense Department as a whole, should Congress fail to pass a clean supplemental before the August recess, which starts after next week? Please?

Secretary WESTPHAL. For the Army, the consequences are pretty significant. I think the Secretary is right. This is very, very important that, before you leave in recess, we have the supplemental approved.

We have been fronting some of the resources from our O&M [operation and maintenance] accounts to ensure that all operational requirements are kept fully funded, and we continue to do that. We expect some reprogramming. We have prepared in anticipation of this some potentially reprogramming requests. We hope that they are not going to have to be exercised and the supplemental will be passed.

To your question specifically, you know, we will run out of money about the middle of August for some of these functions in our O&M accounts. And so, we will have to begin to take steps to ensure that we, first of all, continue to support fully all the operational requirements.

I don't think we are going to have any issues with that, but we will have to make some decisions in terms of our O&M functions, particularly CONUS [continental United States], that may have some impact. And that depends on how quickly you can get back and pass a supplemental after that.

And if we get those reprogramming requests done, that may help us to weather that storm through the period of time during recess.

Secretary WORK. Sir, from the Department of Navy perspective, failure to pass a supplemental before the recess would really essentially hamstring the Department's operations for the remainder of this year and significantly disrupt operations within the Department.

Our analysis is the same as Secretary Westphal's, that we would run out of money for civilians probably around the middle of August and have to start furloughing civilians in large numbers. We think we would run out of money to pay active duty members some time in the mid-September to late-September timeframe, and that is not even accounting for all of the movements in the O&M programs that would have to occur to make sure that we would continue wartime operations.

From our perspective, then, it would be a very great burden on the Department, and the Department of Defense as a whole, and would really significantly prevent us from pursuing the job of the Department and the nation.

Secretary CONATON. Mr. McKeon, for the Air Force, it is a very similar situation as to what my other two colleagues mentioned. Certainly encourage, as quickly as possible, the passage of the supplemental.

In terms of specific dates, the Air Force runs out of O&M, Operations and Maintenance, funding to do the whole range of operational activities at the end of August, and then has military personnel accounts running out by the third week in September.

Like my colleagues, we are very hopeful that you all will be able to send something to the President prior to the August recess, but we are starting to think about what would have to be done in the event that that didn't occur, which would include things like furloughs. We may be able to do some temporary additional reprogramming, but that wouldn't buy very much time. So, very consistent with what my colleagues have said.

Mr. McKEON. I think it was about 2 months ago that we had General McChrystal here, and I asked him the same question, and

he said, if it went into the summer, it would cause problems. But he had been assured it would pass before the Memorial Day break.

Now we missed that. We missed the Fourth of July break. If it were passed today, does that money immediately flow, or how soon before that money reaches you? If it were passed today by the House and today by the Senate, how long would it take for that money to actually get into your accounts?

Secretary WESTPHAL. It would be very quick, and it would be a seamless process. We wouldn't have these effects that we all outlined today.

Mr. MCKEON. You have already taken some steps, though.

Secretary WESTPHAL. We have. In the Army, we have moved monies from our base into some of our operations to support those missions to keep them moving, in theater in particular. So we have addressed that issue internally. And we do that always with the permission of the Congress.

Mr. MCKEON. So are you saying that, if we passed it today, you would have the money in your accounts next Monday?

Secretary WESTPHAL. That technicality I don't really understand, but—

Mr. MCKEON. Does anyone here understand that?

Ms. MCGRATH. I think we all have an appreciation for the process, but the specific date, how many days specifically it takes to get from passage into the accounts I certainly would be—probably take that for the record to find out how many days that would be.

[The information referred to can be found in the Appendix on page 94.]

Ms. MCGRATH. But I think the message is that we believe that, if it was passed today, would be in sufficient time such that other activities would not have to be executed as the Under Secretaries have articulated.

Mr. MCKEON. Could you get that back to us—

Ms. MCGRATH. Yes.

Mr. MCKEON [continuing]. As quickly as you can? Today I would like to know, if it is possible, because my concern is that, among some people in the House, there isn't quite the sense of urgency.

I have been given different timeframes that, even if we passed it today, it would take some time, and I would like to know that. Obviously we are not going to pass it today, and we are not going to be in session tomorrow, so it will be some time next week at the soonest.

And I for one think that if it is not done, we shouldn't leave town until it is done. So I am hopeful that we will get it done as soon as possible next week so that you don't have to take some of these steps.

I am concerned that some things that are happening—I know we are not going to leave the troops in harm's way without ammunition and without food and without the things that they need to carry out their mission, but I am concerned about training or some of the other ongoing activities that take place for the troops that will be going over there next. And I am very concerned about getting that money there.

Yes?

Secretary WESTPHAL. Well, just to add to what you were just saying, for example, in the Army, one of the ways we support, of course, or the way we support our ongoing missions is through what we call a generating force, which is exactly what you mentioned, it is training and readiness of our Army forces here to go forward.

And of course, all the infrastructure that we have in the Department is to support those missions, in any case. And there are rules, personnel rules. As Secretary Conaton mentioned, if there are furloughs, there are rules about advanced notice to employees and things of that nature that we have to take into account.

And we are either passed or dangerously close to those deadlines. I am not sure what they are. We will get you that information, as well. But all of that causes us a great deal of concern, as you have heard from all of us.

[The information referred to can be found in the Appendix on page 94.]

Mr. MCKEON. That is a concern I have. Then, after the supplemental is done, then we get to the point of talking about the defense appropriation bill, the year ends September 30th. It looks to me like we are not going to have an appropriation bill passed by September 30th, which means then we get to a CR [continuing resolution], hopefully, so that we don't shut down the government on September 30th.

So if we get a CR, that also is disruptive with ongoing operations, is it not?

Secretary WORK. Well, sir, we have all lived with continuing resolutions before, so it does cause us to do choices in business that we otherwise wouldn't have to.

But if the supplemental is not passed, we would be in an emergency situation. I mean, we have already talked about this within the Department, where all of the Unders and all of the Secretaries, we would all have to get together to try to work our way through it.

So the continuing resolution is something the Department is used to handling, and we are able to handle it much better than if the supplemental isn't passed. We would consider that an emergency.

Mr. MCKEON. Thank you very much.

The CHAIRMAN. Thank the gentleman.

Gentleman from Mississippi, Mr. Taylor.

Mr. TAYLOR. Thank you, Mr. Chairman. I want to thank all of our guests, but particularly Secretary Conaton for joining us today.

Secretary Westphal, I received a really disturbing e-mail from a Mississippi National Guardsman on his second deployment. It is from his dad, who is a Vietnam combat veteran, and it mentions the lack of ammunition, but, equally importantly, the lack of rollers, that this unit is doing a mine-clearing mission in Afghanistan. They do have the MRAPs [mine resistant ambush protected vehicle]. But, unlike when he served in Iraq and had a roller in front of that MRAP, he doesn't have it in Afghanistan.

Now, and this really is to this point, that I appreciate that you are trying to save dollars where you can. But there is an inconsistency here that I don't understand.

We apparently have excess rollers in Iraq now because of the drawdown. We have the Air Force telling us that they do not need additional C-17s, but I am told we can't get the rollers to Afghanistan because of a lack of airlift.

Now, either you have enough C-17s to get them there, or you don't. And if you don't have enough to get them there, obviously you don't have enough C-17s.

So I certainly hope this isn't a case where we are trying to save a couple of pennies and will unnecessarily lose American lives or limbs. And I would very much encourage you to look into this, because it is a matter of life and death.

Secondly, if you could comment to it, I remember, as we were losing our bases in Panama, going to visit that country on several occasions, our bases there, and seeing—having started off in local government and state government and realizing that their budget is always tight—seeing a heck of a lot of things there we should have brought home—fire trucks, bulldozers, trackhoes [tracked excavator], backhoes—that state surplus agencies would have loved to have had. And encouraging a lot of people in the Army then to bring those things home, only to be told, well, the shipping costs don't make it worthwhile, and being particularly angry when "60 Minutes," or someone like them, ran a special showing that those bulldozers, in some instances, ended up in Havana instead of some down in Mississippi or some other state.

I visited Balad just before Christmas last year, and the colonel there told me about—that he had an amnesty for people to turn in equipment. And on the amnesty day, he had a 2-mile line of equipment that people had turned in that was not on the books, that had been paid for by the American taxpayer, that some clever unit commander had figured out a way to get it there because he felt like his unit needed it. And I commend those clever unit commanders for getting the things they needed.

What I don't see is an equally clever effort to get those things home. Just this week in the Transportation Committee, most of the carriers that have brought the equipment to Iraq testified before the committee that they are bringing some of that equipment out.

Most of the carriers—no, all of the carriers testified that their ships are leaving Kuwait anywhere at 40 to 60 percent of capacity, which means that those ships are leaving Kuwait with either anywhere from 40 to 60 percent excess capacity to be bringing these things home.

Given that, you know, money is tight, that the taxpayers paid for these things, what are you doing to incentivize unit commanders to bring these things home, even if they don't need it, that some other governmental entity may need it, or that a state or local government may need it? Because, again, we got burned when we left Panama. We got burned when we left Roosevelt Roads. How many times does the Department of Defense have to keep making the same mistakes?

Secretary WESTPHAL. Well, actually, the two issues you raised, you know, specific points like that have been made by other members and by our own folks. I believe it was in late July that I was going to go to theater, go to Kuwait and then Iraq, and look specifi-

cally at the drawdown and at the movement of equipment both back to CONUS and into Afghanistan.

Now decided to do that in September to wait till after we are supposed to be down to the 50,000 level. I discussed this with General Odierno and General Webster, the ARCENT [United States Army Central] commander. I have asked the Vice Chief of Staff, Pete Chiarelli, to go with me because we are doing a whole bunch of work together, the Vice and I, on the management, on the acquisition side, and on the contracting side. So we are going to team up to go there and take a hard look at all these things—

Mr. TAYLOR. Mr. Westphal, before the chairman gavels us, could you find the time to stop by and see me on those two items?

Secretary WESTPHAL. I will do that.

Mr. TAYLOR. Thank you, sir.

The CHAIRMAN. Thank the gentleman.

Mr. Bartlett? Who is next?

Mr. Forbes.

Mr. FORBES. Thank you, Mr. Chairman.

And thank all of you for taking time to be here with us today. The title of this hearing, the chairman correctly said, was managing a budget in a time of tight budgets.

And Secretary Work, one of the things that I think every one of you would agree with is the key to that is consistency, which probably has at least two components. One is a careful selection of our priorities initially, and the second thing is the ability that we have to predict circumstances that could or would change those priorities down the road.

Now, we have a number of different major opportunities to both set those priorities and look at circumstances that could change them. One of the big ones is BRAC [base closure and realignment commission], where we just bring everybody together and we say, "What are our priorities," and we look at that. The other one, of course, is the QDR [quadrennial defense review].

And I am particularly concerned, because in the last BRAC we had this huge laydown we had looking at priorities and where we were, in BRAC of 2005, and also in the QDR of 2006. There wasn't a blip on the screen about homeporting a carrier in Mayport, Florida.

My good friend from Mississippi mentioned saving a couple of pennies. This isn't a couple of pennies. This is almost a billion dollars.

Can you tell me today, what were—and I know the priorities haven't changed because I have a memorandum from the President on June 10th where he says, for decades, the federal government has managed more real estate than necessary to effectively support its programs and missions, and he says we need to take immediate steps to better use the remaining real estate assets that we have.

Can you tell me what were the circumstances that changed between BRAC 2005 and the QDR in 2006 and the QDR in 2010 which would lead the Navy to want to homeport a carrier in Mayport in the QDR in 2010 when it didn't raise that at all in BRAC 2005 or 2006? And then, why was it that we didn't have the capabilities of predicting that change in BRAC in 2005 and the QDR in 2006?

Secretary WORK. Well, thank you, sir.

As you know, this has been an issue that the Department of the Navy has been examining for quite some time. Essentially, we believe in efficiencies. We believe in establishing priorities, and we also believe in using our real estate wisely.

As you know, Mayport has long been a carrier port.

Mr. FORBES. Yes. And Mr. Work, again, just because I have got a limited amount of time, I want you to have all the time you need, but I just want the change in circumstances between BRAC 2005, the QDR in 2006, and the QDR in 2010.

Secretary WORK. All right, sir.

BRAC 2005 really was focused on closing properties, and in this instance, we are maintaining the property at Mayport, the base, which is going to house a lot of our surface combatants, and we want to make it a carrier home port for a nuclear carrier.

So the movement from BRAC to the QDR, which looked at the strategic rationale on doing that—

Mr. FORBES. But didn't you have that same strategic rationale in the QDR in 2006?

Secretary WORK. Sir, I would have to go back and see exactly what the 2006—

Mr. FORBES. Is there a difference in rationale we have on any QDR? Don't—we always looking at the same basic criteria in our QDRs?

Secretary WORK. Yes and no, sir. We have the basic priorities set, but we look at our posture, both in the United States and globally—

Mr. FORBES. Can you do this for me? Would you just get back to me in writing on the exact changes that happened between BRAC 2005, the QDR in 2006, and that QDR in 2010 and why we couldn't have predicted those and raised them in the BRAC 2005 and 2006?

[The information referred to can be found in the Appendix on page 95.]

Mr. FORBES. And I have got one other question that you can either answer now and get back to me. Chairman asked, "Will the Department comply with the law?"

Can you give us a comfort level that we will have the law complied with when, a year ago, we had in the statute a requirement for a shipbuilding plan and an aviation plan that be sent to us by the Department? Not only was the statute not complied with, but when we had a congressional inquiry that was unanimously agreed upon by this committee, there was not even an explanation of why that wasn't complied with.

How do we have comfort that you are going to comply with the law down the road if we didn't get a compliance with that statute?

Secretary WORK. Well, sir, I know I can speak with Secretary Mabus. Both he and I will comply with every law that we can. We also respond to guidance from the Secretary of Defense. And in the case of last year, the Secretary of Defense, I think quite rightfully said, because of the difficulties we were having in shipbuilding, that we would move that up and have the Deputy Secretary sign it out.

Mr. FORBES. My time is up. The only thing I would say is, I hope that we don't come back on the audits and say that, because of the difficulties we have in complying with the audits, we are not going to do them.

And Mr. Chairman, I yield back the balance of my time.

The CHAIRMAN. Thank the gentleman.

Dr. Snyder.

Dr. SNYDER. Thank you, Mr. Chairman, and thank you for holding this hearing.

Just wanted to make an introductory comment. I appreciate the leadership of both Mr. Skelton and Mr. McKeon on the issue of the supplemental. I guess our most junior member here is Mr. Critz, but from the most senior to the most junior member, we agree with you. We need to get this supplemental passed sooner rather than later. And I think your candor this morning helps that.

I am always struck by these kinds of hearings in which the goal is to help American taxpayers save hundreds of billions of dollars. It always strikes me like a junior high sex education class. It should be really exciting, but it turns out it is not.

But Secretary Conaton, I think I will direct my questions to you since we have Little Rock Air Force Base in my district. Help me understand—and I have read through the statements and all, and we can get bogged down in kind of the jargon of business transformation, those kinds of things. But let me give you a couple examples and just how you put them in the context of what you are trying to do.

We have a military construction project that is about finished at the Little Rock Air Force Base. It is outside the perimeter. It is an education center where Arkansas State University offers classes, and some of the institutions that offer classes around the country offer classes there for both military personnel and civilian personnel from the community.

Several years ago, the city of Jacksonville passed a millage on themselves, raised \$5 million to donate to the military to help in the construction of the facility. But the only way we were able to get that done was to do it as an earmark in the defense bill because it was like the Air Force wasn't agile enough to figure out a way to accept \$5 million of local dollars. So my question is, why don't we have that kind of agility?

Another issue is on the—and this is where Congress gets involved. Have we given you the kind of flexibility you need in the terms of the retirement of old planes? I think we are doing okay with E model C-130s. I am not so sure we are doing so well with C-5s and some of the others.

And finally, any kind of update you can give on the aviation modernization program with regard to C-130s. But use those examples and explain how that fits into what you all are trying to do.

Secretary CONATON. Thank you, Dr. Snyder. I am not familiar with the specifics in this instance with Little Rock, but let me speak more generally to agility.

I guess where I would start is—and I knew this going into the job, but it is remarkable how large these organizations are and how diffuse responsibilities are. But to that end, I think, as we have started to think about Secretary Gates's mandate on efficiencies,

one of the things we have done, and I suspect my colleagues have done something similar, is to engage not only our major command commanders, so folks who are not in Washington, who are out in command and with responsibility for our numbered air forces, to get their perspective and to get their views of how we can do things better.

Because I think there is often a Washington perspective, and those who are elsewhere in the country and who have a more operational day-to-day focus we have to take those views on. So from my perspective, increasing agility is one piece of the larger perspective that we have got on doing our work better and, in the process, freeing up resources that can be put toward modernization and force structure.

On the issue of retirement of aircraft, certainly appreciate the support of the Congress in trying to ensure that, whether it is C-130s or whether it is our larger strategic airlift aircraft, that we can get the most modern planes to our units. And in many cases, that involves trying to retire some of the oldest fleets on the book to put savings into our more modern aircraft.

I think on the C-130 side that we are in good shape in terms of authorization. I know there is some language in this committee's bill that deal with some of the specific issues around National Guard C-130s, and we will certainly work with the committee on that.

I think, as we go into next year, we may need to be in dialogue with this committee about the Title 10 restrictions on the size of the strategic airlift force structure dealing with C-5 and C-17 modernization. But I think that is an issue for 2012, and we would be happy to work with you all on that.

Dr. SNYDER. I was on a live media show this morning back home, and they called us to ask about this hearing today. And one of the questions was, "What kind of message does this send to troops in the field that we are trying to," in their words, "cut defense budget?" My own view is—well, I will direct that to you, Secretary Work. How do you respond to that question?

Secretary WORK. Sir, I have been the victim of many a cut drill, just a budget cut drill, and this is fundamentally different. We are trying to find efficiencies to actually help the marine and the soldier in the field, and to help the airmen and the sailors.

The guidance has been very clear. Secretary Gates has said we get to keep the money. And therefore, I think there is widespread enthusiasm to go after these types of efficiencies to help our soldiers, sailors, airmen and marines.

So I think I can speak for my colleagues, because we meet so often, as Secretary Westphal and Secretary Conaton said. We do not in any way think this is a cut drill, and we think this is going to directly benefit our young service men and women.

Dr. SNYDER. Okay. Thank you.

The CHAIRMAN. Mr. Kline.

Mr. KLINE. Thank you, Mr. Chairman.

Thank you all for being here. Welcome, or welcome back. I am getting nostalgic here for a minute in perhaps an unpleasant way, and I was thinking of Dr. Snyder's comments and question about agility.

And if I go back to 1988 when I had hair and was much younger and was still in uniform, I reported to Marine headquarters and found out that there was a discussion going on in the acquisition world in the Marine Corps, the famous APMC [Assistant Commandant of the Marine Corps] committee, about how we were going to buy computers.

And while they were trying to decide how to buy computers, there were marines in the Marine headquarters in every base across the nation who were going out and using O&M funds and buying computers and operating systems and software however they saw fit. And then those got old, and they bought new ones with O&M while the APMC committee was still trying to figure out how to buy computers.

Now, that was over 20 years ago. New marines have signed up, gone on active duty, served 20 years, retired, and I hear from Secretary McGrath that it is taken 81 months, 7 years to bring on IT systems.

I am just a little depressed, but it does tell me that we still don't have the agility that Dr. Snyder was talking about. And it seems to me that you Chief Management Officers have got to figure out how to get agile for the services and for the Department.

And I don't have a question because I simply wouldn't have enough time for you to try to answer—well you can't answer, but please, let us look at the agility.

I do have a question, and it is connected to another nostalgic kind of flashback, this time going back to post-Vietnam when we ran out of money. Department ran out of money. Services ran out of money, and we parked them. I was flying helicopters, except we couldn't fly them. We put them on the flight line. We couldn't even go out and turn them. We certainly couldn't fly them because we were out of flight hour program. We were out of O&M, or O&MN [Operation and Maintenance, Navy]. We couldn't fly.

And today if that were to happen, if we don't have the supplemental that Mr. McKeon was talking about, would prevent us from training if you have to park or anchor or dock the ships, and if you have to park the planes. And I find that pretty scary.

But what I find terrifying, and I want to just make sure I understood this, is I thought I heard each of you, or at least two of you say that your O&M accounts were being affected. You were shifting O&M money, and that tells me that we might be in that situation where, once again, we have to park them.

But what I found truly shocking was that I thought I heard you say that you were going to not be able to pay in the manpower accounts the men and women that we are asking to sail and fly and drive and fight, aren't even going to get paid. And if that were so, how do you make a distinction—because one of our assumptions has been, "Well, the troops in theater are going to have what they need, and we will let the troops at home and their families suffer to make sure that those that are in harm's way have everything they need."

But it sounds to me like we might not even be able to pay those troops in harm's way unless you somehow split the manpower account and say, "Well, we are going to pay those soldiers in Afghanistan but we are not going to pay the soldiers at Ft. Campbell."

So my question is, are we really looking at not paying not only civilians, which is horrifying enough, but not paying the men and women in uniform that are flying, sailing, fighting? And I guess I don't know if it is Department-wide or varies by service, so please give us an answer. Are they going to get paid or not?

Secretary WESTPHAL. They will get paid. I will speak for the Army.

What we are concerned about is many of our civilian workforce in some of these O&M accounts. That is our chief concern.

Mr. KLINE. Okay. So for the Army, the soldiers get paid, but civilians may be furloughed and not paid.

Secretary Work, what about the Navy?

Secretary WORK. Sir, as you have said, we have sometimes dealt with having to shift O&M monies at the end of a fiscal year. But quite frankly, the Department was expecting the supplemental to be before the Fourth of July. There was really no serious thinking that it would go beyond the summer recess.

And so our analysis, which isn't complete, as I said, we would shift into an emergency mode if the supplemental was not passed. As Secretary Westphal said, the first thing that would happen is we would have to probably furlough civilians without pay. And in mid-to-late September, there is a chance that we would run out of money to pay active duty personnel.

Mr. KLINE. The sailors in uniform would not get paid.

Secretary WORK. There is—

Mr. KLINE. Secretary Conaton, how about the Air Force?

Secretary CONATON. Mr. Kline, it is very similar to what Secretary Work said. If we still did not have money the third week of September, that is when the military manpower accounts would be affected.

Mr. KLINE. So the pilot, the bomber, the attack pilot in Afghanistan would be asked to fly those missions and would not be paid.

Secretary CONATON. If we go beyond the third week in September.

Mr. KLINE. Thank you. I yield back.

The CHAIRMAN. Mr. Andrews.

Mr. ANDREWS. Chairman, these are all the reasons why I am confident the supplemental will be quickly enacted.

I am well aware of the fact that there is a broad consensus in the United States that we want to have every dollar necessary to defend our country. There is an understanding that there are asymmetric threats and different qualitative threats than we faced in 1998.

But here is the way—and this is not meant to be a rhetorical question—here is the way many of our constituents would ask the question about management and budget in the Department of Defense.

If you exclude spending for foreign operations, if you exclude supplementals for Iraq and Afghanistan as special needs and go back to the base defense budget, the base defense budget in the fiscal year in which we are presently living is 47 percent higher than it was in 1998. Again, that counts none of the Iraq and Afghanistan supplemental.

Our end strength is eight-tenths of 1 percent higher. The number of ships we have is 15 percent lower than it was in 1998. The number of planes we have is 11 percent fewer than 1998.

And I do not mean this to be combative or rhetorical, but the logical question a taxpayer would ask is this: If we are spending nearly 50 percent more than we did exclusive of special operations overseas, Iraq and Afghanistan, and we have essentially the same number of people in uniform, we have 15 percent fewer ships and 11 percent fewer planes, why does it cost 50 percent more?

Secretary WESTPHAL. Well, you are absolutely right. You know, I left the Pentagon in 2001 where the Army budget was about 70—the base budget was about 76, \$78 billion. That base budget has more than doubled.

So there has been a lot of growth. There has been growth in structure. There has been growth in personnel. There has been growth in a whole host of activities that we weren't engaged on to the extent that we are engaged in now, in the intelligence community, for example.

And it is exactly, I think, this growth that Secretary Gates wants to get to.

Mr. ANDREWS. I, frankly, asked my question because I am very sympathetic to Secretary Gates' premise, which is that there is an important distinction between our ability to vigorously defend our country and the overhead costs associated with that vigorous ability.

I think the job for this committee, for the Department, for the public, is where to draw that line. And I want to caution us against using superficial ways to draw that line.

Mr. Conaway and I were just discussing before the hearing, it might be tempting to say, "Well, we have more accountants than we did in 1998." We may or may not, but just say, hypothetically, we do. So, therefore, that is overhead that we don't need.

Well, if those accountants are helping to better manage, get better quality out of technology programs, that is a superficial and inaccurate measure. So I raise my question to really make this point.

I think the Secretary's premise is exactly right. I think that we have too much in the way of logistical support to execute our mission. I don't think we have too much mission. I don't think we overspend on the mission. I think we should be vigorous in pursuing it in every respect.

But a hard question the Department has to ask, the Congress has to ask, the country has to answer, is how do we focus on this logistical overhead and do a better job. I mean, I think that the rhetorical answer to the question I just asked is that we have had excessive growth in the overhead categories in these 12 years. And whether it is the way we buy technology or the way that we provide housing or the way that we move goods and services around the world, we have to do a better job at assessing what that is.

Anybody else care to comment on that?

Ms. MCGRATH. So I would actually like to agree, the statements that you just made. The Defense Department is a corporation. I think the construct of the Chief Management Officer and having us look across the Defense Department as a business enterprise is different from—see, each of the military departments looks—and this

is true for every component—tends to naturally look very locally to solve an immediate problem. I think the example of the computer solutions, right, that, you know, everybody buys locally.

I think the construct of a Chief Management Officer really forces the Department to look corporately at what we do, how we do it, is it tied to the strategy, the overarching mission of the Department, and really analyze the execution piece. And I think that is one of the most powerful things that the Chief Management Officer legislation has enabled us to do, and I think we are taking full advantage of that.

Mr. ANDREWS. Thank you very much.

Thank you, Mr. Chairman.

Mr. TAYLOR [presiding]. The chair thanks the gentleman.

The chair now recognizes the gentleman from Arizona, Mr. Franks, for 5 minutes.

Mr. FRANKS. Well, thank you, Mr. Chairman.

And thank all of you for being here.

Ms. McGrath, my first question has to do with the PowerPoint presentation that accompanied the Under Secretary of Defense, Ashton Carter's memorandum. You are probably familiar with it. It was titled, "Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending."

And I thought it was pretty interesting. I actually agree with a lot of it. He used "leveraging real competition" as his first initiative for greater efficiency, and I certainly think that makes all the sense in the world. And it was to support a continuous competitive environment.

You probably know where I am going here. Given that language and the fact that the F-35 is the largest weapons system acquisition program in the Department of Defense, how can the Administration, with a straight face, support the termination of the F-35 alternate engine, given that that is just clearly providing a continuous competitive environment consistent with the debate in Under Secretary Carter's memorandum?

Ms. McGRATH. Sir, I would like to say that I agree with Secretary Carter's approach to trying to achieve better, I will call it, holistic acquisition. And there are a lot of different attributes you can use to achieve that, one being competition.

I am not familiar with all of the specifics on the issue that you raise, and I will be happy to come back to you with any specific answers that I can.

Mr. FRANKS. Well, let me do this. Let me let anyone else on the panel have a shot at that question. This is, again, the largest defense-related acquisitions for the Department.

And this is clearly one of those things where we are underscoring a continuous competitive environment, which is mandated. It is not suggested, it is mandated in Mr. Carter, or Under Secretary Carter's memorandum. And how do we synchronize those two things? How do we make them fit together?

And Mr. Westphal or anyone else that would like to take a shot at it?

Secretary WESTPHAL. Well, luckily for me, I don't have to deal with that on the Army side. But I will tell you this: we face that similar issue across all our portfolios for our weapons systems.

And what the Vice Chief and I—Vice Chief of Staff for the Army have done, at the direction of Secretary McHugh, is to stand up a holistic review to validate all our requirements across all portfolios of our systems. We need to go back and say, “Do we need this today?”

We may have needed it 5 years ago, 10 years ago, 3 years ago, but are we using it? Is it of value? Are we spending more money? Do we have duplication and redundancy in those systems?

So we have taken the approach that, in order to manage this better—and this gets to a lot of the questions you are posing—that we have to go back to the requirements piece. We have to validate those requirements across a series of portfolios of systems that we have and ensure that that makes sense today.

Mr. FRANKS. Well, I am sure it doesn't shock any of you that this Republican is talking about competition, but I—go ahead.

Secretary CONATON. Mr. Franks, I will jump in. And as both the Air Force and the Navy and Marine Corps are involved in the Joint Strike Fighter program, I will let Secretary Work jump in as needed.

I think what you say about competition across the board is very important. I think where Secretary Gates and the two service Secretaries came down on the question of the alternate engine was a judgment call and a balance, looking at the cost of the program in the near-term, the benefit that may accrue over time, and the benefits of competition.

As you know, some former programs, fighter programs, have had an alternate engine. Some have not. And I think in the judgment of the Secretary of Defense, the up-front cost over the next couple years of completing that program did not, on balance—was not outweighed by the benefits on the other side.

And definitely understand the committee has strong feelings on this subject.

Mr. FRANKS. Well, thank you.

I am going to try to squeeze one more in, Mr. Chairman. In the last 2 years, many of the programs, particularly many missile defense programs that I believe are actually vital to our national security, have been cut substantially, or even zeroed out. And many of our technological programs require time to realize those successes.

Even though the technology shows great promise and has demonstrated its knowledge points—for instance, the airborne laser I think is a good example—what are the services doing to make sure that we don't incentivize the termination of programs that could ultimately prove vital to our national security? And I am going to throw that out to anyone, as well.

Secretary WORK. Well, sir, from the Department of the Navy's perspective, the way this works is, within the Department, we have a very structured way to go about the different requirements: a deputy advisory working group, which reports to the Secretary, who holds small and large groups with all the combatant commanders, and that is where the requirements are really set.

As far as ballistic missile defense goes, we think it is actually a very good news story. I will let Secretary Westphal speak to

THAAD [Terminal High Altitude Area Defense] and PAC-3 [Patriot Advanced Capability-3 Missile].

Mr. TAYLOR. Mr. Franks? You actually expired. What I am going to ask is that each of the witnesses submit that for the record.

[The information referred to can be found in the Appendix beginning on page 94.]

Mr. FRANKS. All right, Mr. Chairman. Thank you.

Mr. TAYLOR. The chair now recognizes the gentleman from Georgia, Mr. Marshall, for 5 minutes.

Mr. MARSHALL. Thank you, Mr. Chairman.

My questioning has to do with the F-35 alternate engine, as well. And since it is pretty clear that nobody here is prepared to testify too much on that subject, I am just going to make some observations.

I think most on the committee agree that this is not a close call. This is an exercise of very poor judgment by the Secretary and the two service Secretaries. It is such poor judgment that we can't even figure out really where it is coming from. It is arguably defensible, but here we are going to spend \$110 billion over a 20- to 30-year period of time, and we are essentially saying we are going to sole-source that contract.

We will buy thousands of these engines. This is not a small buy. It is not for a brief period of time. And the idea behind the competition is that it is ongoing.

Now, Secretary Gates has recently said that he believes—his notion of competition is “winner takes all.” I think he needs to have a little bit broader notion of competition with regard to these long-term projects like this one. We want competition throughout the duration of the project.

I talked to a retired Navy commander, marine, flew fighter jets, and he described the problems that they were having with the F-16 when there was only one engine, and then the benefits that they experienced once there was a competing engine.

I don't know that this is actually how it was structured, but he believes that the way the competition was structured—and it was annual competition here for better performance, better reliability, better responsiveness—every single year, the two competing companies were vying with one another to see who was going to get 60 percent of the buy in the following year.

And it went back and forth, back and forth between the two companies, the effect of which, at least according to this retired commander, was a remarkable improvement in the number of F-16s that could actually fly, their performance, their reliability, et cetera. GAO, looking at the F-16, if I recall correctly, it was either 21 percent or 34 percent savings over the life of the program as a result of competition.

The Pentagon's own figures acknowledge that the short-term costs that you described the Pentagon as not being interested in incurring right now—because we have got tough budget, you know, nobody disputes that at the moment—those short-term costs will be repaid, almost certainly, and it doesn't take into account the likelihood that there will be huge savings as a result of the competition that I described that went on where the F-16 is concerned.

So I don't have a parochial interest in this at all. You know, when I first started getting involved in this, I didn't know who was building the engines. But we make a huge mistake by sole-sourcing a 20- or 30-year, \$110 billion program.

And I hope that that message gets back to the two Secretaries and the Secretary of Defense, all of whom I respect enormously. I think they are doing a great job for the country. But their judgment is really flawed on this one, and I don't know where it comes from. It is so off-base.

And with that, I yield back, Mr. Chairman.

Mr. TAYLOR. Chair thanks the gentleman for yielding back.

Chair now recognizes the gentleman from Texas, Mr. Conaway, for 5 minutes.

Mr. CONAWAY. Thank you, Mr. Chairman.

Witnesses, thank you for being here this morning.

I don't discount for 1 second the difficulty in achieving auditability or business management systems transformation, all those things. It is spectacularly complex issue across all your agencies. In a 2-hour hearing, you just simply cannot do justice to that.

But I am concerned that, given the revolving door that is your jobs, that 6 years from now we will have someone sitting in Ms. McGrath's position talking about yes, the Deputy Chief Management Officer system is working, it is working fine, auditability and business management systems transfer, those words roll off your tongue very well, business enterprise architecture, enterprise transition plans, enterprise resource planning, Business Transformation Agency.

All of that sounds wonderful, and to the uninitiated, it sounds like we are making progress. But I believe it creates fog. And we hide in the fog the lack of progress that we are making. There is a long litany of FIARs [Financial Improvement and Audit Readiness Plans] or Financial Improvement—whatever that thing is—from 1990 to today. And each time we have a change in leadership, we have a new plan, and we don't execute the plan fully to the end—

So it is not really a question, but it is an observation that this is hard, and I recognize how hard it is, but it is important, as well. It is no different in the business arena in which a pointy end of the sword in business doesn't like the back office guys, and there is always that tension between resources and, you know, the mission and those things.

But we can't, I don't believe, do the mission properly for the taxpayer of this country without being able to tell them that we spend all this money correctly. We may spend every nickel perfectly, but we can't prove it to anybody.

GAO has a litany of high-risk arena areas that the DOD has never had one come off their list. It just gets longer. And so all of us on this side are committed to doing what it takes to get you the resources and have you keep those resources as you go forward.

I am concerned that, as this efficiency model that Secretary Gates has talked about, if you looked at that chart, and it looks to me like it is an across-the-board cut. Everybody gets \$28 billion, and you figure out where it comes from even though your indi-

vidual budgets may be different, your individual needs in the next 10 years may be different.

And it doesn't appear to be, at least on the surface, rational as to how we came to the goal, the \$101 billion, over that timeframe, which I think is about 3-plus percent of total spending within the Department over the next 5 years.

But I worry that you will inordinately punish or take advantage of the resources that ought to be used to attain auditability, and these management systems transfer because those don't have a lot of champions in the system, but spending money somewhere else in O&M do have champions in the system. Long statement, 3 minute, 4 minutes' worth.

Can you talk a little bit about cross-pollinization between particularly the three service branches? Because each of you has an auditability goal, and I am hoping that the Marine Corps is still on track to get their goal accomplished.

The goal of that first audit is laudable and is important, but the better goal is auditability over—going forward. We can all make Herculean efforts one time to get something done, but if you can't replicate that because the systems didn't get developed along the way, then we really haven't achieved much beyond just that—pat ourselves on the back for that first audit.

So do you have some sort of a cross-pollinization system among yourselves? Because you are going to be doing the same back office functions across your three Departments.

Ms. MCGRATH. So if I could just make a couple of comments, and then to the extent my counterparts want to add, the Under Secretary of Defense Comptroller, Under Secretary Hale, hosts or convenes a FIAR, Financial Improvement Audit Readiness, governance board where we all participate. We are all members of the governance board. And in fact, I co-chair with him because we are taking a look across the defense enterprise, not just in the financial space, understanding the systemic changes we need to make to ensure auditability.

So it isn't—

Mr. CONAWAY. Well, let me ask you this. You get to that point, and you have got to make a decision. The Army wants one system, the Navy-Marine Corps wants a system, the Air Force wants a—who makes the hard call to say, "This is the system that we are going to go to, we are going to go common across all three," and force it on them? Is there a system? Is anybody in the Department of Defense have that authority to do that?

Ms. MCGRATH. The common piece are the standards. So if each of the military departments today in the services are pursuing different financial solutions that, at the end of the day, will enable auditability across the enterprise because we are using a common set of standards. It is the standards that will drive the auditability.

Mr. CONAWAY. All right. Well, thank you for what you are doing. I know it is hard, but it is important.

Thank you, Mr. Chairman.

The CHAIRMAN [presiding]. Thank the gentleman.

Gentleman from Connecticut, Mr. Courtney.

Mr. COURTNEY. Thank you, Mr. Chairman.

Your first question, Mr. Chairman, regarding the commissioning coming up a week from Saturday, the USS *Missouri*, again focused on a successful program in the Navy, which again I think, just to reiterate the point that you made, this ship, this submarine, was built with 10 million man-hours. The first in its class from the *Virginia* class, the USS *Virginia*, was built with 14 million man-hours, in other words, a 4-million man-hour reduction.

The first submarine was built. It took 87 months. This one will take 60 months. And as we go into the next block of submarines that are in the block 3 contract, which the Navy executed in December of 2008, we are shooting for 55 months in terms of the construction.

And what I would say is that we are not cutting corners. In fact, I think the capability of the *Missouri* surpasses the first in its class so that—obviously, you know, we have got a program where we have figured out a way to do it more efficiently, in fact improve quality. And it was done because we innovated in the yard, because we created a culture of cost containment and cost savings. And it really, I think, is a model, which particularly in a shipbuilding account that is going to be stressed over the next 10 years or so, that I think we all should really pay heed to.

And again, I think Mr. Andrews and Mr. Conaway's reform bills, the acquisition reform bills which, again, are about trying to statutorily create a system where design and research is done up front rather than on top of production, which is where I think we got into trouble with the LCS program.

And I guess, you know, Mr. Work, I mean, we have spent a lot of time this year already talking about the SSBN, which clearly, looking out on the horizon, is going to put a lot of stress on the shipbuilding budget. And I guess my question to you is, is the Navy prepared to look at lessons learned from the *Virginia* program, the success which we clearly are seeing in real savings and quality, and applying it to that program? Which again is going to be a challenge for this committee for many years to come.

Secretary WORK. Yes, sir, we are. The *Virginia* is actually the model we are using on the SSBN-X. It is very important. Secretary Mabus himself is following the development of the requirements for that boat extremely carefully and is working directly with the Chief of Naval Operations and Secretary Stackley, our Assistant Secretary of the Navy for RDA, research, development and acquisition, to really get those requirements right so we don't overprice the boat.

We understand the requirement to put the R&D [research and development] in and getting our engineering drawings to a high degree of fidelity before we start construction. That is exactly our plan. We hope to be ready for the first boat in fiscal year 2019. So we are using the *Virginia* as the model for that program.

Mr. COURTNEY. Thank you. And I think, you know, some of the questions which have taken place this morning about not sacrificing our defense needs in the mission of trying to create efficiency, I mean, this clearly, I think, is the ultimate challenge, because the need for an *Ohio* replacement has been articulated in the QDR, the 30-year shipbuilding plan, the nuclear posture review.

So, I mean, obviously the need is there, and your budget shows a commitment to satisfy that need. But clearly, we have got to use every tool possible to try and create the efficiency so that we get that cost down to a manageable level. And I would certainly encourage you to keep going down that path.

And with that, I yield back, Mr. Chairman.

The CHAIRMAN. Mr. Wittman.

Mr. WITTMAN. Thank you, Mr. Chairman.

Thank you, members of the panel. Thank you for joining us today, and thank you so much for your service.

Secretary Work, I want to go to you, and I want to expand upon Secretary Gates' efficiency initiative that he announced on May 8th at the Eisenhower Library.

It seems like to me under that—and I want to get your assessment of that—it seems like to me that, under that efficiency initiative, that that is going to require an objective analysis of all decisionmaking surrounding expenditures. Am I correct in assuming that that is what will happen out of this process?

Secretary WORK. Yes, sir.

Mr. WITTMAN. Okay. So under that, would you say that it is safe to assume, then, that there are going to be significant differences or changes in how Departments make decisions on expenditures?

Secretary WORK. I am not so certain it would be different, sir, in that Secretary Mabus has set up a procedure to get decisions to his level, the Commandant's level and the CNO's level so that those three leaders make decisions that are right for their Department. So I don't think that the efficiency drill will change that, but it will just really tighten down when we look at every single decision on the final calculations we make.

Mr. WITTMAN. So you would say, then, that we would be applying a pretty strict model of objective decisionmaking within deciding on the expenditures?

Secretary WORK. I believe that is Secretary Mabus's intent in every decision.

Mr. WITTMAN. Okay, very good.

Let me go back a little bit, then, and go to some testimony before this committee of both the CNO [Chief of Naval Operations] and the Chairman of the Joint Chiefs. When asked about decisionmaking with the home-porting there in Mayport, when the CNO was asked, "Tell us about the objective analysis that was done, the risk assessment that was done behind that decisionmaking," the CNO said specifically hadn't been done. This was a seat-of-the-pants judgment they were going to make about strategic dispersal.

Asked the same question of Admiral Mullen. Admiral Mullen said the same thing, hasn't been an objective analysis done. This is a decision that we are making based on our best judgment, or again, seat-of-the-pants decisionmaking.

I go back to a quote by Secretary Gates. Secretary Gates said specifically, "We need to decide dispassionately about these sorts of efforts."

Within that realm, do you believe, then, that the decision about home-porting a carrier in Mayport should require an objective analysis before that decision is complete, since none has been done, since there hasn't been a risk analysis? Do you believe that, under

this efficiency initiative, then, that we need to go back and do an objective decisionmaking, or go through an objective decision-making process on this homeporting decision?

Secretary WORK. Sir, I don't believe we do. There is a balance between strategic requirements as well as efficiencies. In this case, the Department—and as affirmed by the QDR—that the strategic rationale for the homeporting decision is a good one.

And this reminds me somewhat—before the DDG-1000 [Zumwalt-class destroyer] program was truncated, the Department of the Navy wanted to single up into one yard for efficiency's sake, and we made the case that we would save about \$300 million per boat, or per ship. And it was the Congress that intervened and said, "Look, you cannot take the risk of singling up into a single yard because what would happen if that yard was hit by a catastrophic event?" And the wisdom of the Congress was proven a year later in Katrina, when the yard down on the Gulf Coast was knocked out for a while.

There was no objective risk analysis would give you a number on why you would do that. It is a strategic judgment of leadership that we basically say this is a good call and would trump a mere efficiency argument.

Mr. WITTMAN. Well then, where would the line be drawn between when you make a strategic decision without objective analysis and when you make an objective analysis, which in this case you can easily quantify the risks that you are trying to mitigate? So can you let me know where that line is? Is that a line that, through this efficiency initiative, that we are just going to kind of meander with?

Secretary WORK. No, sir. I think the process is, on a quadrennial basis, do that in the Quadrennial Defense Review, so we actually feed that up. At the request of the committee, feed that up to the Secretary of Defense to ensure that our strategic judgment was sound, and they actually supported us.

So every 4 years we have that, and then every year we have a means by which to bring up strategic concerns to the Deputy Secretary and the Secretary. And it is, in my view, a very effective way. I have been quite pleased over the last year to see it in action.

Mr. WITTMAN. I would like to get a copy, too, of the response to Congressman Forbes' question about how those scenarios then changed. Obviously there must be some quantifiable change that is there between the QDR, the BRAC, and then the 2010 QDR.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. Thank the gentleman.

We have two votes. We will return as quickly as we can and resume the inquiry. And so, please have patience with us. We shall return. We are in recess.

[Recess.]

The CHAIRMAN [presiding]. The hearing will resume.

Mr. Nye, gentleman from Virginia.

Mr. NYE. Thank you, Mr. Chairman.

Secretary Work, I had the pleasure of attending recently a breakfast where you were the guest speaker, and you laid out and described for us the challenges that you are facing right now in terms of Secretary Gates' charge to look carefully at all your spending ac-

counts and find ways to save some money, particularly looking in the overhead arena.

And I offered to provide some ideas for ways that I thought we could do that, and that is part of our ongoing communication with you and Secretary Mabus.

But I wanted to note, you were describing what Secretary Gates said in May, essentially said military spending on things large and small can and should expect closer, harsher scrutiny. And I think that is a reasonable statement, given the fiscal environment that we are in right now.

In fact, Secretary Mabus recently said, quoting him, "The expected level of resources over the near- to mid-term will not sustain every program and every program objective, warranting a willingness to consider trade-offs in even our most deeply held priorities. And there are no sacred cows. Everything is on the table."

Do you agree with Secretary Mabus in that assessment?

Secretary WORK. Yes, sir, I do.

Mr. NYE. Okay. What I wanted to ask was, given that constrained environment, and given the new charge that you have been provided by Secretary Gates, even subsequent to the QDR being released, and considering the fact that the proposed redundant nuclear carrier homeport in Mayport carries a price tag of approaching a billion dollars estimated, that four equivalent facilities exist in the country, including another one on the East Coast, and that, theoretically at least, those funds could be used for other priorities that are on our list, getting the 313 ships, fixing all of our maintenance backlogs at the facilities and of the ships that we have in the fleet, strike fighter shortfall, all those things that are on that list, including every other priority?

What I wanted to ask is, would you agree that those are the kinds of trade-offs that you have to consider?

Secretary WORK. Yes, sir. In fact, we are in the process of considering them for this budget submission, which I think you know is due up to OSD on the 30th of July.

As we looked at Mayport, really it is we believe the costs are far closer to about \$589 million instead of 6 billion, and it is really stretched out over a long period of time. Between fiscal year 2011 and fiscal year 2015, it is a grand total of \$239 million.

So this is a cost that we believe is very manageable and does not in any way, shape or form take away from any of the other higher priority goals in the Department. We actually think it fits well within the guidance we have been given on the QDR, and don't believe it will, in any way, shape or form, cause a problem in any of the other things you mentioned.

Mr. NYE. Well, we can agree or disagree on cost, and oftentimes we do. And this committee has actually ask for, in this year's NDAA [National Defense Authorization Act], some further studies into what all might be on the table that would lead to a good estimation of what that cost might be at the end of the day.

But I think the bottom line of what I am getting at here is, we know there is a cost involved, and it is significant. We know that we are in a very tight resource-constrained environment and that we have got to make some tough choices and some tough trade-offs.

And that is the charge that you are left with. That is the charge that I am left with in terms of representing a district, but also taxpayer dollars and trying to ensure the folks that fund us that we are using that money as efficiently and appropriately as possible when making some of those tough trade-offs.

I just want to note that recently Northrop Grumman announced that it is closing its Avondale shipyard due to excess infrastructure. In fact, they noted that, since the Cold War, the size of our fleet has shrunk significantly, and they just can't afford to keep open an extra facility.

I know there are a lot of folks who would like to see that facility remain open. But again, that is a tough choice they had to make about facilities and what we are able to afford, going forward.

I just say that to highlight the environment that we are in, and I have made no secret of my position on this issue. I strongly believe that whatever the final cost, whether it is a billion or something in that region, over time, we can use that money on things that are more urgent and more pressing for our Navy.

So I just want to close by urging you again, in the strongest way I can, to, as you said, consider those possible trade-offs, you know, take a look at that project again. And going forward, carefully decide whether or not that is really the best possible use of our scarce Navy dollars.

But I thank you all for your service. I understand what you have been asked to do is you have been asked to make some very tough, difficult choices. And we want to work with you in that process.

Thank you. I yield back, Mr. Chairman.

The CHAIRMAN. Thank the gentleman.

Before I call on Mrs. Davis, Mr. Work, recently I asked the proposed price tag on a replacement vessel for the *Ohio*-class submarine. Has the Navy done any studies on whether a replacement, such as the *Virginia*-class submarine, can perform the same duties with obviously an alteration in the missiles and the ship somewhat?

Secretary WORK. Yes, sir, we have. Secretary Mabus, when he came aboard last year, and I were first given the briefing on how much this boat could potentially cost, this became one of his focus items from day 1.

For the last year, the AOA, the Analysis of Alternatives, for the submarines has occurred. The judgment is that, because we have elected to go with the D-5 missile, that using the *Virginia* is not the right way to go, that it is a much better and more efficient thing to exploit our existing infrastructure on a 42- or 43-foot diameter hull.

Once that decision was made, Secretary Mabus has asked every single requirement, what is the basis for that requirement, and what is the thing that is driving the cost in the boat. I don't have a final answer for you, Mr. Chairman, but this is at Secretary Mabus's level, and I can assure you that we will have an affordable boat that we can afford in the 20s.

The CHAIRMAN. Well, what is interesting, based upon your testimony today, the missile is driving the boat. Have you asked engineers to redesign a missile that might fit on a *Virginia*-class submarine? This isn't brain surgery. Have you done that?

Secretary WORK. Sir, I will have to come back and see if we have done an actual costing, but at the Office of the Secretary of Defense level, it really was can we afford to design a whole new missile mount, and the decision was to stick with the D-5 through about 2040. And that will sustain our solid rocket motor base industry. It will take advantage of all of the investments that we have had up to this point. And we believe that is the most inexpensive and the right way to go.

The CHAIRMAN. Well, we may be of some help to you on this, and help you with a decision, Mr. Work, because it appears the replacement of *Ohio*-class submarine is just phenomenal and might well eat into your attempt to reach the 313 ships that we want for the United States Navy.

I think you ought to ask the engineers about a missile that might fit in a smaller submarine rather than the multi-billion dollars you might have to sink into a replacement for the *Ohio*-class submarine. We are talking about efficiencies.

Secretary WORK. Sir, Mr. Chairman.

The CHAIRMAN. Mrs. Davis.

Mrs. DAVIS. Thank you, Mr. Chairman. Thank you to all of you for being here and for staying, and a special welcome to Secretary Conaton. Good to have you here. Thank you.

I understand that the Department and the individual services are looking very, very hard to cut whatever programs are possible, and clearly understood, and I think that we should be doing that. I also understand that we are looking for some efficiencies, and hopefully some of those might even go into quality of life programs for our military personnel and their families.

But I am concerned that we may be cutting, or even eliminating, some programs that are extremely valuable, and I wanted to talk for just a moment about the My CAA [military spouse career advancement] program, the career accounts for our military spouses, career advancement accounts.

That program has been wildly popular, as you know. And I wanted to ask, particularly Ms. McGrath, if you could help me understand better the process for weighing programs like that which, when compared to other programs, are relatively small dollar amounts, and yet we have many far larger ticket programs out there that gain a lot more attention.

But this one in particular I think is important to many. So what is it that we are really specifically looking at here? It is been scaled back, and may, in fact, not have nearly the impact that it could have had with a relatively small—larger dollar amount.

Ms. MCGRATH. Yes, ma'am. We have been talking this morning about obtaining efficiencies across the Department of Defense. We are looking at—and I think it is been mentioned by everybody here—we are looking at everything we do, how we do it, and are we optimizing our performance, the way we currently execute today. So major programs, organizational structures, are there better ways to execute.

And then, when the decisions are made, it is through what I will call an analytical process where all of the submissions are brought together and every aspect is looked at, both from efficiency, effectiveness, quality of life, things like Wounded Warrior certainly

would be maintained. We are not looking to degrade, you know, quality of life, but I would say that we are looking at every aspect of what we do when these decisions are made.

And so, it is not just about, you know, trying to save a dollar or move things exactly from, you know, support to infrastructure without the input of quality and quality of life for our servicemembers and their families.

Mrs. DAVIS. Does the impact in the popularity, in many ways, of a program—I have had spouses tell me, of all the things they have been looking at over the years, all the programs that are offered, this one resonated more than anything else. And I would submit that I think it is worth a second look in that program. And I appreciate your response.

We are going to nudge on that one, because it clearly can make a difference down the line. And I think by so narrowing the program and what has happened in the last directive, we are going to be missing out on a lot of the kinds of opportunities that many of our families might be entering into, which is going to turn around and help the services in the long run. And I don't think this is the time to lose out on those opportunities.

I also wanted to just raise one other issue, if I may, within the time that I have, and that is for you, Secretary Work. If you could just speak for a moment, because Admiral Roughead had said that predictable ship procurement allows the industry to stabilize its workforce and retain the critical skills necessary to national security. And Admiral Mullen also has noted earlier.

And in light of that, when we look at the MLPs, the Mobile Landing Platforms, being spread out over a period of 5 years versus 3 years, which does not maximize the workforce, how do you look at those programs and try and make those decisions? Because I think we certainly have a strong example or two of where pushing up, you know, the opportunity to move within a 3-year period would make a huge difference in terms of maintaining the kind of people that we need to be involved in those programs.

Secretary WORK. Yes, ma'am. Secretary Mabus is committed to maintaining 10 ships per year across the FYDP [future years defense program], 50 ships per year, and within the balance of the resources that we can put to new ship construction. And we have to make these choices every day.

I mean, sometimes we do have to go to every other year procurement, but in this case we work directly with NASSCO, for example, to work out with them on how they could achieve favorable rates using existing legislation. And we will continue to work with the industrial base in every case to try to work through in the most efficient and effective way, given the limitation of resources and the priorities that we are trying to balance across the Department.

Mrs. DAVIS. Thank you. I know they are difficult questions and issues, but I think, in the long run, the taxpayer will be saving if we can figure out a better way to do that.

And I would like to yield to my colleague, Mr. Nye, for my remaining time.

Mr. NYE. I want to thank Mrs. Davis for her interest in the My CAA program and just follow up by saying I also think the program has provided some tremendous value to our military spouses.

And earlier this year, I was contacted by a number of spouses who complained that the program was changed without a lot of notification to them. And I want to urge you, in your review of this program, to please do as much outreach with the military spouses as possible to hear their views about it before you make changes.

Thank you.

Mrs. DAVIS. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Does any other member wish to ask a question? Mr. Bishop.

Mr. BISHOP. Thank you for staying around so long. You timed it very well.

Ms. Conaton, I am extremely happy to see you here again in your current position, and I want to thank you for all the service you gave to us, both when you were in charge of the Minority council and then Majority council. I wish you best in this new endeavor, as well.

I am also most familiar, I suppose, with the Air Force bases, and I realize that we have a lot of infrastructure needs in all the military, but especially the Air Force right now, and especially with the MILCON [military construction] processes we have.

One of the idea this committee has long promoted for years is the concept of enhanced-use leasing, which tries to leverage private sector dollars along with military spending to try and utilize our under-utilized properties that may belong to the DOD for the benefit of both the private sector as well as for military spending.

I know in my area, Falcon Hill project, which is extremely important, we are looking at maybe \$500 million worth of revenue that can come to the Air Force over 30 years for needed infrastructure development.

So I guess a couple of questions on that line. What is the Air Force position, going forward, about promoting and fostering enhanced use leases as a tool to help bridge the gap between the lack of MILCON resources and the need that is out there?

Secretary CONATON. Thank you, Mr. Bishop, and appreciate the opportunity to continue what has been a dialogue with you and other members of your delegation on this issue.

I think enhanced-use leases [EUL] are a very important tool as we look at how to best invest our MILCON dollars. So I would agree with the premise of your question.

Mr. BISHOP. Does the Air Force have a process, or a system in place, to help review potential problems with EULs or to recommend to Congress any legislative fixes or authorities that may be needed to promote them?

Secretary CONATON. Sir, I would like to get back to you, I think, with a more precise answer for the record about any additional needs that we might have there. I guess all I would say in a general sense is that I think the dialogue between these committees and the services in between individual delegations and the services is critically important on this. And I will get you a more detailed answer for the record.

[The information referred to can be found in the Appendix on page 95.]

Mr. BISHOP. That would be fair, and I think also better for me, as well as the Department or the Air Force, in this case, with a more detailed answer later on to that question.

I am making the assumption that you have not experienced any institutional resistance from the Department of Defense in fostering an EUL?

Secretary CONATON. Sir, not that I am aware of. As you know, there are a number of enhanced use leases that are very complex and complicated in their specifics. And so, the Air Force staff has been working to talk through those issues that might be of concern to OSD, recognizing that some of these instances are more complicated than others.

Mr. BISHOP. In every effort where we start something that is a little bit innovative, or new or different, there are sometimes institutional concerns or problems that probably can be easily worked out if our mindset is that we want this to be successful from the outset.

And I think—I appreciate you saying very clearly that this is one of those vehicles that we can use to try and move forward into helping some of the infrastructure needs that we have, and I appreciate your positive answers. I look forward to the more complete answer. And I look forward to working with you in the future.

Thank you.

Secretary CONATON. I do as well, sir. Thank you.

Mr. BISHOP. Yield back.

The CHAIRMAN. Thank the gentleman.

Ms. McGrath, what progress has been made in addressing the items on the GAO's latest high-risk list for the Department of Defense?

Ms. McGRATH. Sir, as I mentioned in my opening statement, we address the high-risk areas not as sort of an additional thought. That is our everyday thought. They are included in our strategic planning document for the business base, which is the strategic management plan. They are aligned within those four goals, so we take proactive measures to address them each day.

Each one of the high-risk areas has a plan identified. It has appropriate governance in place. We utilize the Defense Business Systems Management Committee [DBSMC] to review each one of the high-risk areas. We meet with the Government Accountability Office frequently on each of the areas in addition to the Office of Management and Budget, to ensure that we are keeping our eye on the ball.

We also have identified milestones and measures for each one of them, and we track performance quarterly through the DBSMC. So I would say I mentioned some specifics on the personnel clearance reform. We have made certainly a lot of progress there, the management attention, the plan, the proactive measures, all our tools we need to actually make progress on each one of those. And I believe that we are making progress in each one, and I am happy to talk about any of them in specific detail or just talk in sort of general terms about where we are with each one. But I am comfortable, and I can clearly state that we are making progress.

The CHAIRMAN. To each of the Under Secretaries, let me ask this: each of you have an adopted, it appears, different manage-

ment structures for business transformation—for instance, I note that Lieutenant General Durbin is here—and why are your approaches and staffing levels for this endeavor so very, very different?

Mr. Westphal.

Secretary WESTPHAL. Mr. Chairman, you are right, every service has different processes, although some of our processes are, of course, the same.

In the case of the Army, prior to Secretary McHugh and I coming on board, the Army had instituted, under the previous Administration, an enterprise task force, an enterprise approach to management. We examined that closely, and with the mandate from Congress to establish an Office of Business Transformation, we made the decision to incorporate that management enterprise approach within the context of business transformation and apply it holistically across the Army.

Now, that enterprise approach had a staff that had been created to help manage the process under the then Deputy Under Secretary of the Army. I took some of that staff and brought it into the—and to create and establish the Office of Business Transformation because they had already been engaged in business transformation activities.

That helped me immensely to be able to then immediately take hold of the planning, programming, budget execution piece, which we sort of came in in the middle of and really manage the POM [program objective memorandum] process, the planning process, and establish what I call the Army Management Enterprise, which is basically the Secretariat, in lead, with the Army staff in support, to put forth what we call the Army Campaign Plan, which is essentially the direction that we at headquarters give to the Army holistically across the board.

So it allows me to integrate planning, business transformation, the resourcing decisions to bring it to a level of integrated discussion among and across all sectors of the Army, led by the Assistant Secretaries with me and through to the Secretary of the Army to get decisions done.

And then, in addition to that, we established something called the Army Enterprise Board, which is a four-star board, led by me but an advisory board to the Secretary of the Army, of all the four-stars, that is Secretariat and uniform, to basically become a forum for discussion of major issues that need to be resolved across the Army.

The CHAIRMAN. Thank you. Mr. Work.

Secretary WORK. Sir, the way I would answer this is I think there is great strength in the way the Department is handling this now. Each of the Unders come with a little bit of different background. Secretary Conaton comes from Congress. Secretary Westphal has been in the building before, and Ms. McGrath.

The way it works now, sir, is that we establish common goals across the Department of Defense and the military departments. We each have to come up with our business transformation plan and our business enterprise architecture. But each of us come at it a different way, and I would argue, it is a strength.

We have meetings at the DBSMC, the Defense Business Systems Management Council, chaired by Secretary Lynn, in which we come in and say how we would approach a problem, and we have discussions on what are best practices. Ms. McGrath meets with the Unders quite often, and then the Unders meet themselves, along with our financial management and Comptrollers.

And by setting it up the way we do, where we all have common goals and common plans, but we can approach the problem differently, we actually, I think, are better for it, and it makes for a very innovative approach to this where we all have a common goal, and that is to prepare the best and most efficient business operations for the Department.

The CHAIRMAN. Ms. Conaton.

Secretary CONATON. I certainly agree with everything that Secretary Work just said. Just for a brief moment talk about the Air Force structure.

Obviously, like my colleagues, serving as the Chief Management Officer, I have a very able Deputy Chief Management Officer, Mr. Tillotson, who also is dual-hatted as our director of the Office of Business Transformation. The choice in Air Force was to relatively leanly staff that office and rather to make use of expertise that exists throughout the functional secretariat and air staff, recognizing that transformation has got to occur in the actual activities of those parts of the Department rather than mandated from the outside.

We also have representation, folks in different parts of the country at our major commands who have expertise in Lean Six Sigma approaches and have gone through the effort that the Air Force has, Air Force SMART Operations for the 21st century, what we call AFSSO 21, which is our continuous process improvement, which will help drive transformation outside of the headquarters level, as well as in the headquarters itself.

But I guess I would come back to things we have talked about, which is that leadership really matters in driving transformation. And so, the fact that these issues are brought to the Air Force Council, which is our governance process, has helped us keep a continuous leadership eye on where we need to go with mission and transformation.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

I believe Mr. Bishop has an additional question.

Mr. BISHOP. Thank you. I thought that was an important question. I appreciate your answers. Could we have, though, for the record if necessary, the staffing levels, the number that we have, from each of you on those particular areas? And if you would like to do that for the record so you can get the exact number correct, that would be okay.

The CHAIRMAN. Along with that, could you give a summary of the duties about the leaders? You don't have to go all the way down to the bottom, but at least give a summary of the top few, please.

[The information referred to can be found in the Appendix beginning on page 93.]

The CHAIRMAN. The gentlelady, Ms. Carol Shea-Porter.

Ms. SHEA-PORTER. Thank you very much.

And thank you all for being here. I wanted to pursue the supplemental and the impact that you believe that it would have. I know that we have seen a lot of votes for and against, both Republicans and Democrats voting for it and against it over a period of time. Has that caused any problems so far? And with the size of the budget, where exactly would you cut? I know that you had talked about pay, but what other options would there be if you didn't receive the supplemental?

Secretary WESTPHAL. I am not sure exactly—well, first of all, they would come mostly from our O&M accounts. So, depending up if the supplemental is not passed before the recess, we would then have to go into those accounts and look at what we can do.

We have tried to anticipate the possibility that the supplemental wouldn't be passed, and we have submitted, or have ready to submit—I can't tell you which one of those two it is—some reprogramming to avert any major issues during August. But some time in August, we would be having to weigh in how we address a lack of funds in some of those accounts.

Ms. SHEA-PORTER. Okay. Any idea about what you would be looking at?

Secretary WESTPHAL. We would be looking at the possibility of some furloughs in some of those O&M areas in the Army, and that would be across various departments and various agencies of the Army.

Ms. SHEA-PORTER. Okay. Has there been any problem to date with the fact that there have been, you know, inability to bring this all the way through? Have you experienced trouble?

Secretary WESTPHAL. No. You know, I mean, we watch carefully. We monitor and we certainly have a lot of conversations with staff and members about—well, about the progress made, and we try to anticipate. And so we have been in an anticipatory mood, at least in the Army, and I think all of my colleagues would say the same thing in their service.

But it is a very unpredictable process, and at the end of the day, we have to just wait until you make those decisions and accept whatever the consequences of those are.

So we are reasonably hopeful that you will have a supplemental approved before you leave for recess. We hope that is the case and that we then will proceed to make sure that we account for those resources the way you want us to.

Ms. SHEA-PORTER. Okay.

Anybody else want to answer that?

Secretary WORK. Well, as you know, ma'am, Secretary Gates sent a letter to Speaker Pelosi, as well as all of the chairmen, and basically said this is kind of an unprecedented situation. We haven't been—we know that if the supplemental is not passed, that some of our base budget operating accounts would begin to deplete in August.

And although we would keep exempt civilians on duty, as everyone has said, other civilians might have to be furloughed without pay. And of course, we would keep our men and women on active duty, but at some point in the latter part of September, we would run out of money to pay for those.

So this is quite an extraordinary circumstance. I can speak for the Department of the Navy for certain. This is not a circumstance that we would like to be faced with.

Ms. SHEA-PORTER. Right. Would you have to look at some of the contracts, or is that separate? I mean, would you reevaluate some of the contractor deals that we have made?

Secretary CONATON. I think it would depend on what the contract is. To the extent that contracts are issued for work that comes out of the operations and maintenance accounts, I think it would be affected by the drawdown of those accounts in the middle part of August.

And the only other thing I would add to what my colleagues have said on a more general level is the Secretary of Defense has told the services, and I think told other parts of the Department, really clearly that we should minimize the disruption to the programs and to our deployed men and women.

And we are relying upon Congress, this institution, to provide that supplemental, and that we are going to keep moving on that path. Obviously we will plan, as we need to, for a worst-case scenario, but I think the direction he has given to the services is to trust that the Congress will provide.

Thank you.

Ms. SHEA-PORTER. I just wanted to make sure that the plan would be to protect the men and women who were in uniform. Either way, that is the mission that we all share, and you have reassured me that that will be the top priority.

Thank you so much, and I yield back.

The CHAIRMAN. Thank the gentlelady.

If there are no further questions, we thank our panelists for your testimony, for being with us, for your expertise, and especially for your leadership. Thank you again.

[Whereupon, at 12:48 p.m., the committee was adjourned.]



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**A P P E N D I X**

JULY 22, 2010

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**PREPARED STATEMENTS SUBMITTED FOR THE RECORD**

JULY 22, 2010

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**House Armed Services Committee  
Opening Statement of Chairman Ike Skelton  
Hearing on Managing the Department of Defense  
in a Time of Tight Budgets  
July 22, 2010**

Ladies and Gentlemen welcome to today's hearing on managing the Department of Defense in a time of tight budgets. Our hearing continues the Committee's aggressive efforts to protect taxpayers at the same time we protect the troops and ensure our national security.

This discussion is very timely. First, consider the budget. Much to its credit, the Obama Administration this year delivered a budget with real growth in defense spending. However, the rate of this growth will not support all of the spending practices which have arisen over the last 12 years during which the defense budget more than doubled. Furthermore, the significant federal deficit will make continuing real growth in the defense budget a challenge.

Second, consider DOD's management challenge. As illustrated in the 'Top Secret America' series of articles in this week's Washington Post, the growth in contractors and government offices devoted to fighting terrorism since 9/11 is staggering. Most of this growth has occurred at the Department of Defense, though much of it falls in the area of intelligence. But little of note at DOD was eliminated to make way for this new growth. Instead the Department has grown bigger.

Managing all of this is exactly the job Congress assigned to the Department's Chief Management Officer, a job currently filled by Deputy Secretary of Defense Bill Lynn. While Secretary Lynn could not be with us today, much to my regret, we have an excellent panel of witnesses that are here: Ms. Beth McGrath, Deputy Chief Management Officer of the Department of Defense; Mr. Joe Westphal, Under Secretary of the Army; Mr. Robert Work, Under Secretary of the Navy; and the one-time staff director of this committee, Ms. Erin Conaton, Under Secretary of the Air Force.

The Under Secretaries were designated by Congress to serve as the Chief Management Officers of their respective departments.

I've asked these witnesses to update the Committee on exactly how they

are creating the tools, structures, and systems necessary to manage the largest, most complex institution in the world. I've asked them to focus on a few issues in particular. Congress has mandated that the Department must at long last get its finances in order and be ready for an independent audit by 2017. Will the Department comply with the law? What progress has been made?

The Department has asked and received from Congress billions of dollars to modernize its business systems over the last 10 years. What do we have to show today for this investment? Do we now have the kind of management information about our business operations that we need? When will we get there?

Lastly, the Committee has followed with great interest the efficiency initiative announced by Secretary Gates on May 8 at the Eisenhower Library. We want to know how this initiative will work, and when the Department intends to share its findings with Congress. This committee stands four-square behind efficiency. At the same time, we want to ensure that major budget decisions are well considered.

We should not attempt to find efficiencies through the kind of mindless across-the-board cuts that President Obama campaigned against. For my own part, I will note loud and clear that I am not for cutting the defense budget at this time. My understanding is that the Secretary's efficiency initiative is not about cutting the budget, but I look forward to hearing more about how exactly this initiative is designed to work.

Now, I turn to my colleague from California, Buck McKeon, for his opening remarks.

**Statement of Ranking Member Howard P. “Buck” McKeon  
Hearing on Managing the Department of Defense  
in a Time of Tight Budgets  
July 22, 2010**

I would like to thank our witnesses for being with us today. It is unfortunate Secretary Lynn could not also join us. As both the Deputy Secretary and the Chief Management Officer (CMO) for the Department—not to mention his role in helping to craft Secretary Gates’ efficiencies initiative—it would have been valuable for the Committee to hear from him at a hearing specifically dedicated to the Pentagon’s management. As well, given that the formal responsibilities for CMO are still relatively new for the Deputy Secretary, we were also interested in his observations about that construct and his ability to balance his policy and management portfolios.

With that said, we are grateful to have with us the Deputy Chief Management Officer, Ms. Beth McGrath, whose full-time job is to improve the Department’s management. I know Ms. McGrath has testified before this committee in the past, but I believe this is our first opportunity to have all of the Under Secretaries. Given the important role that each of you play in serving as the Chief Management Officer of your respective departments, I look forward to the chance to discuss the various management challenges you face and your plans for mitigating risk to DoD’s operations while improving efficiency. Secretary Conaton, I know I echo the Chairman’s sentiments, when I tell you how pleased we are to see you again—welcome home, so to speak.

This is a timely hearing. Although GAO and others have identified a series of persistent management risk areas for DoD, the Department faces a looming management crisis in light of congressional delay in passing a clean wartime supplemental spending measure. The Senate passed its version of the appropriations bill in May, but the House failed to take up either a compromise version of the bill or the Senate-passed bill before the July 4<sup>th</sup> recess. Instead, the House amended the Senate bill by adding extraneous domestic spending and returned it to the Senate. Secretary Gates made it clear that if the supplemental was not enacted by July 4<sup>th</sup>, the Department would ‘have to begin planning to curtail defense operations.’ I know the Chairman shares my conviction that the men and women in uniform operating in harm’s way in Afghanistan and Iraq deserve better. Therefore, it is critical that we hear from each of you regarding the

impacts this delay will have within your departments and how you intend to manage the risk to ongoing operations.

Lastly, it should come as no surprise that we are interested to learn more specifics about how the services are implementing Secretary Gates' call for further efficiencies. While no one would argue against reducing waste or needless overhead, it remains unclear whether or not the Department can find \$100 billion in prudent savings over the next five years simply from 'efficiencies'. In his May 8<sup>th</sup> speech at the Eisenhower Library, Secretary Gates stated, '...the goal is to cut our overhead costs and to transfer those savings to force structure and modernization within the programmed budget.'

I support his intent to ensure we do not accept a peace dividend that will hollow-out our force structure and curtail modernization. What gives me pause, however, is that, according to Deputy Secretary Lynn, the plan calls for a third of this money—about \$33.3 billion—to come from 'developing efficiencies within the force structure and modernization accounts.' So, I want to make sure that we understand the plan. In order to protect force structure and modernization, we intend to cut force structure and modernization accounts?

Likewise, press reports indicate that funding may not go strictly to these investment accounts and senior officials have been recently quoted as forecasting, 'gradual drawdown in the investment accounts.' I know our witnesses are unlikely to reveal planned cuts for future fiscal years, but I hope you will provide greater details regarding the process you are using to identify both the puts and takes, and what other measures—besides funding cuts—could generate savings. For example, what steps are you taking to improve your financial management and accountability?

We look forward to your responses and, again, thank you for your time at this critical juncture.

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51

**HOLD UNTIL RELEASED  
BY THE HOUSE ARMED  
SERVICES COMMITTEE**

**STATEMENT BY  
MS. ELIZABETH A. MCGRATH  
DEPUTY CHIEF MANAGEMENT OFFICER**

**BEFORE THE  
House Armed Services Committee**

July 22, 2010

DEPUTY CHIEF MANAGEMENT OFFICER ELIZABETH A. MCGRATH  
SUBMITTED STATEMENT  
HOUSE ARMED SERVICES COMMITTEE  
THURSDAY, JULY 22, 2010, 10:00 AM

Mr. Chairman, Congressman McKeon, members of the Committee:

Thank you for the opportunity to discuss the Department of Defense's efforts to improve its business operations. As the Deputy Chief Management Officer, I am the Deputy Secretary's primary agent for improving the cross-cutting management of the Department's business activities. It is a pleasure to appear before you with my Military Department Chief Management Officer counterparts. We sincerely look forward to continuing our work with you in the months and years ahead as we jointly strive to bring greater efficiency, increased effectiveness, and further agility to the Department.

The Department has always endeavored to improve the efficiency and effectiveness of its business operations. The imperative to achieve results through transformational change, and the engagement of senior department leadership, have never been greater. Secretary Gates and Secretary Lynn have clearly articulated the pressing need for reform, driving action in many areas such as acquisition reform, and personnel hiring reform. Today, I'd like to share with you our overarching management reform efforts as well as some recent successes. Our approach emphasizes improving our ability to assess execution through performance management, to develop mechanisms to ensure leadership accountability, and to make needed changes to the way we procure information technology. In each of these areas, we rely heavily on tools Congress has provided us through the last several National Defense Authorization Acts.

I'd like to review for you our efforts in the areas of strategy, governance, process improvement and information technology.

### Strategy

The Department has worked diligently to devise and implement an integrated enterprise-wide business strategy to guide our transformation efforts. This Strategic Management Plan, required by statute and most recently published in July 2009 aligns the many planning and execution documents that exist throughout the enterprise, tying together many disparate planning efforts. It identifies five cross-functional, enterprise-wide business priorities: (1) support the all-volunteer force; (2) support contingency business operations; (3) reform the DoD acquisition process and support processes; (4) enhance the civilian workforce; and (5) strengthen financial management. These priorities encompass the most pressing business management challenges currently facing the Department and are supported in the SMP by specific outcomes, goals, measures, and key initiatives that are critical for success.

Other business documents are clearly linked to the SMP, including the Department's Performance Budget, which is submitted as part of the Secretary's Budget Justification, and also the Organizational Assessment, which is used as part of the performance appraisal process for members of the Senior Executive Service. The SMP has also served as the basis for the Department's high-priority performance goals, which were included in the fiscal year (FY) 2011 President's Budget as a key part of this administration's management agenda. The Department has aligned its family of plans, including the Financial Improvement and Audit Readiness (FIAR) Plan, the Logistics Strategic Plan and the Enterprise Transition Plan, with the SMP. We will ensure that further direction contained in the Department's overarching strategic plan, the 2010

Quadrennial Defense Review (QDR), published February 2010, is incorporated into the next SMP, which we anticipate publishing this fiscal year.

### **Governance**

Successful strategies rely on effective management oversight framework to drive adoption, monitor implementation, and ensure accountability for performance. This area of governance features a number of important changes, including the creation of the Chief Management Officer, Deputy Chief Management Officer, and Military Department Chief Management Officer positions. Each of us have established agendas which we execute in partnership with the rest of the Department's business leaders. At the enterprise-level, the integration of these officials into the Defense Business Systems Management Committee (DBSMC) permits us to hold the Department's senior leaders accountable for their results and for the quality of their underlying measures. In this way we ensure that we are measuring those things that are directly tied to the business outcomes that we are seeking to achieve.

We have also streamlined and automated the performance reporting process for these measures to speed data collection and provide a more near real time picture of the Department's business operations. As priorities or performance measures change, this improved process and automation will enable rapid and agile adaptation.

### **Process Improvement**

In addition to these management reforms, we are delivering key efficiencies and tangible benefits to the taxpayer, to the Department and to our warfighters through the improvement of our business processes. These improvements are being pursued in the

Department's individual processes, such as that for granting security clearances, as well as the Department's end-to-end business processes, such as Procure-to-Pay or Hire-to-Retire. For us, the use of Continuous Process Improvement (CPI)/Lean Six Sigma has been instrumental. All three military departments and the Office of the Secretary of Defense have embraced Lean Six Sigma as a first-line approach to performance management, teaching our workforce to think of performance in terms of systematic processes improvements, and the application of metrics to achieve it.

For example, personnel trained in the Lean Six Sigma method helped make major performance enhancements to submarine maintenance and repair at Pearl Harbor, where they were incurring significant overtime and driving up costs. Through a Lean Six effort, the facility increased job completion from 94% to 98%, while decreasing job cost by 33% and overtime by 49%. It is this kind of performance improvement that will improve efficiency and effectiveness and help us reach the Department's cost savings goals.

#### **Information Technology**

As the committee knows well, Information Technology is a key enabler of our business operations and another area with the potential for major improvements across the enterprise. While this has long been an area of emphasis, significant opportunities remain to improve the acquisition and investment oversight processes and deliver modern IT systems that support effective and efficient business processes. The Deputy Secretary has made clear that one of his highest management priorities this year is improving the acquisition, development and fielding of IT systems. To this end, we leverage the tools and share the priorities the Congress has provided through legislation.

Our current approach to implementing IT systems takes too long, costs too much, and often fails to deliver the performance improvements we seek. On average, it takes 81 months in DoD from when an IT program is first funded, to when it is fielded. Given the rapid state of improvement in the IT field, this means that we are delivering systems that are outdated before we ever turn them on. In contrast, the iPhone took two years from concept to delivery. It is clear that we need a different approach.

Recently, Secretary Lynn established an IT Acquisition Reform Task Force, whose activities are guided by four key principles: speed, incremental development, governance, and adaptability.

- First, heeding Secretary Gates' call to make our department more agile, speed must be our overarching priority. We need to match the acquisition process to the technology development cycle. In IT, this means 12 to 36 months cycles, not 7 or 8 years.
- Second, we must acknowledge that incremental development, testing, and whenever possible, fielding of new capabilities, provides better outcomes in IT than trying to deploy large complex systems in one "big bang."
- Third, to achieve speedy, incremental improvements, we need to carefully examine how to establish the requirements that govern acquisition. Systems must always be tailored to serve the needs of end users, but departing from already developed, out-of-the-box solutions in IT imposes great costs. To achieve speed, we must be willing to

sacrifice or defer some customization. Making use of established standards, and open modular platforms, is of paramount importance.

- Fourth, the department's IT needs range from modernizing nuclear command and control systems to updating basic office software on our office computers. We must recognize that different IT applications demand different levels of oversight and enterprise integration.

With these principles in mind, we are working to outline a series of IT acquisition paths that apply high levels of institutional due diligence where it is needed and strip away excess requirements where it is not.

We are positioned to manage the business portfolio using the tools of acquisition oversight, investment review, architecture alignment and business process re-engineering. The structure of the CMO permits this enterprise management approach because it provides cross functional insight into the entire business portfolio. In the Office of the DCMO we:

- Execute Milestone Decision Authority responsibility for our business Major Automated Information System (MAIS) programs;
- Lead the Overarching Integrated Product Team (OIPT) review process on behalf of the Under Secretary of Defense (Acquisition, Technology & Logistics) for the remaining business MAIS programs.
- Utilize the Investment Review Board (IRB) structure created by Congress in the FY2005 NDAA to ensure that these MAIS programs have

consistent oversight from an acquisition perspective and a compliance-based investment review perspective.

- Leverage the Business Enterprise Architecture (BEA) to improve the quality of the investment decisions and further develop the end-to-end business process concept, making it easier for the IRBs to manage portfolios and rationalize our many business system investments.
- Ensure, through business process re-engineering, that we are not automating inefficient, legacy processes and that we are pursuing improvements across the full spectrum of business operations.

In closing, it is clear that focusing on business operations at the Department of Defense is an area of great and immediate interest to the senior leadership, as well as an area of serious activity and concerted efforts. We are on the way to creating better business processes that will create the kind of lasting results that our country deserves. My CMO counterparts and I look forward to the continued opportunities to work with the Congress to optimize performance across the Department.

I look forward to your questions.



**Elizabeth A. McGrath**

**Deputy Chief Management Officer for Department  
of Defense**



Ms. Elizabeth (Beth) McGrath is the Department of Defense Deputy Chief Management Officer and the Department's Performance Improvement Officer. In these roles, Ms. McGrath leads the Department's effort to better synchronize, integrate, and coordinate DoD business operations and serves as the Principal Staff Assistant (PSA) and advisor to the Secretary and Deputy Secretary of Defense for matters relating to management and the improvement of business operations. Ms. McGrath is focused on achieving increased efficiency, greater effectiveness, and improved performance in the Department's enterprise policies, processes, and systems. She is also responsible for the generation of the DoD Strategic Management Plan.



As part of her duties, Ms. McGrath executes the Department's primary governance body for business transformation, the Defense Business Systems Management Committee (DBSMC), serves as the Capability Portfolio Co-Manager for the Corporate Management and Support Portfolio, establishes performance goals and measurements for the Department's business operations, is responsible for implementing DoD's Continuous Process Improvement/Lean Six Sigma efforts, and is co-leading, with the Director of National Intelligence, an initiative to reform the government-wide security clearance process. Additionally, Ms. McGrath was instrumental in the establishment of the Business Transformation Agency (BTA) in 2005. Her responsibilities require integration and coordination with the other PSA organizations as well as other inter-governmental agencies, such as the Office of Management and Budget and the Government Accountability Office. Preceding her current position, Ms. McGrath served as the Principal Deputy Under Secretary of Defense for Business Transformation.

Previously, Ms. McGrath served as the Deputy Director for Systems Integration, Defense Finance and Accounting Service (DFAS). At DFAS, she created financial migration strategy that was executed with a collective budget of approximately \$1B over the lifecycle. She managed the entire financial architecture supporting DOD-wide standard financial systems, integrating it with the DoD's evolving target, enterprise architecture. The project scope included logistics, personnel, medical, acquisition and financial missions including many information technology solutions.

Prior to joining DFAS, Ms. McGrath served in a variety of Program Management roles culminating in Program Executive Office (PEO) level oversight responsibility. She possesses extensive knowledge of acquisition-related statutes, regulations and policies with over 18 years applied acquisition experience with Major Defense Acquisition Programs (MDAP) and Major Automated Information Systems (MAIS). She served as the Business and Acquisition Manager on an international program with the United Kingdom and held numerous other financial, acquisition and program management positions within the US Department of the Navy.

Ms. McGrath holds a bachelor's degree in Economics from George Mason University and is a graduate of the Federal Executive Institute (FEI). She is certified Acquisition Level III in Program Management, Financial Management and Logistics, is a member of the DoD Acquisition Professional Community.

STATEMENT BY

THE HONORABLE JOSEPH W. WESTPHAL  
UNDER SECRETARY OF THE ARMY

BEFORE THE

HOUSE ARMED SERVICES COMMITTEE

SECOND SESSION, 111<sup>TH</sup> CONGRESS

DEPARTMENT OF DEFENSE EFFICIENCIES INITIATIVE

JULY 22, 2010

NOT FOR PUBLICATION  
UNTIL RELEASED BY THE  
COMMITTEE ON ARMED SERVICES

STATEMENT BY  
THE HONORABLE JOSEPH W. WESTPHAL  
UNITED STATES ARMY  
UNDER SECRETARY OF THE ARMY

**INTRODUCTION**

Chairman Skelton, Ranking Member McKeon, and members of the Committee, thank you for inviting us here to testify before you today. The Army greatly appreciates this Committee's continuing support of the men and women in uniform and your commitment to providing resources to support our Warfighter.

I am pleased to be here along with the Department's Deputy Chief Management Officer, Ms. Elizabeth McGrath, Navy Under Secretary Mr. Bob Work and Air Force Under Secretary, Ms. Erin Conaton. I welcome the opportunity to address your concerns and hear your perspectives on how we manage and provide resources to our forces during these highly complex times.

On March 1, 2010, I submitted the Army's Report to Congress on our progress towards implementing the business transformation requirements outlined in Section 908 of the Duncan Hunter National Defense Authorization Act (NDAA) for Fiscal Year 2009. I will submit our next requirement, the Army's Business Transformation Plan (BTP), to the Committee on October 1, 2010. I want to assure you that we are on track to meet the goals set for us by Congress.

In addition to the transformation task that Congress has directed us to implement, the Secretary of Defense, Robert M. Gates, has outlined an initiative to identify savings and efficiencies and reprioritize them to enable all of us to focus resources to sustain our Warfighter. On May 8, 2010, Secretary Gates challenged DoD as a whole to find \$100 billion in savings and efficiencies. The Army is committed to the

Secretary's objective and will work to enhance business transformation execution to help achieve some of these savings.

The Army is committed to transforming and realigning our priorities to meet the mandates of the President and Congress, while also remaining dedicated to providing the nation the best trained Soldiers to succeed in our missions around the world.

### **THE ARMY AT WAR**

The United States Army is the preeminent land power in the world, with 1.1 million Soldiers and 279,000 civilians serving, with the support of their family members, in nearly 80 countries around the world. Our personnel are performing missions ranging from humanitarian work in Haiti, to supporting domestic missions, to fighting the wars in Iraq and Afghanistan. Over a million personnel have deployed. As of July 15th, 3,186 Army Soldiers have sacrificed their lives and 27,084 have been wounded. Today our Army is fighting two wars, assisting other nations in both humanitarian and security operations, supporting civil authorities at home, and preparing to deter and defeat new threats. The Army's Soldiers, Civilians, and Families faithfully shoulder the load that our Nation asks of them. With the support of the Congress, we are on track with our four-year plan to put the Army back in balance.

We are on track with our four-year plan to restore balance to the Army by 2011. This will allow our Soldiers increased time at home to recover from repeated combat deployments as well as the ability to reset and replace our equipment. Today we no longer have fifteen month tours and none of our mobilizing units have stop-loss Soldiers. This is due in great part to the help that Congress has given us with additional end strength and continued funding for vital equipment and infrastructure.

The success of our continuing efforts can be seen in our personnel. Our Army active and reserve forces continue to meet and exceed our recruiting and retention

goals. These figures are a testament to the fact that the Army's programs to help our Soldiers and Families are having a positive impact. As we continue with our business transformation, we hope to make it even easier for our Soldiers to transition into our Army civilian work force, so that we can retain their expertise and experience and reap long-term benefits from our investment.

We know that Congress supports our Soldiers, and is committed to giving them the best resources possible to ensure they complete the missions they are called upon to perform and return home safely. While we count on and appreciate continued Congressional support, we also recognize that we are facing constrained fiscal budgets. We understand that we cannot continue to request budget increases from Congress unless we can demonstrate we have done everything possible to wisely spend the resources we receive. Therefore, we are aligning, integrating and innovating our business processes to improve our transparency and the auditability of our programs.

We are also highly cognizant that Congress has given us several critical areas that we must address as we develop our Business Transformation Plan. These critical areas are defined in the list of High Risk Areas compiled by the Government Accountability Office (GAO). High Risk Areas on this list include Business Transformation, Business Systems Modernization, Financial Management, Supply Chain Management, Support Infrastructure Management and Contract Management. The Army seeks to improve in all Government Accountability Office High Risk Areas both because it is important to the support of our Warfighter, and also because it helps us to remain good stewards of America's tax dollars.

### **INTEGRATED MANAGEMENT SYSTEM**

The NDAA for 2008 established the position of the Chief Management Officer (CMO), and directed the Under Secretary of the Army to be the primary manager of

business operations within the Army. The NDAA of 2009 further refined that role, and directed the Army to achieve an Integrated Management System (IMS) for our operations. Our efforts to create an Integrated Management System will be outlined in our Business Transformation Plan.

***The goal of the Army's Business Transformation Plan is to align our generating force and business operations to support the agile and versatile operating force, so that we can provide Readiness at Best Value.*** To ensure the objectives of our Business Transformation Plan become an integral part of how we plan, prepare and execute our business operations, we have imbedded them into our most central planning document, the Army Campaign Plan (ACP). The Army Campaign Plan is the means by which the Army directs actions necessary to transform the Operating Force and Generating Force and enable the Army of the 21<sup>st</sup> Century. The Army Campaign Plan also traditionally includes all of our transformational and Service Title 10 activities, and provides guidance for developing our program and budget.

To assist in executing the NDAA directives, the Secretary of the Army established the Office of Business Transformation (OBT). The Office of Business Transformation will promote the development and implementation of a fully integrated management system, from end-to-end and top-to-bottom. Their role is to challenge our way of doing work and to help lead us in areas we haven't been before. They are a Center of Excellence to push innovation and drive creative thinking within the Army.

As the Chief Management Officer for the Army I am focused on managing and improving business processes. This includes managing our two functionally aligned senior leader forums, the Army Enterprise Board (AEB) and the Army Management Enterprise (AME). The Army Enterprise Board is the Department's most senior forum that advises the Secretary of the Army and the Chief Management Officer on the most complex, far reaching, and strategic issues facing the Army. The Army Management Enterprise is an advisory council that links the Secretariat, the Army Staff, Army Service Component Commands, Army Commands and Direct Reporting Units. This is an

important avenue for senior leaders to work to integrate efforts and it reaches out to our primary customer, the Army Service Component Commands, which are tied directly to our Warfighter.

Another process that the Chief Management Officer has primary responsibility for managing is the Planning, Programming, Budgeting and Execution (PPBE) cycle. In this financial management cycle, the Army takes a detailed look at requirements across the Army Enterprise, to ensure they are sufficient to meet the objectives of our Army Campaign Plan. Once our requirements are properly identified, then we must align our resources and transform our processes to enable us to meet our objectives. As part of our transformation we are intensively reviewing this requirements process, since identifying the most essential needs of our Warfighter is the first critical step in the full life-cycle of financial management.

We are seeking to make our acquisition process more agile, flexible and efficient. Initiatives such as the Rapid Equipping Force and Experimental Task Force are examples of successful programs that get emerging technologies into the hands of our Soldiers quickly. We need to expand upon these principles to develop a more responsive acquisition strategy that directly supports our Warfighter on the battlefield with the latest technologies.

In addition to managing our internal processes, part of the overall Chief Management Officer responsibilities is to align the Army vertically with the goals and objectives of the Office of the Secretary of Defense (OSD). The Army recognizes the importance of aligning with the Department of Defense's Core Business Missions, their Strategic Management Plan, the 2010 Performance Budget, as well as the Department of Defense Business Enterprise Architecture Guidance. This alignment is achieved through frequent and periodic senior leader reviews and through ongoing collaboration with the Department of Defense's Deputy Chief Management Officer and Business Transformation Agency.

The Army also coordinates horizontally with the other Services to ensure that we develop common business system architectures and find efficiencies in the way we operate across the department. All of the Chief Management Officers and Deputy Chief Management Officers within the Department of Defense meet frequently to coordinate our priorities. For example, the Defense Business Systems Management Committee (DBSMC) meets regularly to not only certify Information Technology investments across the Department of Defense, but to address strategic business issues that range from security cooperation efforts to financial improvement and audit readiness.

#### **WAY AHEAD – BUSINESS TRANSFORMATION PLAN**

Our efforts to transform operations are ongoing and in response to congressional legislation. Now we are able to take the processes, goals and objectives we are developing in our Business Transformation Plan, and build upon them to meet the challenge that the Secretary of Defense gave us to find savings and efficiencies in our operations. His directive will serve as our measurement goals to refine the business transformation processes already in action.

As we review our processes to transform and find savings and efficiencies, we seek to gain a better understanding of mission specific information systems, such as medical, personnel, finance, business and logistics as well as tactical, and then improve upon them.

One of our key enablers is the Army's Lean Six Sigma (LSS) program. The Army is using Lean Six Sigma extensively around the force to become more streamlined, agile and efficient. We have well over 1,000 personnel trained in the Lean Six Sigma principles, and we anticipate completing over 3,000 projects in fiscal year 2011. Lean Six Sigma programs help us to reduce cycle time as well as to improve the output

quality of our processes. Completed projects have yielded significant financial and operational benefits at organizations across the Army.

We also have established an aggressive cost culture initiative by which Army Leaders make resource decisions that are cost-informed. We are training military and civilians throughout the Army to conduct rigorous cost benefit analyses to support decision making and we now require that cost benefit analyses accompany proposals for new and increased requirements. This directive has permeated our resource reviews and given the Army an approach, not to make decisions based solely on cost, but to consider cost in making decisions.

We also are dedicated to addressing the Government Accountability Office High Risk Areas of Business Transformation and Business System Modernization by developing a well-defined Business Systems Architecture and Transition Plan encompassing end-to-end processes and capable of improving our business operations and information technology infrastructure. We have created and implemented the Army Force Generation (ARFORGEN) model of rotating forces on a cyclical basis, and are developing systems to synchronize the process. We are also developing Data Strategy and Standards and Network Architecture to improve the visibility, accessibility, and understandability of our data and services across the Army.

Another significant enabler to transformation is our Enterprise Resource Planning (ERP) Task Force. The Army is implementing commercial off-the-shelf software suites to modernize, streamline, and standardize processes used to manage people, money, programs, equipment and supplies. The initial benefits include reducing the cost of operating legacy systems, improving financial compliance, reducing inventory, enhancing data quality, and streamlining business processes.

## **CONCLUSION**

In conclusion, we have the right legislation and the right leadership team to accomplish the task of managing our resources to provide Readiness at Best Value. We

are well on our way to meeting the legislative requirements of Business Transformation and will present our more comprehensive plan to you in October.

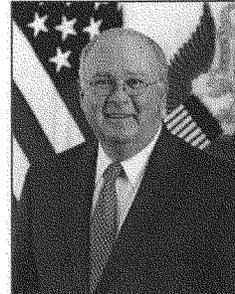
We are committed to providing open and transparent dialogue with Congress and welcome opportunities to update you on our progress. Again, I thank this Committee for its steadfast support of our men and women in uniform.

I look forward to your addressing your questions.



### **Mr. Joseph W. Westphal**

Under Secretary of the United States Army



Dr. Joseph W. Westphal currently serves as the 30th Under Secretary of the Army. Dr. Westphal has had a distinguished career of service in both academia and government.

Dr. Westphal served as Chancellor of the University of Maine System and Professor of Political Science at the University of Maine. He also served as the Provost, Senior Vice President for Research and Professor of Environmental Studies at The New School in New York City. He stepped down from this position to serve as a member of President Obama's Transition Team for Defense matters in December 2008.

Dr. Westphal spent his first 12 years in academia as a faculty member of Oklahoma State University, where he worked as a Professor of Political Science, later becoming head of the Department. During his many years of public service, Dr. Westphal has lectured at numerous universities around the world and taught public policy as an Adjunct Professor at Georgetown University while working in Washington DC.

In addition to a distinguished academic career, Dr. Westphal has led a prestigious and varied career in public service as well. In 2001, he served as the Acting Secretary of the Army and earlier, he served as the Assistant Secretary of the Army for Civil Works from 1998 to 2001.

Dr. Westphal has had extensive experience working in the United States Congress and other departments within the executive branch. He served as the Senior Policy Advisor for Water Resources at the U.S. Environmental Protection Agency during the Clinton Administration. He also worked in the United States Congress in various capacities, from directing a bi-partisan congressional caucus in the House and Senate, as a budget analyst and assistant to the Chairman of the U.S. House Committee on the Budget to working on Members' staff. Earlier in his public service career, Dr. Westphal worked as a policy advisor to the Secretary in the Department of the Interior.

Dr. Westphal received his Bachelor's degree from Adelphi University, his Master's degree from the Oklahoma State University and his Ph.D. in Political Science from the University of Missouri-Columbia.

He is married and has four adult children and six grandchildren.

NOT FOR PUBLICATION UNTIL RELEASED BY THE  
HOUSE ARMED SERVICES SUBCOMMITTEE

STATEMENT OF

MR. ROBERT WORK  
UNDER SECRETARY OF THE NAVY

BEFORE THE

HOUSE ARMED SERVICES COMMITTEE

ON

MANAGING THE DEPARTMENT OF DEFENSE IN A TIME OF TIGHT BUDGETS

JULY 22, 2010

NOT FOR PUBLICATION UNTIL RELEASED BY THE  
HOUSE ARMED SERVICES SUBCOMMITTEE

Chairman Skelton, Representative McKeon, distinguished members of the Committee, I would like to thank you for this opportunity to discuss the work the Department of the Navy is doing to create efficiencies in business systems and financial management. The Department of the Navy is executing meaningful and sustainable changes in Navy-Marine Corps business management and will continue the drive to improve effectiveness, realize efficiencies, and provide a more straightforward and tighter focus on business transformation.

The Department is committed to improving our business operations and understands the Congress' frustration associated with information technology cost overruns and schedule delays. The Secretary of the Navy has assembled a very capable team to orchestrate business transformation. Our plan is to integrate and optimize existing processes, organizations, and capabilities across the Department to accomplish critical strategic and enterprise level business objectives.

As the Department of the Navy Chief Management Officer, I view my role as the leader of transformation across the enterprise. My responsibilities are to:

- Develop the vision and goals for Department of the Navy business transformation,
- Ensure that we address our issues from an enterprise perspective; developing and integrating the Department's blueprint for transformation,
- Integrate people and organizations to achieve complex enterprise business objectives that are difficult to accomplish within the traditional Department of the Navy organizational structure, and

- o Lead the transformation of our governance structure including chairing the Business Transformation Council which oversees the management and improvement of the Department of the Navy's business operations.

I view "business operations" as a sub-set of "management," and "management" extends across the entire Department of the Navy. We are looking beyond the business side of the enterprise; I intend to apply this same rigor to the business operations of all programs, including weapons systems.

The Department of the Navy is fully committed to executing meaningful and effective Business Transformation and will make significant changes in the way we do business. Our goal is to establish a legacy of transformation in the Department by instilling a culture of business innovation and ingenuity, codifying the role and mission of the Department of the Navy Chief Management Office, establishing critical governance forums and prioritizing, articulating, and executing the transformation agenda.

As an example, the Business Transformation Council is the top level enterprise decision body to enable and inculcate business transformation within the Department of the Navy. The Business Transformation Council was dormant for nine months prior to my arrival as Chief Management Officer. Since then we have held six Business Transformation Councils on topics including the Future Pay and Personnel Solution, Navy Enterprise Resource Planning, and the Next Generation Enterprise Network. We have more work to do, but re-invigorating the Business Transformation Council has reinforced the importance of business transformation throughout the Department.

A priority for the Business Transformation Council is to translate Department of Defense high-priority performance goals into Department of the Navy action. One example is in-sourcing. Leadership across the Department is taking action to verify mission requirements, eliminate functions that are no longer required, and organize activities to promote efficient, and economical operation by optimizing personnel utilization. Our objective is to in-source services, not the individuals performing the services. Under any circumstances, however, contractors will remain a vital source of expertise and support services.

Transformational efforts are not restricted to the Business Transformation Council. We are looking to strengthen the Chief Management Officer position by empowering the Deputy Chief Management Officer. In that regard, I have created efficiencies internal to the Secretary of the Navy organization and improved effectiveness by critically looking at the Department's organizational design. To date we have eliminated the Office of Program Appraisal and reallocated virtually all military billets to fleet activities. We have also begun to restructure the Administrative Assistant to the Secretary in order to consolidate functions across the Secretariat, the Navy and the Marine Corps.

As stated, the Department of the Navy provided performance management input to the Office of the Secretary of Defense to address the strategic objectives outlined in the Quadrennial Defense Review. We are in the process of assessing the current Department of the Navy strategic objectives and establishing objectives for the upcoming fiscal year.

We will further define these objectives to identify measures and metrics that will provide valuable information for management decisions.

As articulated in the fiscal year 2010 National Defense Authorization Act, my responsibilities as the Department of the Navy Chief Management Officer now include the requirement to determine whether or not each defense business system modernization is in compliance with the enterprise architecture for defense business systems and has undertaken appropriate business process re-engineering efforts. The Department of the Navy now has a process in place to make these determinations. These reviews are conducted to ensure that our business capabilities are properly aligned and that we understand these processes when making information technology investments.

Through our business transformation plan, we will emphasize improving business operations, generating efficiencies and aligning business processes. Although our processes associated with the business enterprise architecture and business process re-engineering are still relatively new, they are integral to our transformation efforts and I expect that they will yield significant benefits in achieving our transformation goals.

We believe the use of continuous performance improvement techniques up front and early will provide significant benefits as we transform our business operations. Toward that end, the Department of the Navy has assembled a small but highly qualified workforce that is trained in industry proven methodologies to assist in identifying efficiencies.

The Department of the Navy supports the goal set forth in the fiscal year 2010 National Defense Authorization Act, which requires the Department of Defense to achieve audit readiness by September 30, 2017. We will continue to execute our strategy to establish robust controls over business systems and processes impacting financial reporting. The Department of the Navy will continue the execution of the Financial Improvement Program, which is a component of the Department of Defense's Financial Improvement and Audit Readiness Plan. The Financial Improvement Program's primary goal is to establish robust internal controls over business processes impacting financial reporting. Departmental internal controls will be regularly tested and corrective actions will be implemented if necessary leading to accurate, auditable financial reports.

From strengthening controls and standardizing processes, financial management operations will become more efficient through less rework and improved stewardship of taxpayer funds. In addition, financial information will be more timely, accurate, and reliable. This effort is a key component of our business transformation strategy, requiring implementation of sustainable change management actions.

As a first step toward auditable financial statements in the Department of the Navy, the Marine Corps has achieved audit readiness on its Statement of Budgetary Resources. An audit is currently underway on this statement, conducted by a private firm. This is an important milestone on the path to auditability for Department of the Navy and the rest of Department of Defense, and all of the Services will benefit from the

lessons learned by the Marine Corps during the audit. This will result in more effective preparations for future audits and minimize associated costs.

The Department of the Navy's audit readiness strategy is based on continuous process improvement. Challenges in making this strategy work include: convincing all levels of Department of the Navy to embrace the added value of audit readiness; executing the changes needed for compliance upon acceptance of the value proposition; maintaining proper levels of funding to support the Department of the Navy auditability plans; forging a higher-level collaboration with external service providers, primarily the Defense Finance and Accounting Service.

In all these efforts, the Department of the Navy has greatly benefited from a close working relationship with the Department of Defense Chief Management Officer/Deputy Chief Management Officer. In addition, the Military Department Under Secretaries/Chief Management Officers meet regularly to work and coordinate issues jointly, as well as share the best practices.

In closing, the Department of the Navy appreciates the legislation that Congress has enacted which improves our ability to re-engineer our processes and implement transformational changes in our business operations. The Department recognizes that business transformation will be challenging and difficult, and is committed to working with Congress. We realize that business transformation is a top management priority, one made more important by Secretary Gates' efficiency initiative. The Department

views this initiative as an opportunity to establish a business enterprise culture of innovation, efficiency, and effectiveness that matches our warfighting prowess.

The Department of the Navy's goal is to foster the business transformation we need to efficiently and effectively support the world's most powerful Navy and Marine Corps, and the Sailors, Marines and their families who so admirably serve both.

## Under Secretary of the Navy

### The Honorable Robert O. Work

Robert O. Work was confirmed as the Under Secretary of the Navy on May 19, 2009. In this capacity, Work serves as the deputy and principal assistant to the secretary of the Navy and acts with full authority of the secretary in the day-to-day management of the Department of the Navy. Work was a distinguished graduate of the Naval Reserve Officers Training Course at the University of Illinois, and was commissioned a second lieutenant in the U.S. Marine Corps in August 1974. During his 27-year career, Work held a wide range of command, leadership, and management positions. He commanded an artillery battery and artillery battalion, and was the base commander at Camp Fuji, Japan. His last assignment was as Military Assistant and Senior Aide to the Honorable Richard J. Danzig, 71st secretary of the Navy.



After retiring from the Marine Corps, Work joined the Center for Strategic and Budgetary Assessments (CSBA), first as the senior fellow for maritime affairs, and later as the vice president for strategic studies. In these positions, he focused on defense strategy and programs, revolutions in war, Department of Defense transformation, and maritime affairs. He wrote and spoke extensively on U.S. Navy and Marine Corps strategies and programs; directed and analyzed war games for the Office of Net Assessment and Office of the Secretary of Defense; contributed to Department of Defense studies on global basing and emerging military missions; and provided support for the 2006 Quadrennial Defense Review.

In addition, he studied and prepared several reports on future defense challenges, including the changing nature of undersea warfare, power projection against regional nuclear powers, and power projection against future anti-access/area denial networks. During this time, Work was also an adjunct professor at George Washington University, where he taught defense analysis and roles and missions of the armed forces.

In late 2008, Work served on President Barack Obama's Department of Defense Transition Team. In this role, he was the leader of the Department of the Navy issue team, and served on the defense policy, acquisition, and budget teams.

Work earned a Bachelor of Science degree in Biology from the University of Illinois; a Master of Science in Systems Management from the University of Southern California; a Master of Science in Space System Operations from the Naval Postgraduate School; and a Master in International Public Policy from the Johns Hopkins School of Advanced International Studies. He is a member of the International Institute for Strategic Studies (IISS).

*Updated: 4 June 2009*

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**DEPARTMENT OF THE AIR FORCE  
PRESENTATION TO THE COMMITTEE ON ARMED SERVICES  
UNITED STATES HOUSE OF REPRESENTATIVES**

**SUBJECT: MANAGING THE DEPARTMENT OF DEFENSE IN A TIME OF TIGHT  
BUDGETS**

**STATEMENT OF: THE HONORABLE ERIN C. CONATON  
UNDER SECRETARY OF THE AIR FORCE**

**JULY 22, 2010**

**NOT FOR PUBLICATION UNTIL RELEASED  
BY THE COMMITTEE ON ARMED SERVICES  
UNITED STATES HOUSE OF REPRESENTATIVES**

Mr. Chairman, Mr. McKeon, members of the committee, I am very excited that my first opportunity to testify is in a familiar setting back here at the House Armed Services Committee. Thank you for everything you do for all servicemembers, particularly our Airmen. I also appreciate what you do to ensure the sound management of the Department of Defense (DoD). The Committee has been instrumental in passing key legislation in past National Defense Authorization Acts (NDAA) and in the Weapon System Acquisition Reform Act (WSARA) which focus on achieving higher standards in business operations and management directives. Your continuing efforts assist the DoD and the Services in effectively and efficiently using our resources.

**Role of the Air Force Chief Management Officer**

As both the Under Secretary and Chief Management Officer (CMO) of the Air Force, I am charged with ensuring that the Air Force can achieve its global missions while being a wise steward of taxpayer resources – in essence, driving the organization toward ever greater effectiveness and efficiency. This responsibility is even more important during these challenging fiscal times.

Mission success is paramount. The successful management of our business operations must be carried out in a way that supports the Air Force's global missions. Through business process improvements and efficiency initiatives, we can direct critical resources towards warfighting and readiness programs. As CMO, I am focused on developing and implementing proven business practices that support the mission and put the Air Force on a sustainable, healthy, long-term fiscal path.

In managing the business operations of the Air Force, I work closely with Deputy Secretary of Defense William Lynn and Deputy CMO Elizabeth McGrath, as well as my partners in the other Services. We are all dependent on one another and have a responsibility to collaborate in meeting our statutory and administrative mandates.

**Air Force Management Approach**

After the creation of the DoD and Service Chief Management Officer positions, the Air Force built CMO duties into the Under Secretary's mission description. We also created a 3-star equivalent career civilian position to serve as Director, Business Transformation and Deputy Chief Management Officer, with a supporting office, to provide full-time focus at the senior executive level. Our intent was to ensure that achieving business transformation in the Air Force was afforded the proper level of leadership commitment needed for success.

One of the Air Force's first efforts after establishing our CMO framework was to revamp our strategic planning process, using guidance from the Quadrennial Defense Review and the DoD Strategic Management Plan. We developed our Air Force Strategic Plan to align with the strategic management and business goals of the DoD. The Air Force business priorities directly support the Air Force Strategic Plan and are aligned with the DoD Strategic Management Plan's five top-level business priorities, which in turn support the overarching strategic objectives established in the National Defense Strategy.

The Air Force's Business Transformation Plan is also underway, in part to address the High Risk Areas identified by the Government Accountability Office (GAO). Our current efforts in these areas focus on Weapon Systems Acquisition, Contract

Management, Supply Chain Management and Financial Management. The Air Force intends to complete our Business Transformation Plan by March, 2011.

As we strengthen our management practices, it is imperative that our systems and business process re-engineering support the core missions and priorities of the Air Force. As an example, to support the Air Force priority of modernizing our air and space inventory, we have outlined major changes in our end-to-end logistics and supply chain processes to better align support with expeditionary operations. These changes will increase equipment availability while reducing costs, allowing us to reinvest in modernization. This significant effort is called Expeditionary Logistics for the 21st Century (eLog21). As a part of this effort, we defined the processes needed to achieve enterprise-wide supply chain management and total asset visibility. These changes will ensure the warfighter is supplied with equipment and supplies when and where they are needed.

We have already implemented organizational changes as part of eLog21. The Air Force Global Logistics Support Center (AFGLSC) was established to maintain end-to-end visibility across the Air Force supply chain. The AFGLSC has produced tangible warfighter benefits by significantly reducing the amount of time, from weeks to hours, required to confirm total asset visibility – in short, we know where our equipment and supplies are and can move them where they are needed with minimum delay.

The next piece in our logistics business transformation is the implementation of information technology that supports streamlined logistics. The Expeditionary Combat Support System (ECSS) is a major information technology initiative that is crucial to supporting the enterprise goals and outcomes of eLog21. By consolidating

unconnected legacy logistic and supply information systems, ECSS will eliminate the enormous inefficiencies in those legacy systems that resulted from a lack of visibility throughout the supply chain. Once fully implemented, ECSS, in support of eLog21, will allow the Air Force to maintain smaller inventories, with a greater percentage of our equipment in the hands of those that need it.

To support the Air Force priority to develop and care for Airmen and their families, we are transforming military and civilian personnel processes and systems. Under the Air Force Personnel Services Delivery program, we have realized major personnel efficiencies by centralizing services across the total force. We are also currently overhauling processes for total force management. As we re-engineer these processes, we are working to deploy the Air Force Integrated Personnel and Pay System, an information technology system which will integrate our Service-level personnel and pay systems to support our Total Force of active duty Airmen, Air National Guardsmen, and Air Force Reservists.

Another Air Force business priority seeks acquisition excellence. We have endeavored to transform the way we acquire systems in the Air Force for many years, and the passage of the 2008 NDAA and WSARA served to enhance our reform efforts. The Air Force is applying WSARA guidelines and shaping our programs with discrete capabilities and deliverables to support our revitalized processes. Our efforts include hiring more cost estimators, establishing program control discipline, institutionalizing cost estimating into our corporate decision-making process, and improving our cost estimating infrastructure.

As we work toward these business process transformations, the Air Force is using Business Process Re-engineering (BPR) principles to guide our efforts. Mapping process changes against an authoritative enterprise architecture is key to ensuring the linkage across activities. Consistent management and oversight in implementing these transformations will help ensure our business re-engineering efforts and associated system deployments are successful.

Managing a business operation also must include sound financial management. The Air Force is committed to achieving a clean audit; doing so by 2017 is required by statute. While that is a challenging deadline, we are moving forward with a strong leadership engagement, additional financial resources, and effective management of our financial systems. The Chief Financial Officers' Act provides direction for achieving a clean audit through leadership commitment, modernizing the government's financial management systems, and strengthening financial reporting. In addition, the Air Force Financial Improvement Plan is closely aligned with the DoD strategy to achieve clean audit readiness. We are focusing our efforts on the information most relevant to decisionmakers.

In order to resolve financial audit and material weaknesses we are not only making improvements to our processes, we are also making investments into interrelated information technology systems. One of the key enablers to financial improvement and audit readiness in the Air Force is the Defense Enterprise Accounting Management System (DEAMS), a partnered effort with United States Transportation Command. The intent of DEAMS is to provide timely, accurate and reliable financial information which enables efficient and effective decision making by DoD managers.

DEAMS will provide general ledger capability for appropriated funds and our Transportation Working Capital Fund and has a key linkage to ECSS for Working Capital Funds. Without new systems such as DEAMS and ECSS, we will be unable to achieve audit readiness because legacy accounting systems are not compliant with the CFO Act.

Implementing the business processes I have mentioned requires dedicated leadership attention. The Air Force Council is the key governance body within the Air Force that directs both investments and execution and is one way we are using oversight and incorporating performance goals and accountability into everything we do. In my role as co-chair of the Council, along with the Vice Chief of Staff, General Howie Chandler, I ensure that the Air Force is practicing wise stewardship of resources. In addition, through the Council, process changes are tracked to ensure accountability in meeting our business priority goals.

#### **Efficiencies Across the Enterprise**

The steps we have taken in our management agenda and our corporate process for decision-making and performance measurement are preparing the Air Force well to meet Secretary Gates' challenge to find \$100 billion in savings across DoD. In a time of restricted budgets, identifying and implementing efficiencies is critical to preserving and enhancing DoD's warfighting capabilities, readiness, and force structure. Finding efficiencies in our business operations is also central to our commitment to be good stewards of the taxpayers' resources.

As we consider how we can achieve efficiencies, the Air Force is looking across the enterprise, thinking broadly and creatively across business areas – from our organizational structure, to logistics, acquisition reform, and communications.

In attaining efficiencies, we are building on areas of past success. Energy is a business priority in which the Air Force has made progress by reducing aviation fuel use, installation energy intensity, and vehicle fleet petroleum consumption. We are already making significant reductions in aviation fuel use through the implementation of demand reduction initiatives adopted from commercial industry best practices as we recapitalize our mobility fleet. We expect that these demand reduction practices will result in annual savings of nearly 70 million gallons of fuel. We intend to reinvest savings gained through energy efficiencies into more capable fleets. At the same time, as the Air Force upgrades our legacy platforms, we are working on ways to continue to reduce fuel consumption.

The Air Force has reduced energy intensity on our installations nearly 15 percent since 2003. We are continuing to utilize practical and innovative solutions to meet our goal of reducing energy intensity by 30 percent by 2015 – from replacing outdated heating systems, to using energy efficient light bulbs, to working with local communities to build large solar arrays and wind turbines on installations. And to reduce our use of vehicle fleet petroleum, on our installations we maintain over 7,000 flex fuel and hybrid vehicles and over 1,800 low-speed vehicles. The Air Force has made significant progress and is committed to further energy efficiencies wherever we can find them.

As this Committee has demonstrated in passing legislation that requires the DoD to refine its business practices, the way to achieve success in efficiency and

effectiveness is through good management and accountability. As we think about the framework needed to turn efficiency goals into outcomes, aggressive leadership and follow-through will be critical. Achieving efficiency goals requires a sustained culture change in all departments across the DoD.

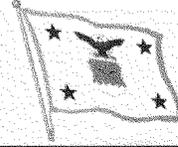
The Air Force is working to change the mindset of all of our Airmen by enabling a culture of continuous improvement in effectiveness and efficiency. Based on Lean Six Sigma techniques, a well-known business management strategy for achieving operational excellence, the Air Force launched Air Force Smart Operations for the 21st Century – or AFSO21 – in 2006 to maximize value and minimize waste in our operations. To date, over 70 percent of Air Force general officers have undergone senior level training on AFSO principles. AFSO principles are also currently embedded into professional military education training for all Airmen. Solidifying a fundamental change in the mindset of our Airmen and in the Air Force culture is critical to maximizing the returns in both efficiency and effectiveness that lean thinking and discipline are capable of delivering.

The Air Force is also building a process for achieving efficiency goals by designating responsible individuals from the very beginning and ensuring ongoing senior leadership involvement. Each of our efficiency targets will be integrated into our Air Force performance management. The Air Force Council is responsible for the achievement of our efficiency targets, while other senior leaders within the Air Force are also being given responsibility for managing the targeted outcomes.

**Conclusion**

Although the Air Force made some progress in re-engineering our business processes and becoming more efficient, I am aware that much work remains. To maintain warfighting capability in difficult budget times, we must find efficiencies in how we do business. And we must keep our focus on achieving these efforts over the months and years that follow.

Through the DoD, we must sustain mission effectiveness, while continuing to pursue efficiency. Part of that pursuit is to implement lasting reforms that will return cost-savings and strengthen performance year after year. The Air Force has had success in realizing some transformations, but the DoD has set even more aggressive targets which the Air Force is actively striving to hit. To achieve these goals, I look forward to partnering with this Committee and my colleagues testifying today. Realizing business transformation and efficiencies will only be achieved through a sustained team effort.



## BIOGRAPHY

UNITED STATES AIR FORCE

### ERIN C. CONATON

Ms. Erin C. Conaton is the Under Secretary of the Air Force, Washington, D.C. She was confirmed March 4, 2010. Ms. Conaton is responsible for the affairs of the Department of the Air Force on behalf of the Secretary of the Air Force, including the organizing, training, equipping and providing for the welfare of its more than 334,000 men and women on active duty, 176,000 members of the Air National Guard and the Air Force Reserve, 170,000 civilians, and their families. She also oversees the Air Force's annual budget of more than \$110 billion and serves as acting Secretary of the Air Force in the Secretary's absence.



From 2007 until her current appointment, Ms. Conaton served as the Staff Director of the U.S. House of Representatives Committee on Armed Services. As the Staff Director, she served as the primary adviser to the Chairman and 61 other members of the Armed Services Committee. She directed the overall operations, strategic planning and substantive agenda of the committee, to include drafting and overseeing the annual defense authorization bill. Prior to this position, she served as the Minority Staff Director and as a professional staff member on the committee.

Earlier in her career, Ms. Conaton served as the Research Staff Director for the U.S. Commission on National Security/21st Century also known as the Hart-Rudman Commission. The commission was charged by the Secretary of Defense to design a national security strategy for a changing global environment through 2025 and to recommend plans for implementing this strategy. She has held several fellowships to include at the Central Intelligence Agency, where she worked within the Office of Asia-Pacific and Latin American Analysis, and at the National Security Council, where she worked with the office dealing with non-U.S. proliferation and export controls policy. She has also served as a Term Member of the Council on Foreign Relations.

**EDUCATION**

1992 Bachelor of Arts degree in foreign service, Georgetown University, Washington D.C.  
1995 Master of Arts degree in law and diplomacy, The Fletcher School, Tufts University, Medford, Mass.

**CAREER CHRONOLOGY**

1. 1992 - 1993, Financial Analyst, Salomon Brothers, Inc., New York, N.Y.
2. 1993, Director of Client Services, Yield Enhancement Strategists, Inc., New York, N.Y.
3. 1994, Graduate Fellow, National Security Council, Washington, D.C.
4. 1995, Associate, Overseas Private Investment Corporation, Washington, D.C.
5. 1996 - 1997, International Security Studies Fellowship, The Fletcher School, Tufts University, Medford, Mass.
6. 1998, Graduate Fellow, Central Intelligence Agency, Washington, D.C.
7. 1998 - 2001, Research Staff Director and Research Associate, U.S. Commission on National Security/21st Century - Hart-Rudman Commission, Washington, D.C.
8. 2001 - 2005, Professional Staff Member, House Armed Services Committee, U.S. House of Representatives, Washington, D.C.
9. 2005 - 2007, Minority Staff Director, Committee on Armed Services, U.S. House of Representatives, Washington, D.C.
10. 2007 - 2010, Staff Director, Committee on Armed Services, U.S. House of Representatives, Washington, D.C.
11. 2010 - present, Under Secretary of the Air Force, Washington, D.C.

(Current as of April 2010)

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**WITNESS RESPONSES TO QUESTIONS ASKED DURING  
THE HEARING**

JULY 22, 2010

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**RESPONSE TO QUESTION SUBMITTED BY MR. SKELTON AND  
MR. BISHOP**

Secretary CONATON. The Air Force Business Transformation Structure is comprised of the Office of Business Transformation, and the transformation organizations of the key Headquarters Air Force functional teams. This team comes together as the Enterprise Senior Working Group, under the leadership of the Director of Business Transformation, to make up the total transformation team. This approach, which was built to take advantage of the already existing functional transformation teams, allows the Business Transformation Office itself to remain small (a staff of 41 (19 military and 22 civilian) government positions plus 81 full and part-time contractor personnel), while directing the efforts of a total transformation team of over 370 personnel. Key positions within the Office of Business Transformation include:

The Under Secretary of the Air Force serves as the Chief Management Officer (CMO). The CMO duties are outlined in Headquarters Air Force Mission Directive 1-2. By Secretary of the Air Force guidance, the Under Secretary performs duties in accordance with Section 904, of the FY08 NDAA, as designated by the Secretary to have primary management responsibilities for business operations and to be known in the performance of such duties as the Chief Management Officer. This includes directing and overseeing activities of the Deputy Chief Management Office, and serving as the co-chair of the Air Force Council which advises the Secretary and Chief of Staff on resourcing decisions (and related business transformation initiatives) and efficiencies and related performance management.

The Director of Business Transformation also serves as the Deputy Chief Management Officer (DCMO). The DCMO duties are also outlined in Headquarters Air Force Mission Directive 1-2. As directed by the Under Secretary, the DCMO serves the Under Secretary of the Air Force in exercising the assigned duties and authorities relating to the management of business operations for the Air Force. The DCMO exercises the Under Secretary's CMO responsibilities for business operations by effectively and efficiently organizing the business operations of the Air Force and providing information related to Air Force Business Operations to the CMO and DCMO of the Department of Defense as is necessary to assist those officials in the performance of their duties. The DCMO also represents business transformation interests in the Air Force Corporate Structure by serving as the chair of the Air Force Board when discussing issues involving business practice and process-related topics.

The Deputy Director, Office of Business Transformation coordinates and recommends strategic priorities and performance goals for logistics, personnel, training, acquisition, and finance activities Air Force-wide; establishes and deploys a business and data architecture to support those operations; synchronizes business process changes and system deployments in support of those operations and in compliance with the architecture; and synchronizes those business operations with other services and defense agencies to ensure end-to-end performance improvements across the Air Force and in support of DoD and joint forces. The Deputy Director provides guidance and direction on Air Force policies, plans, and programs related to all aspects of Business Transformation. He directly assists in transforming the budget, finance, accounting, and human resource operations of the Air Force in a manner consistent with the comprehensive business transformation plan. The Deputy Director also provides guidance and direction pertaining to the elimination or replacement of business systems inconsistent with the architecture and transition plan; and is directly responsible for the development of the comprehensive business transformation plan, with measurable performance goals and objectives.

The Air Force Office of Business Transformation is further divided into two branches, each led by an Air Force Colonel (O-6) with the duties of Transformation Outreach and Enterprise Transformation. The Air Force Transformation structure explicitly synchronizes the activities of transformation teams across the Air Staff and Major Commands as part of the total effort, rather than creating redundancies in the Office of Business Transformation staff itself. These teams oversee the current business processes and systems Air Force-wide, as well as the implementation of new systems, processes, and training.

a. Deputy Chief of Staff, Manpower, Personnel & Services (AF/A1). Focused on end-to-end improvement of the “hire to retire” human resource processes, the team consists of 50 personnel (9 military, 19 civilians, and 22 contractors).

b. Assistant Secretary of the Air Force for Financial Management and Comptroller (SAF/FM). Focused on improving resource management processes, including establishment of a clean audit capability for the Air Force, the team consists of 107 personnel (28 civilians and 79 contractors).

c. Deputy Chief of Staff for Logistics, Installations & Mission Support (AF/A4/7). Focused on end-to-end supply chain and maintenance management, and on installation efficiencies, the team consists of 117 personnel (3 military, 56 civilians, and 58 contractors).

d. Major Command (MAJCOM) Master Process Owner teams. Focused on providing direct advice and support to MAJCOM commanders to support business transformation activities within each of the MAJCOMs, each team consists of 5–10 personnel. [See page 39.]

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#### RESPONSES TO QUESTIONS SUBMITTED BY MR. MCKEON

Ms. MCGRATH. Once the President signs the bill, the Department will work with OMB and Treasury to begin flowing funds to the field for execution within a matter of Days. The Department needs final Congressional action on the supplemental prior to the August recess. While we will react quickly once the supplemental is signed into law, this does not change the fact that we cannot make it through the August recess without these supplemental funds. [See page 14.]

Secretary WESTPHAL. Agencies may use furloughs when they no longer have the necessary funds to operate. For a furlough 30 days or less, the employee should have at least 30 days advance notice. The notice period begins upon the employee’s receiving the proposed action.

A furlough of 30 days or more requires at least a 60 calendar day specific written notice of the furlough action; however, the Office of Personnel Management may approve notifications of 30 to 59 days.

In the event of a lapse in appropriations, the Office of Personnel Management provides that while an employee must ultimately receive a written notice of a furlough decision, it is not required that such written notice be given prior to effecting the furlough. Issuing a written notice prior to the furlough is preferable, but when it is not feasible, then any reasonable notice (telephonic or oral) is permissible. [See page 15.]

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#### RESPONSES TO QUESTIONS SUBMITTED BY MR. TAYLOR

Ms. MCGRATH. It is critical that we make the most effective use of our limited resources. As the Department makes tough decisions about funding for specific programs, we must prioritize competing requirements and ensure our prioritized and validated requirements are satisfied in the most cost effective manner. When a program faces significant technology risk, affordability problems or excessive schedule slip, cancellation remains an important tool for the Secretary. It is important to note, however, that program cancellation does not necessarily constitute cancellation of a particular requirement. In many cases program cancellation allows the Department to take a fresh look at the requirement and determine the best approach to equip our warfighters. The Department’s rigorous requirements validation process, its Planning, Programming, Budgeting and Execution System, and other high-level review and oversight mechanisms ensure these decisions are made in a thoughtful, reasoned manner. [See page 26.]

Secretary WESTPHAL. The Army is conducting a deliberate and thorough portfolio review that encompasses our research and development, procurement, and sustainment accounts. We are holistically examining, validating, or modifying requirements, ensuring the Army is being a good steward of resources. As we conduct our portfolio reviews, we are validating the use and battlefield impacts of redundant and duplicative capabilities; performing a critical analysis of areas where manageable risks can be assumed to gain greater efficiencies. This review process not only looks at our current campaigns, but is also rigorously evaluating what capabilities we need for future warfighting and emerging threats. [See page 26.]

Secretary CONATON. The Air Force (AF) process to terminate a program ensures that those vital to national security are retained by calling for multiple layers of scrutiny by the Program Executive Officer, the Service Acquisition Executive, USD (AT&L), the sponsoring Major Command, the AF Corporate Process, the Secretary

and Chief of the Air Force, and Office of the Secretary of Defense, prior to recommending termination to Congress. [See page 26.]

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**RESPONSE TO QUESTION SUBMITTED BY MR. FORBES**

Secretary WORK. The Department of Navy (DON) has been reporting to Congress on the development of plans to make Naval Station Mayport a potential homeport for a nuclear-powered aircraft carrier since the late 1990s. As a result of the 2001 Quadrennial Defense Review (QDR), the DON prepared an environmental impact statement to review and assess a broad range of options for homeporting additional surface ships at Naval Station Mayport. The 2005 Base Realignment and Closure (BRAC) process did not provide for operational homeporting decisions due to the near-simultaneous strategic analysis on-going in the 2006 QDR. However, the DON premised its 2005 BRAC configuration analysis on a minimum of two ports on each coast capable of cold iron berthing a nuclear-powered carrier to allow for dispersal. The 2006 QDR provided the strategic direction for the Navy's 60/40 split of operationally available and sustainable aircraft carriers and submarines between Pacific and Atlantic homeports, but did not specify homeport locations. In January 2009, the DON issued a record of decision to homeport one nuclear-powered aircraft carrier at Naval Station Mayport. Although the Department of Defense decided to delay the Mayport homeporting decision pending outcome of the 2010 QDR analysis, the final 2010 QDR fully supported the Navy's 2009 decision to homeport one nuclear-powered aircraft carrier at Mayport. [See page 18.]

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**RESPONSE TO QUESTION SUBMITTED BY MR. BISHOP**

Secretary CONATON. The Air Force does have a process in place to help review potential problems with potential Enhanced Use Leases (EULs).

Prior to commercial solicitation of a potential EUL, the local installation, working with Headquarters Air Force seeks to identify and resolve any issues. Thorough up-front due diligence is being done on EUL concepts, in which market demand and possible Air Force EUL sites (supply) are evaluated for EUL viability. The objective is that all demand factors, development constraints (with appropriate options), and EUL benefits are identified and communicated, prior to taking a project to market. The Air Force has broadened our use of EULs beyond traditional real estate to renewable energy ventures. Additionally, any future EULs will be reviewed by the Strategic Basing Executive Steering Group to ensure maximum benefit to the Air Force and the taxpayer.

If during the EUL review, the Air Force determines that a proposed EUL will require legislative relief, the Air Force submits a legislative proposal through the Department of Defense Legislative Review Process. [See page 36.]



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**QUESTIONS SUBMITTED BY MEMBERS POST HEARING**

JULY 22, 2010

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### QUESTIONS SUBMITTED BY MR. ORTIZ

Mr. ORTIZ. The House Armed Services Committee believes compliance with Section 803 of the FY 2010 National Defense Authorization Act will provide the Congress with much greater clarity on procurement of contractor services. The failure to comply is a source of great concern. Why has the Department (or the military departments) taken no meaningful steps to implement Section 803 and to improve its strategic sourcing decisions for contract services?

Ms. MCGRATH. Due to the timing of the Fiscal Year (FY) 2010 National Defense Authorization Act and budget preparation cycle, the Department was unable to comply with the requirements of Section 803 for the FY 2011 budget submission. DoD is currently working to comply with Section 803 in a phased approach beginning with the FY 2012 budget submission. The Under Secretary of Defense for Acquisition, Technology and Logistics, the Under Secretary of Defense (Comptroller), the Under Secretary of Defense for Personnel and Readiness, and the Director of Cost Assessment and Program Evaluation are working closely together to develop and execute the Department's approach for collecting, analyzing and reporting the data on contract services required by Section 803.

Mr. ORTIZ. The House Armed Services Committee believes compliance with Section 803 of the FY 2010 National Defense Authorization Act will provide the Congress with much greater clarity on procurement of contractor services. The failure to comply is a source of great concern. How can the Department and the military departments exercise appropriate stewardship over its service contractor dollars (which have more than doubled, if not tripled, since 2000) if it does not make strategic sourcing decisions through the program and budget process?

Ms. MCGRATH. The Department utilizes the Planning, Programming, Budgeting and Execution (PPBE) process to make effective program and budget decisions. The PPBE process is a well established and robust oversight mechanism supplemented by the many efforts of the Under Secretary of Defense for Acquisition, Technology and Logistics to bring greater transparency and efficiency to the acquisition of services. Phased implementation of Section 803, beginning with the Fiscal Year 2012 budget submission, will help bring even greater clarity to these issues.

Mr. ORTIZ. Given the Secretary of Defense's May 8 speech on defense spending, what is each Department's methodology regarding combining its functions and realigning or reducing resources to achieve efficiencies in overhead, support, and non-mission areas? In lieu of simply re-categorizing functions and funds in a shell game of sorts, what staff layers are being removed and what subordinate commands or middle echelons are being eliminated to reduce redundancies, overlap and overhead?

Ms. MCGRATH. Consistent with the Secretary of Defense's speech on May 8, 2010, each of the Defense Agencies, Military Departments and Combatant Commanders were provided savings and efficiency goals, but they have been allowed broad discretion on how to reach these goals as they prepare their programming and budget submissions for Fiscal Year (FY) 2012. The Secretary of Defense provided additional information, including specific savings initiatives such as the elimination of certain Components, in his speech on August 9, 2010. However, at this time, except for the specific initiatives identified in his speech, Components have developed their own methodology to specifically reduce redundancies, overlap and overhead. Additional decisions will be shared with Congress when the President submits the Department of Defense budget request for FY 2012.

Mr. ORTIZ. The House Armed Services Committee understands that it can take as long as two years in some components between the initial identification of a function that should be performed by civilian employees and the documentation for the authorizations for the in-house personnel necessary to perform that function. What are the causes for delays in the civilian authorization process and how can such delays be minimized? If this is a problem only for some components, why?

Ms. MCGRATH. Defense Activities are funded, and positions filled, consistent with mission priorities, budget constraints and Congressional direction. This is consistent with 10 U.S.C. § 129, which states that "civilian personnel of the Department of Defense shall be managed solely on the basis of and consistent with (1) the workload required to carry out the functions and activities of the department and (2) the

funds made available to the department for such fiscal year.” There are a number of reasons why Department of Defense (DoD) civilian manpower requirements may not be authorized for fill, including funding shortfalls and temporary impediments to acquiring DoD civilians such as an apparent lack of qualified candidates, insufficient office space, security clearance requirements, etc. If this is the case, the DoD Component may elect to contract for the service on a temporary basis and transition to DoD civilian performance once impediments have been satisfactorily addressed. These types of delays could be experienced by any DoD Component. Such delays could be minimized through enhanced strategic human capital planning, leading to better anticipation of overall needs.

Mr. ORTIZ. The House Armed Services Committee understands that it can take as long as two years in some components between the initial identification of a function that should be performed by civilian employees and the documentation for the authorizations for the in-house personnel necessary to perform that function. Is it the Department’s policy or the policy of the military departments to “lock” the personnel authorization levels until the next budget cycle, notwithstanding changes in workload that may occur, even if this results in either “over-hires” or hiring additional contractors to meet workload changes? What challenges does this present in terms of efficient management of its workforce, particularly with respect to the imperative to right-size the civilian workforce?

Ms. MCGRATH. Consistent with 10 U.S.C. § 129(a), Department of Defense (DoD) Components are required to manage their civilian workforce “solely on the basis of and consistent with (1) the workload required to carry out the functions and activities of the department and (2) the funds made available to the department for such fiscal year.” It is not DoD policy for the Military Departments to “lock” their databases at the end of the budget process. Each Military Department has taken a different approach to managing their personnel authorization levels and striking a balance between workforce stability and changing workload or priorities to enable effective personnel management. In some cases “over-hires” or service contracts can be the best answer to emerging or short-term requirements.

Mr. ORTIZ. The House Armed Services Committee believes compliance with Section 803 of the FY 2010 National Defense Authorization Act will provide the Congress with much greater clarity on procurement of contractor services. The failure to comply is a source of great concern. Why has the Department (or the military departments) taken no meaningful steps to implement Section 803 and to improve its strategic sourcing decisions for contract services?

Secretary WESTPHAL. The Army has taken preliminary steps to implement Section 803 of the FY 2010 National Defense Authorization Act. We are reviewing all functions on the service contract inventory, which we are using to track service contract execution. The Deputy Chief of Staff for Operations and Plans is using the results of this analysis to project contractor full-time equivalents in our manpower documentation systems. These are the necessary precursors to Section 803 implementation, which is essential to ensuring the Secretary of Defense efficiencies actually happen as intended.

Mr. ORTIZ. The House Armed Services Committee believes compliance with Section 803 of the FY 2010 National Defense Authorization Act will provide the Congress with much greater clarity on procurement of contractor services. The failure to comply is a source of great concern. How can the Department and the military departments exercise appropriate stewardship over its service contractor dollars (which have more than doubled, if not tripled, since 2000) if it does not make strategic sourcing decisions through the program and budget process?

Secretary WESTPHAL. The Army has taken preliminary steps to implement Section 803 of the FY 2010 National Defense Authorization Act. We are reviewing all functions on the service contract inventory, which we are using to track service contract execution. The Office of the Deputy Chief of Staff for Operations and Plans is using the results of this analysis to project contractor full-time equivalents in our manpower documentation systems. These are the necessary precursors to Section 803 implementation, which is essential to ensuring the Secretary of Defense efficiencies actually happen as intended. Full implementation of Section 803 will follow receipt of final guidance from OSD (Comptroller).

Mr. ORTIZ. For purposes of the Defense Secretary’s overhead reductions, how do the Department and each military department define “overhead”? Does it include all civilian employees, including those who work in depots, arsenals, and installations? Does it include contractors? If not, will reductions in overhead simply lead to more contracting out? Without Section 803 being implemented, how can contractors be considered for purposes of overhead reductions?

Secretary WESTPHAL. The Department defines overhead as the structures, personnel, and operations coded as infrastructure. The Army has analyzed its struc-

ture, personnel, operations and regards as overhead those Generating Force resources that do not directly contribute to providing combat forces or services (e.g., headquarters, information systems).

The Army considered all civilians based on functions performed and regards as overhead those civilians who do not directly contribute to providing combat forces or services.

The Army agrees that implementation of National Defense Authorization Act Fiscal Year 2010 Section 803 is needed to ensure that overhead functions performed by in-house personnel are not simply outsourced to contractors. Section 803 implementation provides a level of detail that helps ensure planned contractor reductions take place as intended and do not grow in unexplained ways. The Army is using the contractor inventory review process required by the National Defense Authorization Act for Fiscal Year 2008 Section 807 to identify in-sourcing mission-critical occupations in acquisition and security, among others, most of which are closely associated with inherently governmental functions. Projections from the Section 807 contractor inventory are a major component required for National Defense Authorization Act for Fiscal Year 2010 Section 803 implementation. Full implementation of Section 803 will follow receipt of final guidance from OSD (Comptroller).

Mr. ORTIZ. Given the Secretary of Defense's May 8 speech on defense spending, what is each Department's methodology regarding combining its functions and realigning or reducing resources to achieve efficiencies in overhead, support, and non-mission areas? In lieu of simply re-categorizing functions and funds in a shell game of sorts, what staff layers are being removed and what subordinate commands or middle echelons are being eliminated to reduce redundancies, overlap and overhead?

Secretary WESTPHAL. The Army has been working for the past several years to rebalance our forces and to reform our business practices. We have initiated Capability Portfolio Reviews (CPR), with the initial focus on materiel portfolios, to garner efficiencies while simultaneously reducing redundancies. Having completed reviews of the materiel portfolios, we are now reviewing specific non-materiel areas, such as Workforce Composition, Training, Installations and Information Technology. As we complete these additional CPRs, we will gain a comprehensive and thorough picture of our Army's requirements and priorities. These reviews will allow us to identify efficiencies and reinvest the savings in higher priority warfighting needs and modernization efforts that hedge against future threats. The results of these reviews will assist us in determining where to make reductions and how to apply those savings towards our forces and modernization programs.

Mr. ORTIZ. The House Armed Services Committee understands that it can take as long as two years in some components between the initial identification of a function that should be performed by civilian employees and the documentation for the authorizations for the in-house personnel necessary to perform that function. What are the causes for delays in the civilian authorization process and how can such delays be minimized? If this is a problem only for some components, why?

Secretary WESTPHAL. It can take some time to execute the transition from contractor to civilian performance of a function. Once a candidate for in-sourcing is identified, mission and workload needs to be analyzed and the new civilian position must be classified. Civilian replacements for contractors can be hired in advance of an actual authorization being documented.

However, in the Army, civilian authorizations are locked with each budget submission in a centralized documentation process to ensure dollars are linked to authorizations. We continue to evaluate options on how to address this issue.

Mr. ORTIZ. The House Armed Services Committee understands that it can take as long as two years in some components between the initial identification of a function that should be performed by civilian employees and the documentation for the authorizations for the in-house personnel necessary to perform that function. Is it the Department's policy or the policy of the military departments to "lock" the personnel authorization levels until the next budget cycle, notwithstanding changes in workload that may occur, even if this results in either "over-hires" or hiring additional contractors to meet workload changes? What challenges does this present in terms of efficient management of its workforce, particularly with respect to the imperative to right-size the civilian workforce?

Secretary WESTPHAL. In the Army, civilian authorizations are locked with each budget submission in a centralized documentation process to ensure dollars are linked to authorizations. Out of cycle adjustments to requirements (not authorizations) are allowed only in the year of execution. Civilian replacements for contractors can be hired in advance of an actual authorization being documented. This lag in documentation results in "over-hires" until the documentation is processed in the next budget cycle. Additionally, when new requirements are evaluated based on changes in workload and mission, civilian over-hires may result until the docu-

mentation catches up, provided there is available funding. Challenges remain in managing the right mix of civilian positions when there is a change in requirements, mission or workload outside of the normal budget cycle. We continue to evaluate options on how to address this issue.

Mr. ORTIZ. The House Armed Services Committee believes compliance with Section 803 of the FY 2010 National Defense Authorization Act will provide the Congress with much greater clarity on procurement of contractor services. The failure to comply is a source of great concern. Why has the Department (or the military departments) taken no meaningful steps to implement Section 803 and to improve its strategic sourcing decisions for contract services?

Secretary WORK. The Department of the Navy (DON) continues to make strategic sourcing decisions throughout the DON to balance the Total Force while ensuring that critical "in-house" capabilities are performed by government personnel where necessary. The objective is to ensure the appropriate mix of military, civilian, and contractor support to perform its functions; rebuild internal capabilities to enhance control of the DON's mission and operations; and reduce workforce costs as appropriate. The DON is also identifying opportunities to in-source functions that can be performed more cost effectively by government personnel. DON continues to work with the Office of the Secretary of Defense to implement Section 803 and improve strategic sourcing decision making.

Mr. ORTIZ. The House Armed Services Committee believes compliance with Section 803 of the FY 2010 National Defense Authorization Act will provide the Congress with much greater clarity on procurement of contractor services. The failure to comply is a source of great concern. How can the Department and the military departments exercise appropriate stewardship over its service contractor dollars (which have more than doubled, if not tripled, since 2000) if it does not make strategic sourcing decisions through the program and budget process?

Secretary WORK. Strategic sourcing decisions are being made throughout the Department of the Navy (DON) to balance the Total Force while ensuring that critical "in-house" capabilities are performed by government personnel where necessary. The DON's goal is to ensure the appropriate mix of military, civilian, and contractor support to perform its functions; rebuild internal capabilities to enhance control of the DON's mission and operations; and reduce workforce costs as appropriate. Operational risk will be reduced by in-sourcing functions that are closely associated with the performance of inherently governmental functions and critical to the readiness and workforce management needs of the DON. Additionally, the DON is looking for opportunities to in-source functions that can be performed more cost effectively by government personnel.

Mr. ORTIZ. For purposes of the Defense Secretary's overhead reductions, how do the Department and each military department define "overhead"? Does it include all civilian employees, including those who work in depots, arsenals, and installations? Does it include contractors? If not, will reductions in overhead simply lead to more contracting out? Without Section 803 being implemented, how can contractors be considered for purposes of overhead reductions?

Secretary WORK. The Department of the Navy is closely working with the Department of Defense staff to ensure all understand a common definition of "overhead" and what functions/employees should be included. This will be clearly articulated in our FY 2012 President's Budget submission.

Mr. ORTIZ. Given the Secretary of Defense's May 8 speech on defense spending, what is each Department's methodology regarding combining its functions and realigning or reducing resources to achieve efficiencies in overhead, support, and non-mission areas? In lieu of simply re-categorizing functions and funds in a shell game of sorts, what staff layers are being removed and what subordinate commands or middle echelons are being eliminated to reduce redundancies, overlap and overhead?

Secretary WORK. The Department of the Navy is closely working with the Department of Defense staff to ensure we have properly combined/realigned functions and can achieve efficiencies. This will be clearly articulated in our FY 2012 President's Budget submission.

Mr. ORTIZ. The House Armed Services Committee understands that it can take as long as two years in some components between the initial identification of a function that should be performed by civilian employees and the documentation for the authorizations for the in-house personnel necessary to perform that function. What are the causes for delays in the civilian authorization process and how can such delays be minimized? If this is a problem only for some components, why?

Secretary WORK. There are a number of reasons why Department of Navy (DoN) civilian manpower requirements may not be authorized for fill, including funding shortfalls and temporary impediments to acquiring DoN civilians. DoN activities are funded, and positions filled, consistent with mission priorities, budget constraints,

and Congressional direction. This is consistent with 10 U.S.C. § 129, which states that the civilian personnel of the DoD shall be managed solely on the basis of and consistent with (1) the workload required to carry out the function and (2) the funds made available to the department for that fiscal year. Delays in filling positions can occur for a variety of reasons such as the volume of staffing requests in the queue, the time it takes hiring managers to make selections, the lack of sufficient qualified candidates available, the level of security clearances required, and similar administrative impediments. These types of delays could be experienced by any of the DoN activities.

Mr. ORTIZ. The House Armed Services Committee understands that it can take as long as two years in some components between the initial identification of a function that should be performed by civilian employees and the documentation for the authorizations for the in-house personnel necessary to perform that function. Is it the Department's policy or the policy of the military departments to "lock" the personnel authorization levels until the next budget cycle, notwithstanding changes in workload that may occur, even if this results in either "over-hires" or hiring additional contractors to meet workload changes? What challenges does this present in terms of efficient management of its workforce, particularly with respect to the imperative to right-size the civilian workforce?

Secretary WORK. Consistent with 10 U.S.C. § 129(a), the DoN is required to manage the civilian workforce solely on the basis of and consistent with (1) the workload required to carry out the function for a fiscal year and (2) the funds made available to the department for that fiscal year. In addition, 10 U.S.C. 129(d) requires the Department of Defense to ensure that civilians are employed in the numbers necessary to carry out the functions within the budget activity for which the funds are provided for that fiscal year. Accordingly, DoN does not "lock" personnel databases at the end of the budget process. This flexibility is evidenced in our Departmental experience in the most recent fiscal year. The budget request for FY 2009 projected a full time equivalent level of 190K. For various reasons, local activities executed to a level of 197K for that year.

Mr. ORTIZ. The House Armed Services Committee believes compliance with Section 803 of the FY 2010 National Defense Authorization Act will provide the Congress with much greater clarity on procurement of contractor services. The failure to comply is a source of great concern. Why has the Department (or the military departments) taken no meaningful steps to implement Section 803 and to improve its strategic sourcing decisions for contract services?

Secretary CONATON. The Air Force is working closely with the Office of the Secretary of Defense (OSD) Comptroller to develop the appropriate mechanisms to meet the requirements of FY10 National Defense Authorization Act Section 803. We are complying with Title 10, Sec 2330a and developing an annual inventory of contracts for services that we will use as the baseline for our strategic sourcing decisions. Our Air Force functional managers and commanders in the field will use this to identify where we are using contract services. OSD has established directives, that when taken in concert with this inventory, will result in a proper mix of organic military, civilian, and contractor resources needed to complete our missions—within Congressional, OSD, and Air Force guidelines.

Mr. ORTIZ. The House Armed Services Committee believes compliance with Section 803 of the FY 2010 National Defense Authorization Act will provide the Congress with much greater clarity on procurement of contractor services. The failure to comply is a source of great concern. How can the Department and the military departments exercise appropriate stewardship over its service contractor dollars (which have more than doubled, if not tripled, since 2000) if it does not make strategic sourcing decisions through the program and budget process?

Secretary CONATON. The Air Force built its FY12 Program Objective Memorandum (POM) based on our current and projected service contract expenditures, taking into account the programmed in-sourcing conversions needed to complete our mission and comply with appropriate Congressional, Office of the Secretary of Defense (OSD), and Air Force guidelines. The Air Force POM is built meeting the intent of Title 10 Section 235 and we will work with our counterparts in OSD to ensure that we comply with service contract reporting requirements as mandated for the President's Budget submission.

Mr. ORTIZ. For purposes of the Defense Secretary's overhead reductions, how do the Department and each military department define "overhead"? Does it include all civilian employees, including those who work in depots, arsenals, and installations? Does it include contractors? If not, will reductions in overhead simply lead to more contracting out? Without Section 803 being implemented, how can contractors be considered for purposes of overhead reductions?

Secretary CONATON. We use the term “overhead” to refer to those functions that are not directly involved in delivery of mission tasks. Maintenance specialists on the flight line or a contractor we have engaged to write software code for a system are clear examples of activities that are not “overhead.” Administrative specialists at major headquarters (e.g. administrative assistants to senior staff) and management support staffs within program offices are examples of “overhead.” In this discussion, overhead manpower includes military, government civilians, and contractor personnel, so the issue embraces consideration of the entire workforce. We look at total manpower and cost associated with the overhead work (military, civilian and contractor) to identify opportunities for efficiencies and to shift resources from overhead to direct support of Air Force core functions and work. We are looking to eliminate unnecessary or duplicative overhead activities that will allow us to realign the associated resources and personnel (whether government or contract) to readiness and force structure priorities. Finally, it is clear that some amount of overhead is necessary to allow the organization to operate; the question is how much is enough.

The Air Force reviewed the full spectrum of operations, from base-level to headquarters functions, to identify efficiencies and reduce overhead costs. As indicated above, this includes total force support (military, civilian, and contractors). As part of the Air Force’s plan to meet the Secretary of Defense’s guidance on improving Department of Defense operations, the Air Force is identifying headquarters and manpower efficiency initiatives to right size organizational structures, optimize the civilian workforce, re-purpose military manpower for higher priority needs, and reduce contractor support where appropriate.

Within our Air Force acquisition programs, we are reviewing contractor overhead (i.e., charges associated with weapon systems development other than direct labor on the project) to bring those costs to more reasonable levels. We are addressing these acquisition-system contract overhead charges in concert with the Office of the Secretary of Defense and other Services, as well as addressing these charges in program-specific contract negotiations.

Per our other reply on Section 803, we are working with the Office of Secretary of Defense Comptroller on the mechanisms for reporting contractor services. This reporting will help our efforts to baseline contract services and aid us in identifying contract services as part of our overall effort to identify efficiencies and reduce overhead costs.

Our objective is to increase the buying power of our Air Force dollar. Better tracking of our expenditures and costs is a key element of making this effort successful.

Mr. ORTIZ. Given the Secretary of Defense’s May 8 speech on defense spending, what is each Department’s methodology regarding combining its functions and realigning or reducing resources to achieve efficiencies in overhead, support, and non-mission areas? In lieu of simply re-categorizing functions and funds in a shell game of sorts, what staff layers are being removed and what subordinate commands or middle echelons are being eliminated to reduce redundancies, overlap and overhead?

Secretary CONATON. We have looked across the Air Force to identify practices and mission areas that could and should be streamlined, to include installation support activities, general services, strategic sourcing and identification of redundant management at all levels of the organization. We are applying business process re-engineering approaches (such as lean and six sigma) to review these activities to ensure we correctly identify the areas to change. For any efficiency area, we are assigning a senior Air Force leader, by name, to direct the activity and be accountable for outcomes. We are setting in place audit functions to ensure that we track the movement of resources and personnel from the targeted efficiency areas to the areas of new investment: readiness and direct mission support. Progress on the efficiency work and the results of audit outcomes will be reviewed quarterly by the Vice Chief of Staff and me and we will be accountable to the Secretary and Chief of Staff for results.

Accepting the Secretary of the Defense’s efficiency challenge, the Air Force examined its full spectrum of operations with the goal to preserve combat capability and full support to combatant commanders, joint operations and Airmen, while operating more efficiently. The Air Force has identified areas for improved performance at less cost. The areas we focused on are those infrastructure and management activities/costs that support Air Force core functions. The recommendations provided to the Department of Defense (DoD) are pre-decisional and have not yet been reviewed and approved by the Office of the Secretary of Defense based on the FY12 Program Budget Review. The Air Force review has included areas covered in the public comments made by Secretary Gates in the submission provided to DoD such as reducing the number of General Officers and their supporting staffs as well as the number of Senior Executive Service (SES) positions. The Air Force looks forward

to discussing the specific recommendations once approved and submitted as part of the FY12 President's Budget.

Mr. ORTIZ. The House Armed Services Committee understands that it can take as long as two years in some components between the initial identification of a function that should be performed by civilian employees and the documentation for the authorizations for the in-house personnel necessary to perform that function. What are the causes for delays in the civilian authorization process and how can such delays be minimized? If this is a problem only for some components, why?

Secretary CONATON. When the Air Force determines that work currently being performed by contractors "should be performed by Air Force civilian employees" for an inherently governmental reason, the Air Force uses the flexibilities granted in the Authorization and Appropriation Acts to make corrections as quickly as possible. For larger actions that cannot be accommodated within the flexibilities granted in the Authorization and Appropriation Acts, the Air Force programs and budgets for the workforce change in the next Presidential Budget submission to Congress. The prime example of a large action requiring program and budget adjustments via the Presidential Budget submission was conversion of the Air Force Expeditionary Center training support contract at Joint Base McGuire-Dix-Lakehurst and Scott AFB when we moved from a contractor workforce to Air Force civilian employees based on Business Case Analysis showing the Air Force civilian workforce was more economical. Currently, once we are authorized a civilian position and we identify the vacancy, depending on the type of job and location it takes an average of 120 days or less to complete the hiring action.

Mr. ORTIZ. The House Armed Services Committee understands that it can take as long as two years in some components between the initial identification of a function that should be performed by civilian employees and the documentation for the authorizations for the in-house personnel necessary to perform that function. Is it the Department's policy or the policy of the military departments to "lock" the personnel authorization levels until the next budget cycle, notwithstanding changes in workload that may occur, even if this results in either "over-hires" or hiring additional contractors to meet workload changes? What challenges does this present in terms of efficient management of its workforce, particularly with respect to the imperative to right-size the civilian workforce?

Secretary CONATON. The Air Force does not lock the installation level manpower books. We maintain a dynamic manpower document that Commanders can propose changes to in real time consistent with available manpower resources in order to right size the force consistent with the dynamic mission environment. This allows a more effective and efficient use of the Manpower resource consistent with the flexibilities provided to the Air Force in the Authorization and Appropriation Acts.

#### QUESTIONS SUBMITTED BY MR. MILLER

Mr. MILLER. Mr. Westphal, as you know in-sourcing has been a topic of interest for the Services, this committee, and our constituents back home. Giving credence to this concern of ours, we passed amendments to the FY11 NDAA requesting greater scrutiny of in-sourcing jobs within DoD. Do you believe that DoD has the proper system in place which ensures that DoD is not summarily replacing jobs based on arbitrary goals? Please explain.

Secretary WESTPHAL. The FY11 National Defense Authorization Act (NDAA) language specifically requires the Department to comply with statutes regarding in-sourcing that were enacted since 2008 and that prohibit arbitrary budgetary quotas favoring or disfavoring in-sourcing. I believe that the Army has the proper system in place to ensure we are not summarily replacing jobs based on arbitrary goals. Within the Army, we have taken significant steps (via the Panel for Documenting Contractors) to implement the contractor inventory review process required by the FY08 NDAA Section 807. This review identifies appropriate functions to in-source, focusing on functions that might be inherently governmental or are unauthorized personal services. The Army has taken steps to implement the FY10 NDAA Section 803 to ensure that initiatives to in-source, or increase or decrease contract services through the budget process, are appropriately justified. Our decisions are based on statutory criteria limiting contract work to bona fide commercial functions, and government performance to bona fide functions that are inherently governmental in nature.

Mr. MILLER. Mr. Work, you mentioned in-sourcing in your statement and its importance in the need to promote efficiency and verify mission requirements. What methodology and/or standards is the Navy using to make its decisions on the jobs it decides to in-source?

Secretary WORK. The Department of Navy's (DON) overarching approach for in-sourcing focuses on shaping the workforce to: 1) strengthen core workforce capabilities and create personnel and career pipelines; 2) improve contract technical requirements and oversight; and 3) balance our entry/journey/senior workforce. This calls for a careful analysis of the current capability of our total force along with immediate and future mission requirements. The DON in-sourcing initiative requires a review of existing contracted services in order to make appropriate, timely, and well-reasoned in-sourcing decisions. In-sourcing must not be approached from the standpoint of a one-for-one replacement of the functions currently performed by contractors. Rather, in-sourcing requires a thoughtful assessment of current and future mission requirements and the right workforce capabilities to carry out the mission. In-sourcing is a tool to shape our workforce.

Mr. MILLER. Additionally, in your statement you stated "Our objective is to in-source services, not the individuals performing the services." This concerns me because it seems like an admission that part of the in-sourcing effort relates not to ensuring cost efficiency to the taxpayer, but rather an effort to grow the size of the Federal Government. Is this assessment of mine incorrect? If so, please explain why.

Secretary WORK. The Department of the Navy (DON) is not in-sourcing for the sake of in-sourcing; nor are we in-sourcing to grow the size of the Federal Government. In-sourcing is being used to rebalance the Total Force and restore critical "in-house" capabilities where necessary. The DON's goal is to ensure the appropriate mix of military, civilian, and contractor support to perform its functions; rebuild internal capabilities to enhance control of the DON's mission and operations; and reduce workforce costs as appropriate. Thus, we will reduce operational risk by in-sourcing functions that are closely associated with the performance of inherently governmental functions and critical to the readiness and workforce management needs of the DON. Additionally, the DON is looking for opportunities to in-source functions that can be performed more cost effectively by government personnel.

Mr. MILLER. In 2009 SecDef Gates announced that 35,000 high skill workers would be hired over the next several years, half of which would come from in-sourcing currently contracted work. A recent Washington Post article (Soloway, 19 July 2010) noted that about two-thirds of the positions identified to date for in-sourcing at DoD fall outside of the skills Secretary Gates identified. The article goes on to state that this well-intended initiative is "evolving into a quota-driven numbers game." Is this true? If so, how much do we ensure that we are making legitimate cost saving in-sourcing decisions? If not, please explain.

Secretary CONATON. The Air Force views in-sourcing as an effective tool for determining the best workforce mix to accomplish our missions. In-sourcing guidance developed by the Office of the Under Secretary of Defense for Personnel and Readiness was issued on May 28, 2009. This guidance outlines a systematic, well-reasoned, and strategic approach to ensure in-sourcing decisions are analytically based and fiscally informed. If contract workload is found to be inherently governmental, experiencing contract administration problems, providing unauthorized personnel services, or otherwise exempt from contracting under Department of Defense (DoD) Instruction 1100.22, *Guidance for Determining Workforce Mix*, the function must be in-sourced regardless of cost. If the function does not fit one of the above mentioned criteria, a cost analysis is required to determine the most cost effective means of performing the function. This cost analysis is conducted in accordance with the Office of the Secretary of Defense (OSD) Directive Type Memorandum (DTM) 09-007, issued January 29, 2010.

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#### QUESTIONS SUBMITTED BY MR. TURNER

Mr. TURNER. Ms. McGrath, I noted in your testimony the longstanding goal and recent renewed emphasis on streamlining the departments acquisition processes relative to IT investments. I have also noted in your testimony and that of others testifying here today, there are a number of programs aimed at dramatically improving efficiencies, yet I remain very concerned that in our zeal to provide oversight, the line has been crossed and critical programs that might reduce wasteful inventory build ups or dramatically improve efficiencies are being substantially delayed. Specifically what can DoD do to enable these important programs to get fielded sooner so the Department can begin realizing these savings?

Ms. MCGRATH. The Department is working to improve the speed of developing and fielding IT systems through creation of alternative acquisition approaches for IT that include governance structures and oversight procedures appropriately tailored to the unique requirements of IT programs. The Deputy Secretary of Defense created an IT task force as part of the Department's response to Section 804 of the

Fiscal Year 2010 National Defense Authorization Act to address this issue. Given the unique nature of IT implementations, we anticipate the new IT acquisition process will differ significantly from the traditional weapons system acquisition process. As the IT task force concludes its work, existing laws may need to change to ensure success of the new process and we will work with Congress as necessary to ensure success. Within the Business Mission Area, a major initiative to rapidly deliver capability and integrate governance is the Business Capability Lifecycle (BCL). BCL is a framework tailored to rapidly deliver business IT capabilities within the Department, by consolidating oversight requirements (i.e., funding, requirements and acquisition oversight) into one structure while streamlining documentation requirements.

Mr. TURNER. Secretary Conaton, you mentioned the role of ECSS in the AF's transformation of its Information Technology and Business Processes in support of enterprise goals and outcomes of eLog 21. I support your overall strategy with regard to eLog 21, the transformation of end to end logistics and programs like ECSS as well, but I am very concerned about the AF and DoD's ability to execute or field these systems. What are we doing, both at senior levels in the AF and DoD to field these systems as quickly as possible to begin realizing the savings goals outlined by Secretary Gates?

Secretary CONATON. Our objective is to field these systems as quickly as possible to achieve the needed business benefits and savings. To meet this challenge we have undertaken a major restructuring of both the management oversight and structure of the Expeditionary Combat Support System (ECSS) program. Specifically, since June 2009, the Chief of Staff of the Air Force conducts quarterly reviews of this program. In my role as the Chief Management Officer I have taken on greater responsibility to provide more oversight in conjunction with the Chief Information Officer and the Service Acquisition Executive. This expanded oversight is intended to keep the program flowing, and to instill accountability in the acquisition and functional sponsors. To complement this expanded senior level oversight the Air Force also elevated the Program Manager to a General Officer and assigned a dedicated Program Executive Officer to ensure a truly streamlined acquisition oversight and reporting chain so that issues and roadblocks are raised sooner and dealt with quickly.

At the program level we have done a number of things to reduce risk, accelerate the program, and improve the probability of success. We have restructured the program schedule and contracts to focus on implementing pilots which allow us to field them more quickly with less overall risk. Delivering smaller chunks of content more rapidly is consistent with best commercial practices. In fact this approach has already proven successful with the fielding in July 2010 of the first pilot at Hanscom AFB. We have also implemented improved program metrics, schedule tracking, risk management, and internal controls to better align and manage risk. These are consistent with the practices that the Government Accounting Office (GAO) has been recommending to the Department of Defense (DoD). In addition, we have also increased both the overall size and the skills of the Air Force team managing the program. We have recruited personnel with commercial Enterprise Resources Planning experience to improve the competency of the team and conducted a number of independent expert reviews to ensure that we are not repeating the mistakes made on other programs both inside and outside the DoD. All of these and other changes have been put into place to ensure that we are moving forward as fast as prudently possible to field ECSS. All of these improvements will be discussed in more detail as we prepare and submit a Section 804 report to Congress later this year.

Mr. TURNER. Secretary Conaton, you mentioned the role of ECSS in the AF's transformation of its Information Technology and Business processes in support of enterprise goals and outcomes of eLog 21. Most believe this transformation is similar to the industry best practices of investment in a single Enterprise Resource Planning software. A single IT footprint and associated infrastructure is more cost effective and efficient rather than being victimized by outdated and disconnected legacy systems which have become expensive and unreliable. I agree with your testimony that the program will indeed aid the AF in reducing wasteful inventory build ups, and thus has the potential to save billions. Please describe the potential benefits of ECSS as a fulcrum for eLog 21 and discuss its other merits?

Secretary CONATON. Once fully implemented, the Expeditionary Combat Support System (ECSS) will transform and standardize Air Force logistics and financial processes using commercial best practices. It will standardize business processes through an integrated software suite, new personnel roles and enterprise visibility of resources and assets. It will retire approximately 240 legacy data systems and will strengthen financial transparency/accountability. ECSS will provide 100 percent asset visibility and accountability by utilizing streamlined inventory management processes, prioritized maintenance processes, leveraging capacity and increasing

equipment availability. ECSS will simplify expeditionary force deployment and operations and radically improve warfighter supply chain support.

By adopting an enterprise mentality, ECSS enables the Air Force to have greater effectiveness via improved supply chain planning and leveraging assets and capability across the total force. Greater visibility in the transportation pipeline will enable the Air Force to maintain 100 percent total asset visibility of supplies and equipment to support worldwide mission requirements. ECSS in partnership with the Defense Enterprise Accounting and Management System (DEAMS) is a vital, initial step toward delivering required capability to achieve Chief Financial Officer (CFO) Act compliance. Additionally the predictive maintenance capability will help the Air Force depots prioritize workload allowing personnel to focus on key maintenance activities and also reduce long lead ordering for material, and improve the overall weapon system maintenance throughput.

Mr. TURNER. The application of technology and education in developing our future Air Force leaders has been crucial in ensuring our technological edge against attackers, aggressors, and adversaries and future dominance in the air, space, and cyberspace—how does the DoD ensure that short-sighted cuts in R&D and education don't have long-term consequences which cripple our future military capabilities and compromise our national defense?

Secretary CONATON. The Air Force will maintain our total dollars invested in Science and Technology (S&T) and education programs, including Science, Technology, Engineering and Mathematics (STEM) programs. Within our programs, we will eliminate unnecessary work and overhead to shift more resources into S&T program content and improved delivery of training and education to our Airmen.

We use our Air Force Corporate Structure and other Air Force organizations—including the Scientific Advisory Board (SAB), the Chief Scientist, and his Technology Horizons study—to achieve a balanced S&T program that evaluates near-term requirements with long-term investments. We have also established an S&T strategic planning division and a special study Tiger Team to define governance and prioritization of important technology demonstrations in support of Air Force strategic priorities. We have submitted to the Office of the Secretary of Defense the Air Force FY12 budget, and we look forward to future discussions with members of the House Armed Services Committee after the FY12 President's Budget is submitted.

Mr. TURNER. The House IMPROVE ACT, (H.R. 5013) which I supported and House approved this April may result in savings up to \$135B, included the Turner Amendment, which was unanimously adopted, and directed that best practices in Acquisition processes be institutionalized via education and curriculum. How important is the role of education in reducing costs in Acquisitions programs and what are some future initiatives which would help in the financial management of acquisition lifecycles?

Secretary CONATON. Education and training are vital to reducing costs in acquisition programs as well as revitalizing our acquisition workforce—a key element is our Acquisition Improvement Plan (AIP). The AIP builds on lessons learned from past shortfalls in our procurement processes; but more importantly, it establishes five initiatives—revitalizing our acquisition workforce; improving the requirements generation process; instilling budget and financial discipline; improving major systems source selections; and establishing clear lines of authority and accountability within acquisition organizations. In completing these initiatives to ensure rigor, reliability, and transparency across the Air Force acquisition enterprise, we realize one thing is certain: a highly competent workforce is essential to achieving acquisition excellence. Therefore, developing a capable workforce requires finding the right people with the right attitude and then arming them with the education and training to ensure they are competent to perform their jobs. One of the areas we are currently focusing on is giving Program Managers the training and tools needed to effectively manage their program's schedule and baseline. Ultimately, these acquisition professionals will be able to build incremental acquisition strategies that have a stronger probability of delivering warfighting systems sooner, on planned schedules and within predicted budgets.

Because our workforce is so important, we are synchronizing their education and training with the most efficient processes, in effective organizational constructs and through tailored career paths. Our senior financial management professionals are fully engaged in the Office of the Secretary of Defense Business—Cost Estimating and Financial Management Functional Integrated Process Team (FIPT); bringing an Air Force perspective to these FIPTs which focus on certification standards and associated training curriculum requirements. We are establishing ways to improve the delivery and quality of courses and pursuing an opportunity to leverage a distance cost estimating master's degree program. Tiger teams are also in place reviewing

financial management and acquisition roles, responsibilities, organizational alignments, etc. to enhance acquisition program performance.

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**QUESTIONS SUBMITTED BY MR. LARSEN**

Mr. LARSEN. Do you believe that using Item Unique Identification (IUID) technology will help the Department of Defense do a better job managing its supply chain, which has been placed on the high-risk list by the Government Accountability Office?

Ms. MCGRATH. Item Unique Identification (IUID) is one piece of the Department's overall effort to achieve improvement in the area of Supply Chain Management. IUID can provide a standard approach to Serialized Item Management for the Department's most critical and sensitive items and use a standard machine-readable mark for all IUID-eligible items procured by DoD.

Mr. LARSEN. Has your office prepared a business case analysis on the benefits of IUID for both new and legacy items? If so, what were the key findings of these analyses?

Ms. MCGRATH. The Office of the Deputy Chief Management Officer has not prepared a business case analysis on the benefits of IUID for new and legacy items. However, a cost benefit analysis published by the Under Secretary of Defense for Acquisition, Technology and Logistics in March 2005 discussed an array of industry experiences with item marking technologies and potential sources of savings, but did not attempt to determine a precise return on investment due to the lack of data on the costs of existing processes.

Mr. LARSEN. What goals have you set for the Department regarding the use of IUID technology, and what steps will you take to achieve those goals?

Ms. MCGRATH. The Office of the Deputy Chief Management Officer has not set specific goals for the Department regarding the use of IUID technology. However, the Department is driving implementation of IUID technology through our defense business system investment management governance framework. As relevant defense business systems move through the Investment Review Board/Defense Business Systems Management Committee process for certification and approval of their funding, conditions are levied against them to achieve technology capability with IUID. To date, 46 systems have had these conditions levied against them, including both Enterprise Resource Planning Systems and other defense business systems.

Mr. LARSEN. What efforts are being made at the Department of Defense and Defense Contract Management Agency to assist defense suppliers and the Services in meeting IUID policy adoption and implementation goals?

Ms. MCGRATH. Under the leadership of the Under Secretary of Defense for Acquisition, Technology and Logistics, DoD has undertaken a wide variety of Web-based and face-to-face training efforts, as well as dissemination of informational newsletters, videos and an IUID quality assurance guide. Many of these efforts, developed and administered by a combination of the Defense Acquisition University, Defense Contract Management Agency, and Defense Procurement Acquisition Policy, included a broad user base of both DoD employees, DoD suppliers and other representatives from industry. DoD also participates in a standing industry liaison group sponsored by the Aerospace Industries Association.

Mr. LARSEN. Does DoD contract writing software automatically include IUID clause language on items being procured and meeting IUID policy threshold requirements?

Ms. MCGRATH. For the Standard Procurement System, the clause is mandatory and requires contracting officer override to remove. For other contract writing systems, DoD measures compliance with IUID policy through sampling and review of contract language.

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**QUESTIONS SUBMITTED BY MR. KISSELL**

Mr. KISSELL. Question for the Honorable Elizabeth McGrath, Deputy Chief Management Officer Department of Defense, the Honorable Joseph Westfall, Under Secretary of the Army, the Honorable Robert O. Work, Under Secretary of the Navy, the Honorable Erin Conaton, Under Secretary of the Air Force: "During the hearing each of the witnesses spoke about their Service's efforts to adhere to the Secretary's quest to find efficiencies within the Department of Defense and to provide the savings to the soldiers, sailors, airmen, and marines. Who will decide how the money saved with a more efficient process is spent?"

Ms. MCGRATH. Ultimately, Congress will decide how the Department's savings will be applied to the Department of Defense and the Federal Government after the

President submits the budget request for Fiscal Year 2012. To develop budget request recommendations to the President, each of the Defense Agencies, Military Departments and Field Activities received guidance from the Secretary consistent with his speech on May 8th. The Secretary has urged the Components to seek efficiency in their headquarters and administrative functions, support activities and other overhead and apply those savings to the warfighter. That is, he asked the Components to transfer savings from bureaucratic “tail” to warfighting “tooth.”

#### QUESTIONS SUBMITTED BY MR. OWENS

Mr. OWENS. Earlier this year, Congress passed the IMPROVE Act, a bill to overhaul defense acquisition spending with the hopes of saving upwards of \$135 billion in taxpayer funding. Do you see this effort as also having a positive effect on the Department’s efforts to address DOD specific items on the GAO’s high-risk list, such as Weapon Systems Acquisition or Financial Management?

Ms. MCGRATH. The GAO High Risk Area of Weapon Systems Acquisition highlights that DoD is not receiving expected returns on its investments in weapon systems; programs continue to take longer, cost more and deliver fewer quantities and capabilities than originally planned; and processes for identifying warfighter needs, allocating resources and developing and procuring weapon systems are fragmented and broken. The IMPROVE Act’s sections on the performance of the defense acquisition system and workforce directly address these issues and help to strengthen many efforts already underway within the Department. As the Department’s Deputy Chief Management Officer, I would highlight the IMPROVE Act’s focus on performance management as extremely important. It is my view that when performance measures are appropriate and well defined, progress is made and people can be held accountable for results. They will also enable the Department’s acquisition leaders to make better informed decisions with more complete information.

With regard to the GAO High Risk Area of Financial Management, the IMPROVE Act introduced new tools into the Department’s toolbox to help incentivize achievement of auditability by 2017. The Department agrees with the intent of the legislation emphasizing that accountability is a key aspect of achieving auditability. Prior to the IMPROVE Act the Department had a number of tools to incentivize behavior. While it is still too early to say exactly how the Department will utilize these new tools, I believe the Department’s current approach of focusing first on improving quality, accuracy and reliability of the financial and asset information used every day to manage the Department is a good approach that lays the foundation for achieving auditability with clear interim goals over the near and mid-term.

Mr. OWENS. Are you satisfied with the progress that has been made in achieving full auditability so far? What barriers remain to achieving this goal, and is it possible the Department could hit its mark in advance of the 2017 deadline?

Ms. MCGRATH. Achieving auditability is not an easy task for the Department. However, as the Deputy Chief Management Officer, I believe the current approach put in place by the Under Secretary of Defense (Comptroller) is a sound one. The Department is focusing first on improving the quality, accuracy and reliability of the financial and asset information used every day to manage the Department with clear near and mid-term goals. This approach lays the foundation for achieving auditability in the most cost effective way, while simultaneously improving day-to-day management of our financial enterprise. The Department also created a strong governance framework to manage its audit readiness efforts and dedicated the necessary resources to the effort to achieve success.

However, achieving auditability is also dependent on a number of factors—such as successful implementation of many defense business systems, including Enterprise Resource Planning Systems—that make it unlikely the Department will meet its objective in advance of the 2017 deadline.

#### QUESTIONS SUBMITTED BY MR. CRITZ

Mr. CRITZ. Do all service branches and the Department currently have the necessary financial and personnel resources to perform the analysis to identify the \$7 billion in savings called for in FY12 by Sec. Gates? Will any of the work to identify these savings need to be performed by contractors?

Ms. MCGRATH. The Defense Agencies and Military Departments have the necessary financial and personnel resources to develop their planning, programming and budgeting efforts for submission of the President’s budget request for Fiscal Year 2012. These submissions will reflect the savings called for by the Secretary. While inherently governmental work is performed by government employees, con-

tractor involvement in the planning, programming and budgeting process varies by Component.

Mr. CRITZ. What is the plan for the services to identify savings within their branches? Will it be a top-down approach with the comptrollers or Chief Management Officers (CMO) identifying areas to cut back? Or, will it be a bottom-up approach with each agency and unit tasked with finding savings? If it is a bottom-up approach, how will the CMO's ensure cooperation throughout the service?

Ms. MCGRATH. The Secretary of Defense provided savings and efficiency goals to each of the Defense Agencies, Military Departments and Combatant Commanders, but he allowed them broad discretion on how to reach these goals. The Secretary particularly urged Components to seek efficiency in their headquarters and administrative functions, support activities and other overhead and apply those savings to the warfighter. That is, he asked Components to transfer savings from bureaucratic "tail" to warfighting "tooth." Apart from the Secretary's broad guidance, Components developed their own methodology to achieve these goals. Component efforts to meet the Secretary's goals and follow his guidance will be scrutinized as part of the annual Department of Defense budget build, i.e. the program review for President's Budget 2012.

