AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

S. HRG. 111–898

DEPARTMENT OF DEFENSE EFFICIENCIES INITIATIVES

HEARING

BEFORE THE

COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

SEPTEMBER 28, 2010

Printed for the use of the Committee on Armed Services

Available via the World Wide Web: http://www.fdsys.gov/

U.S. GOVERNMENT PRINTING OFFICE

65–072 PDF WASHINGTON : 2011

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON ARMED SERVICES

CARL LEVIN, Michigan, *Chairman*

JOSEPH I. LIEBERMAN, Connecticut
JACK REED, Rhode Island
DANIEL K. AKAKA, Hawaii
BILL NELSON, Florida
E. BENJAMIN NELSON, Nebraska
EVAN BAYH, Indiana
JIM WEBB, Virginia
CLAIRE McCASKILL, Missouri
MARK UDALL, Colorado
KAY R. HAGAN, North Carolina
MARK BEGICH, Alaska
ROLAND W. BURRIS, Illinois
JEFF BINGAMAN, New Mexico
EDWARD E. KAUFMAN, Delaware
CARTE P. GOODWIN, West Virginia

JOHN McCAIN, Arizona
JAMES M. INHOFE, Oklahoma
JEFF SESSIONS, Alabama
SAXBY CHAMBLISS, Georgia
LINDSEY GRAHAM, South Carolina
JOHN THUNE, South Dakota
ROGER F. WICKER, Mississippi
GEORGE S. LeMIEUX, Florida
SCOTT P. BROWN, Massachusetts
RICHARD BURR, North Carolina
DAVID VITTER, Louisiana
SUSAN M. COLLINS, Maine
MARK KIRK, Illinois

RICHARD D. DEBOBES, *Staff Director*
JOSEPH W. BOWAB, *Republican Staff Director*

CONTENTS

CHRONOLOGICAL LIST OF WITNESSES

DEPARTMENT OF DEFENSE EFFICIENCIES INITIATIVES

SEPTEMBER 28, 2010

	Page
Lynn, Hon. William J., Lynn III, Deputy Secretary of Defense	5
Carter, Hon. Ashton B., Under Secretary of Defense for Acquisition, Technology, and Logistics	12
Cartwright, Gen. James E., USMC, Vice Chairman of the Joint Chiefs of Staff	16
Appendix A	86
Appendix B	92
Appendix C	110
Appendix D	116
Appendix E	117
Appendix F	123
Appendix G	139

DEPARTMENT OF DEFENSE EFFICIENCIES INITIATIVES

TUESDAY, SEPTEMBER 28, 2010

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The committee met, pursuant to notice, at 10:03 a.m., in room SD–G50, Dirksen Senate Office Building, Senator Carl Levin (chairman) presiding.

Committee members present: Senators Levin, Lieberman, Reed, E. Benjamin Nelson, Webb, McCaskill, Udall, Hagan, Begich, Goodwin, McCain, Thune, LeMieux, Brown, and Collins.

Committee staff member present: Richard D. DeBobes, staff director.

Majority staff members present: Joseph M. Bryan, professional staff member; Richard W. Fieldhouse, professional staff member; Creighton Greene, professional staff member; Peter K. Levine, general counsel; Jason W. Maroney, counsel; Roy F. Phillips, professional staff member; John H. Quirk V, professional staff member; Robie I. Samanta Roy, professional staff member; and William K. Sutey, professional staff member.

Minority staff members present: Joseph W. Bowab, Republican staff director; Adam J. Barker, professional staff member; Michael V. Kostiw, professional staff member; David M. Morriss, minority counsel; Lucian L. Niemeyer, professional staff member; Diana G. Tabler, professional staff member; and Dana W. White, professional staff member.

Staff assistants present: Jennifer R. Knowles, Christine G. Lang, and Brian F. Sebold.

Committee members' assistants present: Christopher Griffin, assistant to Senator Lieberman; Carolyn A. Chuhta, assistant to Senator Reed; Alicia Brown, assistant to Senator Bill Nelson; Ann Premer, assistant to Senator Ben Nelson; Juliet M. Beyler and Gordon I. Peterson, assistants to Senator Webb; Tressa Guenov, assistant to Senator McCaskill; Jennifer Barrett, assistant to Senator Udall; Roger Pena, assistant to Senator Hagan; Lindsay Kavanaugh, assistant to Senator Begich; Amanda Fox, assistant to Senator Burris; Anthony J. Lazarski, assistant to Senator Inhofe; Lenwood Landrum and Sandra Luff, assistants to Senator Sessions; Clyde A. Taylor IV, assistant to Senator Chambliss; Andy Olson, assistant to Senator Graham; Jason Van Beek, assistant to Senator Thune; Brian Walsh, assistant to Senator LeMieux; Charles Prosch, assistant to Senator Brown; and Ryan Kaldahl, assistant to Senator Collins.

OPENING STATEMENT OF SENATOR CARL LEVIN, CHAIRMAN

Chairman LEVIN. Good morning, everybody. The committee meets today to hear testimony about the efficiencies initiatives announced by the Secretary of Defense in his May 8, 2010, speech at the Eisenhower Library and his August 9, 2010, speech at the Pentagon.

We're pleased today to have Deputy Secretary of Defense, Bill Lynn; Under Secretary of Defense for Acquisition, Technology, and Logistics, Ashton Carter; and the Vice Chairman of the Joint Chiefs of Staff, General James Cartwright, to address this important issue.

We thank you all for being here this morning.

On May 8, the Secretary stated that, "The Defense Department must take a hard look at every aspect of how it is organized, staffed, and operated; indeed, every aspect of how it does business. In each instance," he said, "we must ask, first, is this respectful of the American taxpayer at a time of economic and fiscal duress, and, second, is this activity or arrangement the best use of limited dollars, given the pressing needs to take care of our people, win the wars we are in, and invest in the capabilities necessary to deal with the most likely and lethal future threats?"

I share the Secretary's objectives of reducing "duplication, overhead, and excess in the defense enterprise, and instilling a culture of savings and restraint across the Department of Defense (DOD)."

On August 9, the Secretary followed up by announcing a series of specific cost-cutting measures, including a reduction in funding for service support contracts by 10 percent per year for 3 years; a freeze on the number of Office of the Secretary of Defense (OSD), Defense agency, and combatant command positions; a freeze on the number of general officer, flag officer, and Senior Executive Service (SES) positions; a review and reduction of the number of reports, studies, and advisory boards; new limits on SES positions and support contractors for DOD intelligence functions; and the elimination or consolidation of several Defense commands and agencies, including the Assistant Secretary of Defense for Network and Information Integration, the Business Transformation Agency (BTA), and the Joint Forces Command (JFCOM).

I agree with the Secretary on the rapidly expanding force of service contractors who support the Department. Too often in the past, we've constrained the number of DOD employees, without placing any limits on the number of service contractors. As a result, we have more than doubled our spending on service contractors over the last decade, while the size of the DOD civilian workforce has been largely unchanged. Rather than saving money, we have lost badly needed talent, expertise, and institutional knowledge in the government, and given contractors more responsibility for the performance of critical government functions than is appropriate.

I believe that the acquisition efficiency initiatives, announced by Secretary Carter, are consistent with the objectives of the Weapons Systems Acquisition Reform Act and other recent acquisition legislation initiated by this committee. Although I have concerns about some of the details, I am particularly pleased by Secretary Carter's emphasis on open-systems architectures, fixed-price incentive contracts, increased focus on affordability and program schedule, and

improved management of contracts for services. I hope that he will place an equal emphasis on implementation of the Weapons System Acquisition Reform Act's requirement for developmental testing and systems engineering.

At the same time, I believe that the Secretary's initiatives deserve close scrutiny from our committee. The Secretary has a legitimate objective of eliminating or consolidating repetitive and overlapping organizations within the Department, and his determination to cut costs and produce efficiencies is commendable. But, it appears that there was inadequate analysis and inadequate openness in the procedure which preceded his August announcement.

For example, we need to be sure that the personnel restrictions announced by the Secretary do not undermine our ongoing efforts to rebuild the Department's acquisition workforce. Study after study, and hearing after hearing, has shown that our acquisition programs cost billions of dollars more than they should; in significant part, because our acquisition workforce was dramatically cut in the 1990s and no longer has the capacity to perform its essential functions.

As the Acquisition Advisory Committee reported 4 years ago, our failure to fund an adequate number of acquisition professionals has been, "penny wise and pound foolish, as it seriously undermines the pursuit of good value for the expenditure of public resources."

Similarly, we need a detailed accounting of the functions performed by the organizations that the Secretary proposes to consolidate or eliminate. For those functions that will no longer be performed, we need to understand why they are no longer needed. For those functions that are still needed, we need to understand who will perform them. We need to understand what resources will be transferred, what resources will be eliminated, and what real savings are likely.

I am disappointed that, more than 6 weeks after the Secretary's announcement of these measures, we have received only the roughest and most general information about the Department's plans. I fully understand the frustration of the Senators from Virginia, for instance, and others, about their inability to obtain a more complete rationale and a plan for the Pentagon's proposed actions. The Secretary's intent to reduce duplication, overhead, and excess in DOD is commendable, but his actions should be supported by an open process, which includes detailed analysis and full consideration of opposing views.

We again thank our witnesses for their presence here this morning. We look forward to their testimony.

I call upon Senator McCain.

STATEMENT OF SENATOR JOHN MCCAIN

Senator MCCAIN. Thank you, Mr. Chairman.

Thank our distinguished witnesses for joining us this morning and for their service to our Nation.

As we know, in August, Secretary Gates announced a series of initiatives intended to reduce excess overhead costs and to improve the efficiency of DOD. As a part of this initiative, Secretary Gates also tasked Dr. Carter to improve the Department's buying power, through the way it acquires critical goods and services, in order to

stop runaway cost growth and program delays. We look forward to hearing from Dr. Carter about the initial progress he's making within DOD and with the defense industry partners in this critical area.

I think that both these initiatives are coming at an important time. We have to find ways to operate government more efficiently and at a lower cost to taxpayers. Secretary Gates understands the tough economic and fiscal situation facing our Nation. I strongly support his efforts in doing everything possible to make every taxpayer dollar count.

I want to emphasize that the intent of this effort is not to reduce the Department's top line, but to find savings over the Future Years Defense Program, to invest in critical force structure and modernization priorities. We obviously cannot afford to shortchange our military, and we must maintain commitments to a Defense budget that supports the full range of our national security commitments.

This committee has consistently supported the Department's efforts to reduce their massive overhead costs in order to be able to direct more resources to our fighting forces and weapons modernization. Eight initiatives are clearly aimed at addressing the exploding growth in service support contracts and overhead personnel. I look forward to getting more information on these proposals in the next few months in order to fully understand the scope of the anticipated savings and the impact on the missions and operations of our forces.

One proposal the Secretary's recommended is the elimination of JFCOM. I strongly support that proposal.

On the issue of elimination of BTA, I'd be interested, Secretary Carter and maybe Secretary Lynn, will we ever have an audit of DOD? That, I think, would be one major step forward.

The Secretary also challenged the Services to find more than $100 billion in overhead savings over the next 5 years. Obviously, we want to make sure that those reductions don't impact long-term readiness over time.

I support the Secretary's decision to address the personnel growth in OSD, defense agencies, and combatant commands, and to freeze, at 2010 levels, the number of civilian senior executives, general and flag officer and political positions. DOD management deserves a rigorous review to ensure it has the proper mix of civilian and military personnel, with the right ranks and the right positions.

May I also say, I support the Secretary's decision to eliminate the second engine for the Joint Strike Fighter. But, on the subject of the Joint Strike Fighter, I would point out, to the witnesses and my colleagues, that the Joint Strike Fighter is another example of the terrible cost overruns associated with weapons procurement and the reasons why we, not only need to make a $100 billion in savings, but we need to fundamentally reform our acquisition system. I believe—correct me if I'm wrong, Mr. Lynn—that the Joint Strike Fighter now costs, approximately, more than its original estimates. Is that correct? We can't continue down that path. It's just not affordable and the American people deserve better.

But, getting back to the subject at hand, I look forward to hearing from the witnesses. I know every member of this committee looks forward to working with you to try to bring about these proposed changes that I think are a bold initiative by the Secretary of Defense.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you very much, Senator McCain.

Secretary Lynn.

STATEMENT OF HON. WILLIAM J. LYNN III, DEPUTY SECRETARY OF DEFENSE

Mr. LYNN. Thank you very much, Mr. Chairman, distinguished members of the committee. Thank you for the opportunity to appear before you to discuss the Department's efficiency efforts.

If it's acceptable to the committee, I'd like to put the full statement in the record and summarize it here, briefly, in an oral statement.

Chairman LEVIN. Thank you.

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

The reason is this: To sustain the current military force structure, which we must do, given the security challenges this country faces, requires the equivalent of real budget growth of 2 to 3 percent. The overall Defense budget is projected to rise, in real terms, by about 1 percent, based on DOD's inflation assumptions. The Department cannot, and should not, ask Congress or the American taxpayers for more increases, in any year, unless we have done everything possible to make the dollars we already have count for more. Bridging that gap requires culling the Department's massive overhead costs and structures—"the tail"—and directing them to our fighting forces and modernization accounts—"the tooth."

This is not an effort, as Senator McCain indicated, to reduce the Defense budget. This is about shifting resources and priorities within the existing top line. That requires reducing the Department's overhead costs by targeting unnecessary excess and duplication in the Defense enterprise.

This effort is not just about the budget; it is also about operational agility. We need to ensure that the Department is operating as efficiently and effectively as possible.

The Secretary directed us to take a hard look at how the Department is organized, staffed, and operated; how we can flatten and streamline the organization; reduce executive and flag-officer billets and the staff apparatus that supports them; shed overlapping commands and organizations; and reduce the role and the costs of support contractors.

Since the Secretary's speech in May, DOD embarked on a four-track approach toward a more efficient, effective, and cost-conscious way of doing business. Let me briefly touch on tracks one to three, and then spend a little bit more time on track four.

On track one, the Secretary directed that the Military Services find more than $100 billion in overhead savings over the next 5

years. The Services will be able to keep any of those savings that they generate, to invest in higher priority warfighting and modernization needs. This effort is now underway, and we've begun to review the Services' submissions. The fiscal year 2012 budget will reflect the results when it is submitted to Congress in February 2011.

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

On track three, the Department is conducting a broad review of how it is organized and operated to inform President Obama's 2012 budget process. This track three review focuses on affecting long-term systemic improvements in several key areas of DOD operations. Dr. Carter will address these in more detail in his opening statement.

With regard to track four, the Secretary announced, on August 9th, specific areas where the Department can take action now to reduce inefficiencies and overhead. These steps are intended to jumpstart the reform process ahead of and separate from the normal programming and budget submission process. In particular, they represent the Secretary's lead efforts to reduce headquarters and support bureaucracies, military and civilian alike, that have swelled to cumbersome proportions, grown over-reliant on contractors, and become accustomed to operating with little consideration of costs.

Though all of these efforts will result in measurable savings, an equally important purpose is to instill a culture of cost-consciousness and restraint in the Department; a culture that sets priorities, makes real tradeoffs, and separates unrestrained appetites from genuine requirements.

There are eight major initiatives in track four that reduce support contractors, headquarters personnel, senior executives, and flag and general officers. Track four also includes efforts to reduce boards and commissions and redundant intelligence organizations.

Finally, they involve several organizational disestablishments. The last decade has seen a significant growth of new offices and organizations, including two new combatant commands and five new Defense agencies. The Secretary concluded that JFCOM, the Assistant Secretary of Defense for Networks and Information Integration, the Joint Staff's J–6 directorate, and the Defense BTA no longer effectively satisfy the purpose for which they were created. Some missions and tasks that each perform remain vital but can be managed effectively elsewhere. Other functions that each perform are either already performed elsewhere or are no longer relevant to the operation of the department.

We are mindful that the recommended actions will have economic consequences for displaced employees, their families, and their local communities. The Department is committed to work with the affected communities and will devote significant attention to the challenges employees will face during this transition. We

have asked Dr. Clifford Stanley, the Under Secretary for Personnel and Readiness, to take direct responsibility for this aspect of the Department's planning in order to ensure we take the steps necessary to help impacted employees with appropriate assistance and support.

In closing, Mr. Chairman, I understand that some of these reforms may be controversial and unwelcome to some people, both inside and outside the Department. No doubt many of these changes will be stressful, even wrenching, for the organization and employees involved. But, I would ask the members of this committee, and Congress as a whole, to consider this reform agenda in terms of our responsibilities, as leaders, to set priorities and move resources from where they are needed least to where they belong: America's fighting forces, its investment in future capabilities, and, most importantly, the needs of our men and women in uniform. That is what Secretary Gates and President Obama are proposing, and we urge your strong support.

Thank you for the opportunity to discuss this initiative with you today.

[The prepared statement of Mr. Lynn follows:]

PREPARED STATEMENT BY HON. WILLIAM J. LYNN III

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

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

The reason is this: To sustain the current military force structure—which the Secretary believes we must do given the security challenges this country faces—requires the equivalent of real budget growth of 2 to 3 percent. The overall defense budget, however, is projected to rise in real terms by about 1 percent, based on DOD inflation assumptions. The Department cannot, and should not, ask Congress for more increases each year unless we have done everything possible to make the dollars we already have count for more.

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

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

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

Track 1: The Secretary directed that the military services find more than $100 billion in overhead savings over the next 5 years. The Services will be able to keep any of the savings they generate to invest in higher priority warfighting and modernization needs. This effort is underway and we have already begun to review the service submissions. The fiscal year 2012 budget will reflect the results when it is submitted in February.

Track 2: The Department is also seeking ideas, suggestions and proposals regarding efficiencies from outside normal channels. We have solicited input from experts, from think tanks, industry, and the department's external boards. We have also es-

tablished a DOD suggestion program to solicit our employees' ideas. The Department is willing to consider any reasonable suggestion to reduce our overhead.

Track 3: The Department is also conducting a broad review of how it is organized and operated to inform President's 2012 budget process. This "Track 3" review focuses on affecting long-term systemic improvements in several key areas of DOD operations. Through this review the Department seeks to adjust processes, regulations, and systems that add needless layers of bureaucracy and serve as roadblocks to efficient operations. As a first step, Under Secretary of Defense for Acquisition, Technology, and Logistics, Dr. Ash Carter recently unveiled his acquisition initiatives, which includes 23 significant changes to the way the Department contracts for goods and services. Dr. Carter will address these in more detail in his opening statement.

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

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

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

Contractors: The Secretary directed funding for service support contractors be reduced by 10 percent per year for 3 years. There have been significant efforts to outsource non-core tasks to contractors over the last several decades. However, since 2001 the availability of resources from supplemental appropriations, coupled with the urgency of supporting combat operations, resulted in dramatic increases in the number of contractors working for the Department, who have risen from 26 percent of the DOD workforce in 2000 to 39 percent today. The sheer number of contractors is not the only problem. Many of these recently outsourced service support and advisory contractors are actually carrying out functions that should be performed by government employees. The Secretary intends to reverse this trend. The task force is establishing a baseline for these contractors and will develop specific targets for reductions.

Civilian Personnel: The Secretary's initiative froze the number of OSD, Defense Agency, and combatant command positions and directed a zero-based review of each organization. The growth in the size and expense of the Office of the Secretary of Defense, the defense agencies, and the combatant commands since 2001 provides a ripe area for review and subsequent realignment. The zero-based review of organizational missions, funding, and staffing is intended to ensure that each organization is aligned to the Department's priorities, and to allow reductions or realignment of personnel and resources as appropriate. We are in the midst of gathering data and reviewing initial organizational self-assessments. As we consolidate the data, and conduct our own analysis, the Secretary expects to receive a series of recommendations aimed at flattening the Department's headquarters and staff structures, resulting in efficiencies and savings that can be applied to higher priorities. The effort to seek efficiencies in our civilian staff will not undercut the ongoing process of adding contracting officers, system engineers, and weapons testers in our acquisition system.

Senior Positions: Secretary Gates froze the number of senior civilian executives, general and flag officers, and presidentially appointed and Senate-confirmed officials. After a senior-level review, he intends to reduce the numbers of these positions. Since September 2001, the number of general and flag officers has increased by more than 100, while senior civilian leaders have increased by more than 300. This "brass creep"—where higher ranking personnel now perform tasks that could be more appropriately and efficiently performed by lower ranking personnel—is as-

sociated with increased layers of bureaucracy and proliferation of new staff. The effort in this area is intended to assist in the transition to fewer organizations and into flatter and more responsive and agile structures. We have two senior study groups reviewing the distribution of senior positions across the Department and expect, at a minimum, to substantially trim the growth that has occurred since 2001.

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

Oversight Reports and Studies: The Secretary directed a freeze on the overall number of DOD-required oversight reports and immediately cut the fiscal year 2010 funding for advisory studies by 25 percent. A team is conducting an aggressive review of the value of all internal and external oversight reports with the goal of reducing their volume and the burden they place on Department staff. This team is currently reviewing an initial set of more than 1,000 internal oversight reports and studies, weighing the oversight value against the manpower it takes to produce them, and will make initial recommendations within weeks. We are also examining several hundred recurring reports required by Congress in the annual spending bills to better understand the cost of production and the value they provide to you and other defense decision-makers. As part of this evaluation, we look forward to engaging this and other committees on ways to seek efficiencies as we meet your oversight needs.

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

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

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

We reviewed a variety of information regarding combatant commands, defense agencies, and the OSD staff, including missions, staffing levels, and other data. However, the Secretary was particularly interested in organizations that had outlived the original argument for their existence, whose missions had changed or no longer existed, or had a mission or conducted activities that duplicated other organizations.

We spent considerable time reviewing the input of his most senior advisors, including the Chairman and Vice Chairman of the Joint Staff, myself, and others. Over 30 meetings were held with senior leaders, in both small forums and large, to help understand the contributions that these organizations provided to national

security and the risks and pitfalls that might be associated with any decision to disestablish an existing organization.

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

Therefore, after several months of review, the Secretary made the decisions announced on August 9 to disestablish the NII, J–6, and BTA, and also to recommend to the President that he approve the disestablishment of JFCOM.

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

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

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

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

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

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

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

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

In 2008, Congress, through the National Defense Authorization Act, instituted the position of Deputy Chief Management Officer (DCMO) to assist the Deputy Secretary of Defense, acting as the Chief Management Officer, to organize the business

operations of DOD. The mission of the Office of the DCMO duplicates many of the BTA functions. Specifically, the DCMO has the principal responsibility for invigorating and improving business operations in DOD in order to enhance support to the warfighter and provide better financial accountability. Therefore, rather than lead in the development of better business practices, BTA's prime focus has essentially devolved to being the caretaker and manager for several relatively small business systems, and providing direct support to the DCMO for various policy issues. This narrower function does not justify continuing BTA as a stand-alone defense agency.

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

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

JFCOM was formally established in 1999 as the successor to the U.S. Atlantic Command. The central mission of JFCOM was to infuse and, to some degree, compel jointness into everything the military does, especially training, doctrine development and the provision of forces for operations. It was understood at the time that the creation of JFCOM would result in the addition of a new organizational layer in how the Department managed military forces. But, the imperative to encourage and advance the principle of jointness among our military was judged to outweigh the costs associated with the extra bureaucracy. Over the years, JFCOM has had success in advancing this goal. However, it has also grown dramatically in size, budget, and personnel. In 2000, its first full year of operation, JFCOM employed approximately 2,100 military and civilian personnel and had an annual operating budget of approximately $300 million.

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

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

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

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

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

what the Secretary and the President are proposing, and we urge your strong support.

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

Chairman LEVIN. Thank you very much, Secretary Lynn.

Secretary Carter.

STATEMENT OF HON. ASHTON B. CARTER, UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY, AND LOGISTICS

Dr. CARTER. Thank you, Mr. Chairman, Senator McCain, distinguished members of the committee. I, too, am grateful for the opportunity to testify before you today.

On the piece of the initiative that Secretary Gates and Deputy Secretary Lynn have charged me with organizing, which concerns the $400 billion, of the $700 billion Defense budget, which is contracted out for goods and services. The other $300 billion is spent "within the walls," if you like, of DOD, on the salaries, benefits, and so forth, of those, uniformed and civilian, who work for the Department, and the buildings and facilities within which they work. The other $400 billion is contracted out roughly equally between goods and services.

We estimate that, by targeting efficiencies in the way that these goods and services are acquired, we can make a significant contribution to the overall $100 billion goal that Secretary Gates and Deputy Secretary Lynn have laid down for us over next 5 years.

To put it bluntly, we can't support our troops with the capabilities they need unless we do so. Our challenge is to sustain a military at war, take care of our troops and their families, and invest in new capabilities, all in an era when Defense budgets will not be growing as rapidly as they were in the years following September 11, 2001.

Last year, we identified savings in the Defense budget by canceling unneeded programs, and we'll need to do more of that. But, now we must also find savings within programs and activities we do need and do want. The Department must achieve what economists call "productivity growth," and what I've called "learning to do more, without more," delivering the program the Department needs, and the warfighter needs, for the amount of money we're going to get.

If you think about a computer, you buy a computer every year; computer gets a little bit better and a little bit cheaper. Why is it that, on the contrary, as Senator McCain's already noted, we come before you every year with exactly the same product, and it costs even more? That's not productivity growth. We need productivity growth in the defense sector.

In late June, we laid out a mandate, to the Defense Acquisition Workforce and the defense industry, describing how the Department can achieve this better buying power in contracted activities. On September 14, a few weeks ago, after several months of intensive work within the Department, with our program managers, program executive officers, systems command commanders, senior logisticians, and so forth, and also with our partners in industry, who accomplish this work and perform it for us, and outside ex-

perts, I issued specific guidance on how to implement that mandate.

I'd like to submit the guidance from the June 28 mandate as well, and all the material that accompanies them, for the record, and just supplement it briefly.

We are now moving vigorously into implementation mode, and taking each of those 23 items that were in the guidance, and making them happen. Let me, if I may, just summarize the high points of those points of guidance, in five categories, with specific examples, so you'll have some idea of what we're trying to get at.

First, as we begin new programs, such as the *Ohio* class SSBN(X) replacement, the joint family of systems for long-range strike, the Army's Ground Combat Vehicle, and even the new presidential helicopter, which we'll be embarking on, we need to establish—and we will establish—affordability requirements that have the same force as high-priority performance requirements. We will also insist that our acquisition professionals and suppliers plan according to what programs should cost, not according to self-fulfilling historical estimates of what they will cost, as if nothing can be changed in how we do business.

We are already using this method to drive down costs in the Joint Strike Fighter program, the Department's largest and the backbone of tactical airpower for the United States and many other countries. But, we have a long way to go, as Senator McCain has already noted; and I think my reaction, and Secretary Gates's and Secretary Lynn's, was the same as his to the revised cost estimates of last spring, which is, "No, we're not going to pay that. We should pay something that is less than that. We should manage to a better result."

Second, to incentivize productivity and innovation in industry, we will strengthen the connection between profit and performance in our business practices. Among other things, we're exploring ways, through contracting and financing vehicles and a pilot preferred-supplier program, to reward contractors who control their costs and demonstrate exemplary performance.

Third, we will remove obstacles to effective competition. Last year, the Pentagon awarded $55 billion in contracts that were supposed to be competitive but for which only one bid was received, usually from an incumbent. Yet, simple changes in how we structure evaluations and work with industry have shown to reduce by 50 percent the incidence of single bids by incumbents.

Additionally, we will promote real competition, for it is the single most powerful tool that the Department has to drive productivity growth. We must stop deluding ourselves with the idea that directed buys from two designated suppliers represents real competition. We're already cutting down on directed buys, with the Navy's Littoral Combat Ship (LCS), where we have set in place real competition that will save more than 1 billion in the next 5 years alone—and we can demonstrate that—with additional savings expected over the entire life of the LCS program. Competition is not always available, but the evidence is clear that the government is not availing itself of all possible competitive situations.

Fourth, we will move to more aggressively manage the over $200 billion we spend annually on services, such as information tech-

nology, knowledge-based services, facilities upkeep, weapons system maintenance, and transportation. When most people think of the Defense budget, they think of ships and planes, but more than 50 percent of our contract spending is actually for services. You may find this hard to believe, but our practices for buying services are even less effective than for buying weapons systems.

Fifth, we're taking steps to reduce——

Chairman LEVIN. By the way, I don't have any difficulty believing that at all. I just want you to know that. [Laughter.]

Senator MCCASKILL. Yes. I think that's a "duh."

Dr. CARTER. I'm certain you don't. I did, at first, but I'm getting used to it.

Fifth, we're taking steps to reduce unproductive processes and bureaucracy by reducing the number of OSD-level reviews to those necessary to support major investment decisions or to uncover and respond to significant program execution issues, eliminating low value-added statutory processes.

I hasten to say, Mr. Chairman, at this point, I'm not referring to provisions of the Weapons System Acquisition Reform Act, that we understand the intent of that, and appreciate that intent, and are executing to that intent, including developmental test and evaluation and systems engineering.

The kind of thing I have in mind is this. I sit in the Pentagon on a Saturday afternoon reading reports to you that are this thick, that are, in an embarrassing number of circumstances, late to need, and am convinced that I'm the only human being that has ever read it, and ever will. The reason I'm reading it is that I have to sign it, and I'm afraid of embarrassing myself. I sign an equal number of letters to you in which we say, "You asked for it in May, and it's now June, and we're still working on the report."

This has nothing to do with intent. It has to do with the execution and the paperwork burden that we've imposed upon ourselves. That's just a piece of it. It's not just in responding to your inquiries, which we need to do; it's our own internal paperwork and, very importantly, it is the paperwork burden that we impose upon industry, in which we have them do something, and, of course, then we end up paying for it. It becomes an allowable cost, and we charge. These are the kinds of things we're talking about. Not changing the intent of any of that reporting, but trying to change the volume and the responsiveness of it, Mr. Chairman. So, I wanted to, because you had mentioned that, comment on that.

Let me just conclude by saying that we recognize that changing our business practices will take time and require the continued close involvement of our industry partners, who have made major contributions to this effort and whose technical vitality and financial vitality is in the national interest. We also need your support for the success of this endeavor.

Why do we think we can succeed? Several reasons. First of all, we have very reasonable reduction targets here. Next, we're focused on specific savings—not on abstractions, but on very specific things that we can do and that have been shown to work. Third, I think it's fair to say that, after an era of double-digit year-on-year budget growth, there's fat that has crept in and that we can identify and get out. The fourth is that President Obama, Secretary

Gates, Deputy Secretary Lynn, this committee, Congress as a whole, and the American taxpayers are all expecting it, want it, need it.

The last thing I'd say is, to those who doubt or who hesitate, they need to consider the alternative to the careful management into this new era, and that would be broken or canceled programs, budget turbulence, uncertainty for industry, erosion of taxpayer confidence that they're getting value for their dollar, and, especially, lost capability for the warfighter in a dangerous world. So, not only can, I think, we succeed in this endeavor, but we really have to.

Thank you.

[The prepared statement of Dr. Carter follows:]

PREPARED STATEMENT BY DR. ASHTON B. CARTER

Mr. Chairman, Senator McCain, distinguished members of the committee:

Thank you for the opportunity to testify today. It is a pleasure to join Deputy Secretary Lynn and General Cartwright to discuss Secretary Gates' Efficiency Initiative, and my role in it.

OBTAINING GREATER EFFICIENCY AND PRODUCTIVITY IN DEFENSE SPENDING

As part of his broad initiative to improve the American taxpayer's return on his investment in national defense, Secretary Gates has tasked me to improve the Department's buying power in the way we acquire critical goods and services. Together, goods and services comprise $400 billion of the $700 billion in annual defense spending. We estimate that by targeting efficiencies in both of these areas, we can make a significant contribution towards achieving the $100 billion redirection of defense budget dollars from unproductive to productive purposes sought by Secretary Gates and Deputy Secretary Lynn over the next 5 years. The Department can meet this goal only if we fundamentally change the way we do business.

To put it bluntly, we cannot support our troops with the capabilities they need unless we do so. Our challenge is to sustain a military at war, take care of our troops and their families, and invest in new capabilities—all in an era when defense budgets will not be growing as rapidly as they were in the years following September 11. Last year, we identified savings in the defense budget by cancelling unneeded programs. Now we must find savings within programs and activities we do need. The Department must achieve what economists call productivity growth: we must learn to do more without more.

On June 28, I laid out a mandate to the defense acquisition workforce and the defense industry describing how the Department would try to achieve better buying power. On September 14—after months of work with the Department's senior acquisition professionals, industry leaders, and outside experts—I issued specific Guidance on how to implement that mandate. I would like to submit both the June 28 mandate and September 14 Guidance—and the charts which accompany them—for the record. [See Appendixes A and B]

SEPTEMBER 14 GUIDANCE

The September 14 Guidance contains 23 principal actions to improve efficiency organized in 5 major areas. Let me highlight just a few of the actions we are taking in each of the five areas:

First, as we begin new programs such as the *Ohio*-class SSBN(X) replacement, the joint Family of Systems for long-range strike, the Army's Ground Combat Vehicle (GCV), and even a new Presidential Helicopter, we will establish affordability requirements that have the same force as high-priority performance requirements. We will also insist that our acquisition professionals and suppliers plan according to what programs should cost, not according to self-fulfilling historical estimates of what they will cost, as if nothing can be changed in how we do business. We are already using this method to drive down costs in the Joint Strike Fighter (JSF) program, the Department's largest and the backbone of tactical air power for the United States and many other countries. Secretary Gates has said that monies saved this way would be retained by the Service that achieved the efficiency; in this case, the Air Force, Navy, and Marine Corps could reallocate JSF funds to buy other urgent capabilities.

Second, to incentivize productivity and innovation in industry, we will strengthen the connection between profit and performance in our business practices. Among other things, we are exploring ways—through contracting and financing vehicles and a pilot "Preferred Supplier Program"—to reward contractors who control their costs and demonstrate exemplary performance.

Third, we will remove obstacles to effective competition. Last year, the Pentagon awarded $55 billion in contracts that were supposed to be competitive but for which only one bid was received, usually from an incumbent contractor. Yet simple changes in how we structure evaluations and work with industry have been shown to reduce by 50 percent the incidence of single bids by incumbents.

Additionally, we will promote real competition, for it is the single most powerful tool to the Department to drive productivity. We must stop deluding ourselves with the idea that "directed buys" from two designated suppliers represents real competition. We are already cutting down on directed buys with the Navy's Littoral Combat Ship (LCS), where we have set in place real competition that will save more than $1 billion in the next 5 years alone, with additional savings expected over the life of the LCS program. Competition is not always available, but the evidence is clear that the government is not availing itself of all possible competitive situations.

Fourth, we will more aggressively manage the over $200 billion we spend annually on services such as information technology and knowledge-based services, facilities upkeep, weapons system maintenance, and transportation. When most people think of the defense budget, they think of ships and planes. But more than 50 percent of our contract spending is for services. Believe it or not, our practices for buying such services are even less effective than for buying weapons systems.

Fifth, we are taking steps to reduce unproductive processes and bureaucracy by reducing the number of Office of the Secretary of Defense-level reviews to those necessary to support major investment decisions or to uncover and respond to significant program execution issues, eliminating low-value-added statutory processes; and reducing the volume and cost of both internal and congressional reports as appropriate.

CONCLUSION

Changing our business practices will take time and require the continued close involvement of our industry partners. We also need your support, which is essential to the success of this endeavor. However, we have every reason to believe that the efficiencies we seek can be realized. We have established reasonable reduction targets. We are focused on specific savings. We can identify the excess after an era of double-digit budget growth. President Obama, Secretary Gates, Congress, and American taxpayers expect it. The alternative is unacceptable: broken or cancelled programs, budget turbulence, uncertainty for industry, erosion of taxpayer confidence, and especially lost capability for the warfighter in a dangerous world. We can succeed and we must.

Thank you and I look forward to answering your questions.

Chairman LEVIN. Thank you very much, Secretary Carter.

General Cartwright.

STATEMENT OF GEN. JAMES E. CARTWRIGHT, USMC, VICE CHAIRMAN OF THE JOINT CHIEFS OF STAFF

General CARTWRIGHT. Chairman Levin, Senator McCain, and distinguished members of the committee, thank you for the opportunity to discuss the DOD efficiency initiatives.

A few points, in context:

We remain a Nation at war. Troops are deployed around the world, many engaged in combat. We are committed to ensuring these troops are properly supported.

Second, DOD is a bureaucracy that has not fully adapted its processes and constructs to the Information Age. We must be able to adapt with increased speed in order to ensure we remain and sustain our competitive advantage. In the era of rapidly evolving threats, our success depends on our ability to adapt quickly.

Third, DOD is cognizant of the Nation's financial situation. We do not expect budgets to grow at the rate that they grew over the

last decade. When developing grand strategy, it is the first duty of the strategist to appreciate the financial position of his or her nation. We demonstrated this appreciation during last year's weapon system portfolio changes and earlier this year in the process to release our strategic reviews.

The Secretary's efficiency initiatives are aimed at seeking the same effect in our organizations. These initiatives are not a cut, but, rather, a shift of resources from overhead to the warfighter, increasing the tooth-to-tail ratio.

Regarding the disestablishment of JFCOM, JFCOM helped to accomplish the primary goal for which it was established: to drive jointness through the military. We must continue along the positive vectors regarding joint activities, as directed in Goldwater-Nichols Act. We must also improve initiatives to strengthen efforts in the interagency and combined arenas.

It is our goal to reduce unintended redundancies and layering to more clearly align operational responsibilities with service, train, and equip functions in order to reduce inefficiencies as forces are presented to combatant commands. At all the COCOMs we must consolidate functions, where appropriate and, where functions are retained, move towards a construct of combined, joint, interagency task force organizations or centers. The combined and interagency aspects are critical components to establishing baseline capacity and surge expectations required for functions and capabilities this Nation presents.

As the cyber domain continues to grow in importance, the Department will look to ensure lines of authority and responsibility are clear and adaptable. We focused cyber operations in Cyber Command. We will align policy and oversight activities in strengthening the DOD chief information officer. Finally, we must align cyber requirements and cyber acquisition to maximize support to operational activities.

Given the expanding role and criticality of information and the networks that hold and transmit that information, we need to manage systems in the cyber domain as we do weapons systems. To ensure our success, IT systems must have the proper architecture and capability to ensure adaptability and innovation. Further, our architecture should enable collaboration throughout joint, interagency, coalition, and commercial partnerships. The free flow of information among these players is integral to a superior architecture. The Department's information systems must extend to the tactical edge and must work when others do not.

I look forward to answering your questions.

Thank you.

[The prepared statement of General Cartwright follows:]

PREPARED STATEMENT BY GEN. JAMES E. CARTWRIGHT, USMC

Chairman Levin, Senator McCain and distinguished members of the committee, thank you for the opportunity to discuss the Department of Defense (DOD) efficiency initiatives.

British military strategist J.F.C. Fuller wrote, "The first duty of the grand strategist is to appreciate the commercial and financial position of his country." Sustained economic power is at the root of sustainable military power. This understanding drives the efficiency initiatives. The decisions should not be viewed as stand-alone activities, but rather, as the next steps in an evolutionary process to change the way the Pentagon does business.

America remains a Nation at war. We have soldiers, sailors, airmen, marines, and coastguardsman deployed around the world, many engaged in combat. We have transitioned from combat operations in Iraq, but our effort in Afghanistan has intensified. Further, demographic, cultural and geopolitical realities require us to prepare for a future where our forces may be engaged in persistent conflict. The leadership of this Department is committed to ensuring the force is sufficient and well equipped. Efficiency initiatives are aimed at increasing our "tooth to tail" ratio.

The nature of conflict in the 21st century continues to evolve and threats span the spectrum of conflict. The intentions of those who wish to harm us are enabled by the power of information technology (IT). We must be able to adapt our strategy, weapon systems, and organizations to a construct that recognizes, mitigates, and defends against these new vulnerabilities of the information age. With this accelerated pace, we must develop a strategic and organizational construct agile enough to stay competitive.

Given the Nation's economic situation, we recognize budgets will not grow at the rate they have since September 11. DOD requires modest real budget growth of 2–3 percent annually to maintain and equip a nation at war, but projected budgets for fiscal years 2010–2015 only project 1 percent growth, based on DOD inflation assumptions. Additionally, there is risk the projected 1 percent real growth may not be realized. To help ensure sufficient resources for our highest priorities, we must seek efficiency within current budgets. We owe it to the warfighters, and the taxpayers, to adapt our strategy, weapons and organizations to effectively conduct 21st century warfare, and to conduct those operations efficiently.

The work conducted as part of the strategic reviews we released last year includes examples where we made these types of changes. In the Quadrennial Defense Review we shifted priority to concentrate efforts on the wars we are currently in. In the National Space Policy, we wrote of initiatives to increase partnerships with other nations in order to ensure space systems remained affordable. We cancelled weapon system programs that were chronically over budget, and redirected others to better align with evolving threats.

After making these adjustments in our strategy and weapons, we sought ways to streamline our organizational structure. Secretary Lynn described our general approach. Three specific initiatives are; the rebuilding and strengthening of the DOD Chief Information Officer (CIO), the consolidation of IT for common use and better cyber defense, and the disestablishment of Joint Forces Command (JFCOM).

Our national dependence on IT for almost every aspect of our lives has accelerated, and DOD is no exception to this trend; DOD has witnessed a similarly rapid growth in the number of offices in the Department tasked to manage IT. Multiple organizations on multiple staffs at multiple layers of our hierarchy exist to oversee IT. The result is a complex web of authorities and responsibilities that is unclear and difficult to navigate. Combatant commanders simply do not understand what organization they need to visit in order to get work executed. The need to clarify organizational roles and responsibilities for IT has become obvious. With the establishment of Cyber Command earlier this year, the Department focused operational responsibility for this domain in one organization, compliant with legal requirements.

With the operational aspects of cyber defense assigned to Cyber Command, we then needed to assign the policy and oversight responsibilities for that capability. To eliminate duplication across organizations, the operational functions of the Office of the Assistant Secretary of Defense for Networks and Information Integration, the J–6 Directorate on the Joint Staff, and portions of JFCOM will shift to Cyber Command; the CIO-related functions of these organizations will be transferred into a strengthened CIO. Acquisition functions will be realigned consistent with the final report of the Information Technology Acquisition Reform Task Force.

The recommended disestablishment of U.S. JFCOM by the Secretary of Defense also recognizes our changing times. When JFCOM was stood up in 1999, its central mission was to drive jointness into everything the military does. It was understood that the creation of JFCOM for this purpose would result in the addition of an organization layer. At that time, it was judged that the imperative to advance jointness was greater than the costs associated with establishing a new command. Jointness is difficult to measure, but the goal of embracing joint operations and doctrine has reached a point where a four-star headquarters for joint advocacy is no longer required. We have embraced jointness as a matter of necessity. Evidence of this progression is manifested on the battlefield and in our military schools. We have reached critical mass, where our military accepts "joint" as the preferred method of war.

We must continue along the positive joint vectors and activities directed by Goldwater-Nichols. In addition, we must establish or improve on our processes and

structures in the combined and interagency arenas. We fight as part of coalitions and alliances, and our level of success in these operations is enhanced by the degree we are synchronized with our international partners. The nature of today's conflict also requires better integration through the interagency process. Strengthening capabilities and capacities through the "whole of our government" is increasingly important to our success.

However, we must avoid unintended redundancies and layering that can result from these efforts. Decisionmaking in today's environments requires speed. Battlefields change too quickly. Our staffs and structures need to be flatter and faster. Redundancies and layering within our system is an impediment to success.

Finally, disestablishing JFCOM will allow us to better align operational responsibilities with service train and equip functions in order to reduce inefficiencies as forces are presented to combatant commanders. JFCOM succeeded in helping push the services to jointness. But that vision has largely been achieved and we believe we can no longer justify the expense and overhead associated with maintaining a separate four-star combatant command for that purpose.

The changes I have discussed in this statement have the unanimous support of the Joint Chiefs of Staff. They are needed to further our goal of creating a more effective and efficient DOD. There are two major beneficiaries of these changes. The first are the warfighters, who will be better postured with the resources they need to fight and win. The second is the taxpayer, who will not only have a more effective military for 21st century security, but will also witness an increased value in their defense dollar.

Chairman LEVIN. Thank you very much, General Cartwright.

Here's the time situation this morning. We have two votes, probably, beginning at 11:30. Many of us, perhaps most of us, are going to be going then to Arlington for Senator Stevens' funeral, I think the buses leave at 12:15. We want everybody to have some time here this morning, so we're going to have to have a short first round. But, then I will come back, and whoever else can come back, after the second vote, assuming that there is one. So, there is likely to be a gap here somewhere around 11:40 and 12:15.

We're also going to have a vote, off the floor, on a number of matters that are pending before the committee. That will be at the end of the first vote. Okay? So, I hope everybody will help out on having that off-the-floor vote at the end of the first vote this morning in the Senate.

Let's have a short first round, here for questioning, so that everybody will have at least some opportunity, including all those who will be going to the funeral. We'll have a 5-minute round to start, if there's not enough time for everybody, then perhaps we can yield to each other to accommodate that goal.

Let me start with Secretary Lynn. Too often, in the past, we've constrained the number of DOD employees, without placing any limitation on the number of service contractors. We have not been told what categories of contract services are covered by the Secretary's directive. Am I correct in understanding that critical functions, like weapons systems maintenance, healthcare services, and logistics support to our troops, will not be affected by the planned reduction in contract services? When can we expect to see a clear definition of what categories of contract services are covered by the planned reduction, and what categories of services are excluded?

Mr. LYNN. Mr. Chairman, your assumption is correct. The reduction in service support contractors would not affect critical warfighting capabilities, like weapons maintenance. The general definition of a support service contractor would be someone who provides staff augmentation to government employees. I realize you're looking for something more precise, and we're endeavoring

to provide that, and we have a task force working on that over the course of the fall. Sometime late this fall or early next year, we should have that.

Chairman LEVIN. Is that task force in place now?

Mr. LYNN. Yes.

Chairman LEVIN. Would you tell us who's on that task force?

Mr. LYNN. The overall task force is chaired by Robert Rangel, the Secretary's chief of staff. There's a subgroup. I'll have to get, for the record, who chairs the subgroup.

Chairman LEVIN. If you'd let us know, that would be helpful.

[The information referred to follows:]

Please refer to the attachment "ETF Task Force Organization."
[Deleted.]

Chairman LEVIN. In the past, we've found that proposed cuts to contract services are nearly impossible to enforce, because expenditures for service contracting are invisible in the Department's budget. For this reason, section 806 of the National Defense Authorization Act (NDAA) for Fiscal Year 2008 required that budget justification documents clearly and separately identify the amounts requested in each budget account for procurement of services. The Department has not yet complied with that requirement.

When are you going to comply with that requirement, Secretary Lynn?

Mr. LYNN. Part of the effort I mentioned would be to comply with that requirement. I would add—I think your implication is right—we are regretting that the Department hadn't complied earlier. It would make the task that we're undertaking easier if we had better data, and we're endeavoring to develop that.

Chairman LEVIN. So, when will the Department comply with that statutory requirement? Are you going to comply for the 2012 budget request?

Mr. LYNN. We are trying. I can't commit at this point that we will have all the data to be able to do it, but we're going to do our very best.

Chairman LEVIN. Well, it's a couple years overdue now so that's not satisfactory. I'm just wondering if you can give us a better handle on that—if necessary, month by month. I mean, I don't want to burden you with unnecessary requirements, but this is something in law, and it is essential that there be compliance on this. So, would you let us know by the end of October—let's just try report number one—whether or not the budget for 2012 will be complying with that requirement? Let us know by the end of October.

Mr. LYNN. Yes, I'll do that, Mr. Chairman.

[The information referred to follows:]

Representatives from AT&L, P&R, and Comptroller met with professional staff on October 29, 2010; December 16, 2010; and March 3, 2011, to discuss the National Defense Authorization Act for Fiscal Year 2010, section 803, contract services inventory reporting requirement. Staff indicated that the intent of the language was to have better visibility into contract services from a total workforce standpoint. The Department explained the progress the Services have made to date as well as challenges with inventory and tracking.

The material provided by the Department is included at the end of this hearing. [See Appendix C].

Chairman LEVIN. If not, why not?

On the JFCOM issue, was there an analysis of that issue before the decision was made relative to JFCOM? If so, precisely who was involved in that analysis?

Mr. LYNN. The Secretary made his decision on JFCOM based on a series of meetings, probably as many as 30 meetings that he had with his senior military advisors, the chiefs, the combatant commanders, particularly the ones that are incoming and outgoing for JFCOM, as well as the senior members of OSD. During those meetings, the central military rationales—there are four, and I'd ask General Cartwright to go into a little more detail—that are in the Unified Command Plan for the JFCOM. At the end of those meetings, the conclusion was that those purposes no longer—in some cases, particularly the joint manning, was redundant with what the Joint Staff was already doing, in terms of joint doctrine, joint training are still important functions, but they no longer justified a four-star military command with a $1 billion budget.

Chairman LEVIN. Would you provide the committee any analyses which were completed or done or presented to the Secretary relative to that issue, for the record?

Mr. LYNN. We'll provide whatever we have for the record.

[The information referred to follows:]

The material provided is included at the end of this hearing. [See Appendix D].

Chairman LEVIN. Okay. Finally, on just that issue—my time's up—has the President approved that yet, those changes in the Unified Command Plan?

Mr. LYNN. The Secretary has forwarded his recommendation to that effect to the President. The President has not yet made a decision.

Chairman LEVIN. Thank you so much.

Senator McCain.

Senator MCCAIN. Thank you, Mr. Chairman.

I thank the witnesses.

Secretary Carter, you've been around for quite a while now. Don't you think one of the fundamental problems that we're facing here is the consolidation of defense industries, which has really led to a virtual lack of competition? In the 1990s, I think we're all aware that the defense industries were encouraged to consolidate. So, now we have very little, if any, competition. If there's any competition, it's between two; and most of them, there is none. Do you agree with me that that's a fundamental problem here?

Dr. CARTER. It is a fundamental constraint on our ability to get competition. That's why we have to work extra hard to make sure we get real competition. So, there are several things you can do in that circumstance. We do have competition among the big houses. It's important that we continue to encourage new entrants in the defense field, particularly smaller companies that might grow into bigger companies. They offer vitality and technical health, as well as new forms of competition. That's to include small business. It's important that we look at creative ways of getting competition.

I mentioned the LCS acquisition strategy, as the Navy altered it 6 months ago or so, as an example of that. That was a situation where we had exactly what you're pointing to, which is two shipbuilders who were showing the signs of—suggesting, in bids, an ex-

pectation that they would continue to be in business, no matter what. So, we said, "Well, no, that's not working for us, so we're going to down-select. Somebody's going to lose and somebody's going to win." The bids that came in after that announcement were quite different from the bids that came in before. That's——

Senator MCCAIN. Why don't you supply that for the record for us? Would you?

Dr. CARTER. I'd be happy to do that.

[The information referred to follows:]

In summer 2009, the Navy received proposals for the Fiscal Year 2010 LCS from Lockheed Martin/Marinette Marine/Bollinger and General Dynamics Bath Iron Works/Austal USA Industry teams. These proposals did not reflect competitive pricing and well exceeded the Congressional Cost Cap. At that time, Navy revised the acquisition strategy for the LCS program with the objective of making the program affordable by way of increased competition. The revised strategy down selects to a single team for a block buy of up to 10 ships (2 per year from fiscal year 2010 through fiscal year 2014), requires submission of a technical data package to support a competitive solicitation of a second source in fiscal year 2012, and requires delivery of 5 combat systems for the second source.

For the LCS Fiscal Year 2010 solicitation, the Navy received Final Proposal Revisions (FPRs), valid for 90 days, on September 15, 2010. The Navy is taking the time necessary to carefully review and analyze the competing proposals. The Navy is proceeding with the LCS source selection diligently, thoroughly, and consistently with its source-selection plan and applicable law and regulations. The Navy intends to make a contract award as expeditiously as practicable, consistent with its source selection plan, but in any event prior to the expiration of the FPRs.

The Department understands there is keen public interest in this competition, but the duty to protect the integrity of the source-selection process, as well as the confidentiality of the information submitted by the offerors, significantly limits ability to provide additional details about the ongoing competitive procurement. In particular, the Department is subject to criminal penalties of the Procurement Integrity Act (41 U.S.C. §423) for disclosure of proposal prices or other source selection information during this ongoing competitive source selection process.

Senator MCCAIN. I think that's really one of the biggest problems, here. I'm glad we're going to fixed-price incentive contracts. But, if there's only one major defense corporation competing—I don't know the answer, but I really do believe that that's a fundamental problem.

Speaking of reports, there's a myriad of reports that are required by Congress every year. It grows every year. Every time we do the authorization bill and somebody wants an amendment approved, we say, "Well, why don't we ask for a study and a report." You've seen that game played. So have you, Bill.

Why don't you give us a list of the reports that are unnecessary and, you think, unneeded and duplicative, and maybe we could act, next year, and eliminate a lot of those. You could spend your Saturday afternoon watching Naval Academy football, instead of——

[Laughter.]

——sitting in your office. Because we all know that there are stacks and stacks of them. But, maybe it'd be good to get an assessment from you of the reports that we think are unneeded. I think we'd agree with a lot of them. We don't read those reports, either. Dirty little secret. Sometimes we get briefed on them, if they're very important, but the vast majority of them are stored somewhere. I don't even know where.

Mr. Lynn, isn't the biggest cost escalation to DOD today in healthcare?

Mr. LYNN. Yes, sir. I don't know whether it's the biggest, in terms of percentage increase, but that is the largest account that is growing at a substantial pace.

Senator MCCAIN. Do you have any ideas on that issue?

Mr. LYNN. We are reviewing that. As part of the fiscal year 2012 budget, I think we will be proposing to Congress some ideas about how to restrain healthcare costs.

Senator MCCAIN. But, there's no doubt that it is growing in dramatic fashion.

Mr. LYNN. There is no doubt.

Senator MCCAIN. In double-digit inflation.

Mr. LYNN. In some years.

Senator MCCAIN. Recently.

Mr. LYNN. Yes.

Senator MCCAIN. The other thing that might be helpful to this committee, after asking for a report, maybe you could do a little study for us, or just compile statistics, on the so-called "tooth-to-tail ratio" over the last, say, 20, 25 years. I think what we're going to find is a dramatic growth in both civilian personnel, Pentagon and other places, and I think we're also going to see a dramatic growth in staffing and the tooth-to-tail ratio becoming less and less optimum, to say the least. Would you agree that that's pretty much the case, General Cartwright?

General CARTWRIGHT. Yes, I do, Senator. We have several staffs that have grown and the impact on the force is, it ages the force. It consolidates a lot of our leadership activities in headquarters, away from the battlefield. It tends to be layered, and that's what we're after.

Senator MCCAIN. Well, I think it would be helpful to us, and maybe motivate some kind of action, if you showed us how dramatic that growth has been, as opposed to the actual number of warfighters on the battlefield or in the ocean or in the air.

I thank you, Mr. Chairman.

[The information referred to follows:]

Department Headquarters Staff

	1950	1970	1990	2000	2010
OSD	1485 Civilian 453 Military	1949 Civilian[1] 871 Military	1550 Civilian 607 Military	1492 Civilian 482 Military	2284 Civilian[2] 384 Military
Joint Staff	200 Civilian 310 Military	400 Civilian 1293 Military	308 Civilian 1311 Military	209 Civilian 1095 Military	256 Civilian[3] 1018 Military
Army	10917 Civilian[4] 3118 Military	6844 Civilian[5] 3207 Military	1779 Civilian[6] 1326 Military	1416 Civilian[7] 992 Military	2766 Civilian[8] 1047 Military
Navy[9]	1319 Civilian[10] 396 Military	855 Civilian[11] 414 Military	908 Civilian and Military[12]	554 Civilian[13] 316 Military	409 Civilian[14] 113 Military
Air Force	5980[15]	5181[16]	1084 Civilian[17] 1555 Military	789 Civilian[18] 1381 Military	1214 Civilian[19] 1473 Military
AFRICOM	Not Requested	Not Requested	Not Requested	N/A	648 Civilian 837 Military
CENTCOM	Not Requested	Not Requested	Not Requested	197 Civilian 1160 Military	714 Civilian 2650 Military
EUCOM	Not Requested	Not Requested	Not Requested	243 Civilian 1398 Military	548 Civilian 2484 Military
JFCOM	Not Requested	Not Requested	Not Requested	354 Civilian 1368 Military	1613 Civilian 1544 Military
NATO	Not Requested	Not Requested	Not Requested	120 Civilian 2271 Military	9 Civilian 2391 Military
NORAD	Not Requested	Not Requested	Not Requested	32 Civilian 254 Military	64 Civilian 260 Military
NORTHCOM	Not Requested	Not Requested	Not Requested	N/A	609 Civilian 881 Military
PACOM	Not Requested	Not Requested	Not Requested	700 Civilian 2320 Military	1018 Civilian 2778 Military
SOCOM	Not Requested	Not Requested	Not Requested	332 Civilian 1420 Military	1672 Civilian 1911 Military
SOUTHCOM	Not Requested	Not Requested	Not Requested	115 Civilian 705 Military	615 Civilian 1086 Military
SPACECOM	Not Requested	Not Requested	Not Requested	438 Civilian 1242 Military	N/A
STRATCOM	Not Requested	Not Requested	Not Requested	369 Civilian 1368 Military	1352 Civilian 1966 Military
TRANSCOM	Not Requested	Not Requested	Not Requested	500 Civilian 597 Military	577 Civilian 861 Military

[1] After considerable searching, the Department was not able to find data for 1970 in sufficient detail. Therefore, the data listed is from 1969.
[2] The personnel numbers provided to Senator Webb on October 1, 2010 were slightly different: 2278 Civilians and 384Military. The numbers provided on this chart are the most up to date.
[3] The personnel numbers provided to Senator Webb on October 1, 2010 were slightly different: 284 Civilians and 1002 Military. The numbers provided on this chart are the most up to date.
[4] Data from 1950 is taken from the 30 September 1985 letter from Acting Secretary of the Army to Senator Barry Goldwater and it reflects actual strength not authorized strength.
[5]Data is from 1970 taken from the *Army Progress Report: The Manpower Program: Civilian Personnel Strength* (Office, Assistant Chief of Staff for Force Development, January 1970), and *The Army Manpower Program: Military Personnel Strength Report: Services---Administrative, Protective (Quarterly)* (Office of the Deputy Chief of Staff for Personnel, January 1970). Actual strength numbers were 5590 civilians and 3222 military. Actual strength numbers are taken from the 30 September 1985 letter from Acting Secretary of the Army to Senator Barry Goldwater.
[6] Data from 1990 is taken from *Project VANGUARD Final Report, Volume I* (Project VANGUARD, 15 December 1990).
[7] Source is from G-3/5/7's Force Accounting and Documentation.
[8] Source is from G-3/5/7's Force Accounting and Documentation.
[9] The personnel numbers for the U.S. Navy include U.S. Marine Corps personnel. In addition, the Navy understood "headquarter staffs" in the inquiry to include only the Department of the Navy (i.e. SECNAV) staffs.
[10] The data is from Fiscal Year 1950 and it is derived from the Personnel of the Naval Shore Establishment January 1950. Actual end strength numbers were 1256 Civilians and 387 Military.
[11] The data is from Fiscal Year 1969 and it is derived from Personnel of the Naval Shore Establishment December 1969.
[12] The data is derived from OSD report of 1 May 2001 and it was not broken out between civilian and military personnel.
[13] The data is from Fiscal Year 2000 and it is derived from FY 2000 PB-22.
[14] The data is from Fiscal Year 2010 and it is derived from FY 2010 PB-55.
[15] Based on the data available, the Air Force was unable to breakout military and civilian data for 1950. The data for was obtained from historical records.
[16] Based on the data available, the Air Force was unable to breakout military and civilian data for 1970. The data for 1970 was obtained from historical records.
[17] The data for 1990 was obtained from Future Years Defense Program (actual strength) for respective years. The data was current as of 8 Nov 2010.
[18] The data for 2000 was obtained from Future Years Defense Program (actual strength) for respective years. The data was current as of 8 Nov 2010.
[19] The data for 2010 was obtained from Future Years Defense Program (actual strength) for respective years. The data was current as of 8 Nov 2010.

Chairman LEVIN. Thank you, Senator McCain.

Senator Lieberman.

Senator LIEBERMAN. Thanks, Mr. Chairman.

Thanks, to the three of you, for being here today. Thanks, to Secretary Gates, for initiating this series of moves, which I support. The fact is that we're asking more of our military than we have in quite a while, with a combination of being involved in the war against Islamist extremism, managing our relations with a rising and more assertive China, and then a host of other problems. The fact is that we're already facing a squeeze, where we're not giving the military all that they need. Therefore, part of the answer here is to eliminate the waste. So, bottom line, I appreciate very much what Secretary Gates and all of you are doing here.

I want to focus in on JFCOM, because I do have questions about that. I'm not stating my opposition to the proposal here, but I really want to ask, is it good for our national security? Have we reached a point where it's really time to put up the "mission accomplished" sign on jointness in our military? Does it really save enough money to justify what will be lost by closing the command?

To me, those are important questions, and I don't have the answers yet. I do want to admit that I may be biased, here, but I'm

still going to keep my mind open, because I was involved, in the late 1990s, with former Senator Dan Coats—perhaps future Senator Dan Coats—in the legislation to create this JFCOM. We were responding to a report by what was then called the National Defense Panel (NDP), which was a kind of Team B outside group to review the Quadrennial Defense Review of 1997. The NDP was an impressive group. Phil Odeen was the chairman. It had people on it like Rich Armitage, Admiral Jeremiah, Bob Kimmitt, Andy Krepinevich, General Bob RisCassi. They recommended the creation of the JFCOM to drive jointness through our military, which had not been done, even though Goldwater-Nichols enforced in law. Ultimately, Secretary Cohen, in response to a lot of back and forth—General Hugh Shelton was then the Chairman of the Joint Chiefs—put this JFCOM into place.

So my question really is—and I must say, with respect, that to me, there's a little bit of, oh, confusion about what the argument here is, because, Secretary Lynn, in your testimony, I think you did say the principal purpose for the creation of JFCOM in 1999, to force a reluctant service-centric military culture to embrace joint operations and doctrine, has largely been achieved. On the other hand, you did say today, I think in response to Chairman Levin, essentially, it hasn't been achieved, but it no longer justifies a four-star command.

So, my question really—I mean, three questions, and I'll ask them open-ended—one is, have we really—if—I don't believe we've accomplished the mission of guaranteeing jointness in our military, which is fighting jointly. I wonder, if you're going to disband this command, where else are you going to do it? Or do you think we have achieved it, thus far? Second, does it really save enough money to justify the closing of the command?

Secretary Lynn, do you want to start?

Mr. LYNN. Sure. I wouldn't say it as strongly as you did, in terms of "mission accomplished." There's danger in that statement. I think we have made substantial progress——

Senator LIEBERMAN. I think former Presidents are aware of that, for sure, yes.

Mr. LYNN. Yes. We have made substantial progress in internalizing jointness into the combatant commands and how they operate. I think we operate fundamentally differently than we did in the 1991 Gulf War, which was, in many ways, the trigger for the recommendation—the panel that——

Senator LIEBERMAN. Right.

Mr. LYNN.—you suggest. I think we operate, in the conflicts we're in, fundamentally differently than we did then. I think the Services operate fundamentally differently, in a much more joint way. It was our conclusion that we have made sufficient progress that it will not be reversed and that we can use the Joint Staff, subordinate organizations, to continue that—on command and control and other important elements—to continue that progress. But, it doesn't, as I said, justify a billion-dollar command. We do think we can make substantial savings off of that billion dollars by eliminating some of the functions, such as the joint manning role that it plays, which largely duplicates the role of the Joint Staff.

Senator LIEBERMAN. My time is up; I don't want to go beyond. But, do we have a cost figure, at this point, about how much you think closing the JFCOM will save?

Mr. LYNN. We are working through that. We think we will be able to save a substantial portion of that billion dollars. But, that's part of the process now, is to determine which elements, which centers, and so on——

Senator LIEBERMAN. Right.

Mr. LYNN.—of the JFCOM we want to keep, and where we want to keep them, and which things would go away—the headquarters, the joint manning functions—and then to net that through and get the savings figure.

Senator LIEBERMAN. Okay. Then, obviously, I'd raise the question about, if there are some parts of the command you are going to keep, because you feel they're still necessary, where will they be? Will something be lost if they're disbanded? The "whole is greater than the sum of the parts" quality to the command that exists now. But, I look forward to those answers on another day.

Thank you.

Mr. LYNN. Okay.

Chairman LEVIN. Thank you very much, Senator Lieberman.

Senator Thune.

Senator THUNE. Thank you, Mr. Chairman.

Gentlemen, thank you for your service.

This question is for the entire panel, and it has to do with something that Secretary Gates stated in his May 8, 2010, speech at the Eisenhower Library. He said, "The fact that we are a nation at war calls for sustaining the current military force structure." The goal of this efficiencies initiative is to, and I quote again, "cut our overhead costs and to transfer those savings to force structure and modernization within the program budget."

On August 9, 2010, Secretary Gates stated that, "The task before us is to significantly reduce the Department's excess overhead costs and apply the savings to force structure and modernization."

Yet, over the summer, there have been rumors that the B–1 bomber fleet, which has been a near-constant presence above Afghanistan throughout the war, might be proposed to be retired, in pursuit of the $2 billion in savings the Air Force is required to find under this initiative.

General Petraeus, in front of this committee just a few months ago, spoke very highly of the B–1's presence and performance in Afghanistan. I guess I'm perplexed by rumors such as these, the proposed retirement of the B–1 fleet to obtain the required savings, in light of Secretary Gates's emphasis on sustaining and modernizing our force structure.

So, my question is, wouldn't cutting force structure to find savings under this efficiencies initiative be in direct contradiction of Secretary Gates' initiative to cut overhead costs and transfer those savings to force structure and modernization?

Mr. LYNN. Secretary Gates has asked us to do two things as we go through that. One is to make a determined effort to reduce overhead, transfer those resources to the warfighting accounts. Those are the quotes that you indicated. He's also asked us to take a scrub of the warfighting accounts themselves—and that's a sub-

stantial part of what Secretary Carter is doing—and to see if we can gain better effectiveness, better efficiency, better productivity from those forces.

What the result will be of that, I wouldn't prejudge that at this point. But, we're looking across the board, both at the forces themselves as well as that overhead-to-warfighting transfer.

Senator THUNE. So, what you're saying, however, is that the Department is not looking only at bureaucratic redundancies and overhead, but is looking at reducing force structure in order to provide the——

Mr. LYNN. We are looking at how to make the forces we have the most effective they can be to accomplish the mission.

Senator THUNE. Let me ask you one other question with regard to a September 20, 2010, Air Force Times article where Air Force Chief of Staff, General Schwartz, said that the 2005 Base Realignment and Closure (BRAC) initiative, to consolidate 26 installations into 12 joint bases, is a failure that's not produced the cost savings the Department had expected. In fact, the Government Accountability Office (GAO) stated, "It was unclear whether joint basing will result in actual savings." There was an Air War College study stating that joint basing is, "actually costing the Department of Defense more money than if the 26 bases and posts had remained separate."

What is your reaction to that criticism about the 2005 BRAC joint basing initiative ending up costing money rather than saving money?

Mr. LYNN. I'm aware of what General Schwartz said and the GAO reports. I think we have to take them seriously and reexamine the path that we're on, and, either review and see if we think that data is wrong and the savings are there, or rethink our course of action.

Senator THUNE. Does the current effort authorized by Secretary Gates include the consideration of overseas bases?

Mr. LYNN. Yes.

Senator THUNE. Have there been any recommendations made about base closures or consolidations since the Secretary's August-9th-of-this-year announcement?

Mr. LYNN. There have been no recommendations to that effect, but be—we're in the midst—in terms of the overseas bases, there's a Global Force Posture Review going on, at this point, looking at, what are the purposes for those overseas forces, how best to accomplish those purposes, and then what we think the basing structure would be to support that. That's a study that's ongoing right now.

Senator THUNE. Okay. I think my time's expired.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Thune.

Senator Reed.

Senator REED. Thank you very much, Mr. Chairman.

Thank you, gentlemen.

Just to get a kind of an overview about how you're going to approach these savings, it seems to be and this is very simplistic—resources that have to be committed, through contract and elsewhere, to Afghanistan, Iraq, and other contingency operations; then

there's programs that sort of help both the long-term defense plan and these operations; and then there's a long-term defense plan.

So, Secretary Lynn, as you approach this problem, is there any sort of thought going into how you deal with these different types of resources? I mean, hopefully, the supplemental funds and the Iraq-Afghan funds will diminish over time. How do you factor in these different aspects?

Mr. LYNN. We will continue to propose a overseas contingency account for those operations in Afghanistan and whatever remains in Iraq. As you say, I think, over time, you could expect to see those, conditions permitting, decrease. Most of what we've been talking about today, in the $100 billion in the base budget, and we're talking about, just to be clear, not reducing that base budget by $100 billion, but finding $100 billion in the overhead accounts that we can shift to the warfighting accounts so that we could have 3-percent growth in the warfighting accounts, which is what we think we need to sustain those capabilities, but with only an overall top line of 1 percent. That's a significant challenge, but that's what we're trying to do.

Senator REED. So, besides just the value of efficiency and productivity gains, this is also about freeing up resources and continuing operations overseas and support the fighting forces. Is that fair?

Mr. LYNN. Absolutely.

Senator REED. Mr.——

General CARTWRIGHT. Can I just——

Senator REED. General Cartwright?

General CARTWRIGHT.—just add, quickly, that part of what we'd like to be able to do is, the OCO accounts have, in fact, sustained capabilities that we have found necessary in this conflict, that we want to retain as part of our core capability. So, this will create room for those capabilities to move into the budget.

Senator REED. Right. But, you've also identified capabilities, which are very specific and unique, which you are also planning to phase out, I presume.

General CARTWRIGHT. That is the case. Or, that is what the analysis is looking for.

Senator REED. Right.

Secretary Carter, you point out that services and growth in service contracts are probably more difficult and larger than we all expected. I think usually the poster child for this problem is a big weapons platform. It's very expensive, et cetera, and the contract—there's only two contractors, it's not fully competitive. But, what I sense, too, is that these service contracts are just proliferating. Sometimes, contractors are writing the contracts for the services. Can you talk about how you attempt to deal with this issue of service contracts?

Dr. CARTER. Yes. A few of the main points, Senator. First thing is that the different categories are a little different. So, there's maintenance activities; there are information technology (IT) services, category of their own; there's advisory and assistance services, or knowledge-based services, which is principally the matter that Secretary Lynn was speaking of earlier. These are augmentation of the government staff that provide expertise that we, at the moment, don't have within our own walls, and so, have to contract for

externally. They play an essential role. Nothing wrong with that; we just want to make sure we get them efficiently and that we're also working to strengthen the talent that we have within the government, and not excessively rely upon people outside.

In all of those areas, unlike ships or planes, our ships and planes are bought by people who buy ships and planes for a living; they're very good at it. Most of our services are bought by people as an ancillary duty. They're, in a sense, amateurs. They're trying to get something else done and they're issuing contracts for services in order to help them. That's not their principal preoccupation. So, it's not surprising that their tradecraft isn't as good as it would be if that's all they did.

We're trying to help them get better. How do you get better? Well, it's things like really try to shape the requirements. Be clear about what you want. Don't just drift into asking more and more, and being more and more reliant. Ask yourself why, 5 years ago, three people sufficed, and now five people are doing exactly the same thing. Recompete periodically, even though that's a nuisance, in some ways, for somebody who's trying to get other things done.

We're trying to help our services' acquirers to do better, without burdening them with a lot of administrative structure, but assist them to be good amateur buyers. Market research is another part of that. So, there's a lot that goes into this, depends, a little bit, sector by sector. But, I just tell you, the low-hanging fruit really is there. There's a lot of money. There has been a very, very high rate of growth over the last decade, in services. They've grown faster than everything else. Knowledge-based services, within them, have grown even faster than the rest of services. So, there's a lot we can do.

Then, of course, contingency contracting is a whole other area where we're really trying to improve. We know we didn't do that well in Iraq. We're trying to do better in Afghanistan.

So, across the board we have work to do.

Senator REED. My time's expired, but just a final comment or question, you might agree or disagree. It seems that, wittingly or unwittingly, we created a system that it's much harder to hire a full-time DOD employee than it is to write a contract worth 10 or 20 times more, over the relative period of time. Human nature take the path of least resistance. Is that your observation, too?

Dr. CARTER. It absolutely is. As part of the Acquisition Workforce Initiative, which this committee had a lot to do with getting underway, we're trying to make it easier for our buying commands to hire, within the walls of government, the kinds of people we need. These aren't oversight bureaucrats. These are people at the point of execution: systems engineers, cost analyses, pricers, contracting officers, and so forth, the people who actually execute. It's a struggle. The economic circumstances are helping us in that regard, as they help recruiting elsewhere in our Department. But, we need to make it easier to bring people in, if we want good people within the walls.

Chairman LEVIN. Thank you, Senator Reed.

Senator LeMieux.

Senator LEMIEUX. Thank you, Mr. Chairman.

Thank you all for your service. Thank you for being here today.

As someone who's new to the Senate, one of the things that initially struck me when I first came here was the size of DOD and the number of combatant commands and the number of four-star officers. I just want to go over this to make sure that I have my information correct. But, as I count it, we have 10 combatant commands, as well as this new cyber subunified command, which I think is under Strategic Command. We have, as I understand it, 40 four-star officers in the U.S. military, as well as 717,000 civilian employees in DOD. I think these are staggering numbers for the average American, to hear the size of this organization. Make no mistake that we all want to support the military and want the military to be as effective as possible, but we also want the military to be efficient.

Having heard what you've said, Secretary Carter, about outsourcing and the cost increases in services on the outsourcing side, what are we doing to look internally—beyond the recent proposals that have come up about JFCOM, what are we doing internally to look to see: Are we using our resources in the best way possible? Are we top heavy in DOD, with our 40 four-star officers? What can we do to make things more efficient and more effective?

Dr. CARTER. If I may, I think Secretary Lynn and General Cartwright are in a better position than I to give you an answer to that question.

Senator LEMIEUX. Okay.

Mr. LYNN. Senator, I think most of the numbers you gave are accurate. The Secretary directed that starting with the flag and general officers—there's been an addition, over the last 10 years, of about 100 flag officers—he has asked for a review of that growth, with a target of reducing it by half that. Similarly, there's been a growth of about 300 civilian senior executives. He has the same aim there, to review that growth; again, with a target of a reduction of about 150. We've been talking about the growth in support contractors.

He's directed that over the next 3 years, the target be a 10-percent reduction in those support contractors. As I indicated to Chairman Levin, those are defined generally as people who are providing staff augmentation, as opposed to weapons testers or depot maintenance or more direct warfighting functions.

The Secretary's directed that we look at all—you didn't mention the various board and commissions, but we have, I think, 65 of them. It seems like a lot. We're reviewing those to see if we can't reduce. He's directed a 25-percent reduction in their funding, immediately.

Senator McCain mentioned the studies, some of which we generate internally, which we're looking to reduce on our own—some of which come from Congress. There are certainly good reasons for some of them, but, as Senator McCain indicated, it's probably an appropriate time to review. I think we produce about 600 annual reports. I think there are 1,000 people, more or less, involved in producing those reports. So, there's some potential for reduction there.

So, Secretary Gates, I think, has exactly the same reaction you did, is that it's important to support the military. We're in the midst of a fight in Afghanistan, we don't want to take away from

that, but we think we can add to it by reducing our overhead accounts and putting those resources into the warfighting accounts.

Senator LEMIEUX. General Cartwright, do you have any comment on that?

General CARTWRIGHT. Just, quickly, sir. The review of the structure of the ranks, et cetera, is not only at the top, though; we're looking all the way through. So, every command that we're looking at every combatant command, every JTF, do we have the right level of responsibility? Many times, we have it there because a counterpart happens to be a four-star or something like that. That's not really a good reason for it. So, we're trying to understand how to get it back down to where we want so this grade-creep can be stopped, but actually pushed back to where it is appropriate and where we have the right balance for span of control and responsibilities associated with that individual.

Senator LEMIEUX. What incentives do we give to DOD employees to find savings? Is there anything in their performance review? Is there anything that's tied to their compensation, if they're able to buy a ship cheaper or find a saving in a service contract? Are we rewarding them for that kind of good behavior?

General CARTWRIGHT. There is a substantial effort, in this activity that we've undertaken, called "a culture of savings." That's where we will nest the ideas of, how do we start to incentivize, not only the individual, but the institution to self-correct?—which is a difficult activity, but it'll go to those types of things. How are you evaluated? Is this something that's important to the command? Does it actually get to keep the resources so it's incentivized to do it? Have we put the right incentives in? In the discussion we had earlier, where you have contractors, then you have Guard/Reserve, then you have civilians, then you have uniformed military, Active Duty. Can you put in place a structure that says—each one of those costs escalate. Can I say to you, "You need flexibility to move around"? Sometimes a contractor is a response to needing something right now, to avoid the long period, or at least to cover the long period, to hire a civilian. Can we put in place the incentives to drive us, then, to getting that civilian, not forgetting about it and leaving a contractor in the position?

Senator LEMIEUX. My time is up, but I just wanted to commend you for what you're undertaking. I think it's vitally important. We're going to have this challenge, throughout government, and I hope that the other agencies of government undertake the same methodology that you are. It's not easy to do, but it needs to be done, because our financial situation in this country is not going to allow us to keep spending more than we take in. I thank you, and appreciate you for the good work you're doing.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator LeMieux.

Senator Ben Nelson.

Senator BEN NELSON. Thank you, Mr. Chairman.

Let me add my appreciation for the work that you're doing to economize and to create a more effective budgeting process for DOD. As you do that, the questions are going to continue to come up. Are you cutting in the right places? Cutting it the right way? Are you leaving in place the best kind of military that we need?

And/or are you improving it? So, the questions are there, and they'll continue to be raised.

Senator Lieberman referred to jointness as a critical element of what you're doing, and certainly maintaining jointness, as opposed to reducing jointness, by dealing with the Joint Command. I hope that, as we develop the process, here, to bring together the elements of the military so that we eliminate stovepiping and the protectionism of one branch of the government and its programs from the incursion by another branch of the military, that we'll be able to maintain that jointness. Obviously, it's not easy. Wasn't easy, some time ago, or we wouldn't have created the command to deal with it. I hope that it's now systemic in the thinking within DOD, as well as in the branches of the military, to think in terms of jointness and reduction of stovepipe.

Senator Levin and others have asked that this analysis that you're working be provided to us, in a detailed analysis. Do we have a timeframe to expect what your analysis will be—in other words, what your methodology is to reduce unnecessary expenditures, to eliminate some of the fat that, perhaps, has developed with double-digit increases in the budgeting—do we have a timeframe where we might expect that?

Mr. LYNN. As I indicated at the outset, there are four tracks in this effort. The first track, which is focused on the $100 billion savings, the savings themselves and the analysis that supports them will be part of the fiscal year 2012 Defense budget submission to Congress in February. The track-two effort is outside efforts, including the one General Cartwright referred to, in terms of just civilian employees. We'll be, certainly, reporting those as they come available. Track three is focused on particular practices within the Department. Secretary Carter testified to some of those, just a few moments ago, and he put out a memo on the changes that we're making in the acquisition system, earlier this month. If we haven't already, we're happy to provide that to the committee, and finally, in track four, we have a series of taskforces that are working on implementation plans. As they develop, we'll provide those to the committee.

Senator BEN NELSON. All right, thank you.

One particular area where I've been very pleased to see the level of coordination between the Navy and the Air Force is the Global Hawk program. The progress in joint training and coordinated operation here in this program hint at the opportunities that are there to eliminate redundancy and improve mission effectiveness.

Now, I am going to go to one specific area where I hope that we can continue that kind of cooperation and that kind of a joint effort, and that is on unmanned aerial vehicles. I've already spoken to both General Casey and General Schwartz. They've acknowledged that they have to do better to try to coordinate their efforts. We don't need two separate programs with any unnecessary duplication that might come from that. Since both the Army and the Air Force plan to spend more than $7 billion on similar aircraft, it raises a red flag. It's not that the red flag can't be taken away—overcome—but, the red flag is there, and I hope that we'll direct the attention necessary, because that's a very specific area where I think redundancy is very likely to be encountered.

I wonder if you have any comments, General Cartwright.

General CARTWRIGHT. There are places where we like commonality, and we look for commonality rather than redundancy—in our unmanned aerial vehicle systems, the ground control networks, the space side of the equation, and making sure that they are common, to the best extent possible.

In the unmanned aerial vehicles, what we have is a different mindset for procurement. I'd turn to Dr. Carter on some of this. But, the key is a common vehicle with different payloads; and using that, and being able to adapt those payloads as the fight changes well inside of normal acquisition practices—has been our advantage in that area. We seek to capitalize on that, as we move forward, not only in the unmanned aerial vehicle systems, but also in others.

Ash?

Dr. CARTER. I think General Cartwright has it just right. The only thing I'd add is, on the specific matter of Global Hawk—and I indicated this in the document issued 2 weeks ago—that is a program whose cost has been growing; and, I think unnecessarily so. So, that is one where we are intent on restoring what I referred to earlier as "productivity growth." I have very good cooperation from those who are performing the work, who recognize that the cost has been growing. This is an important program to us. We can't allow ourselves to manage it in a way where it becomes unaffordable. So, it just happens that that is a program of—that is a focus of my attention—managerial attention, at the moment, for just the reason I indicated earlier, when I expressed our dismay at coming to you with exactly the same thing every year, and asking for more money for it. So, Global Hawk is one we need to do some work on, important as it is.

Senator BEN NELSON. Do you agree that there is a commonality developing between the Air Force and the Army with respect to that?

Dr. CARTER. I do agree. I think General Cartwright's exactly right. The rearward communications, the processing and exploitation systems, commonality there; some of the handling systems in the field, making them common; and then having a suite of mission payloads from which any service or any user can draw, these are the key ingredients of a sort of mix-and-match strategy towards UAVs. We see that our in the field in Afghanistan, the way we actually use the unmanned systems.

Senator BEN NELSON. Okay. Thank you all.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you very much, Senator Nelson.

Senator Brown, I believe, is next.

Senator BROWN. Thank you, Mr. Chairman.

First of all, thank you for trying to give us the best value for our dollars. I think that every agency in the Federal Government should do a top-to-bottom review and try to streamline, consolidate, and offer those savings. Being somebody who's in the military, I'm keenly concerned and aware of that fact, that we need to maximize our dollars, in this day and age, because of what's happening federally.

That being said I find it curious that you have to come up with a budget, yet the Federal Government isn't even doing a budget. You know Congress, we don't have budgets ourselves, but we're asking you and other agencies to come up with a budget. So, I would hope that, at some point, we would start to lead by example.

We have a tremendous amount of equipment—Guard and Reserve, Active-Duty equipment now—in Iraq, in particular. We have yards filled with it, just sitting there. Has there been any thought, in an effort to create jobs and to basically get our equipment up and running and ready for the next battle, to move forward some of the expenditures that were going to be used for that sort of thing, maybe, down the road and bring it forward, to actually get that—those things happening right now—creating jobs, upgrading our equipment, getting everything back into the system, and then, ultimately, understanding and reevaluating where we need to go from there? Because we may not need some of the—some of the equipment that is slated, down the road, if we just take care of the stuff we have. So, I'll just throw it out there for whomever.

Mr. LYNN. I'd ask General Cartwright to comment. But, we have a major reset program, ongoing, taking the equipment, right now, out of Iraq, and refurbishing that equipment, where appropriate, and bringing it back for units in the United States. That's going through the depots, and that's going on as we speak.

General CARTWRIGHT. I would just add, there's a juggling act that goes on with some of this equipment that's forward-staged as we reposture towards Afghanistan. Some of this equipment is positioned and actually being repaired and upgraded, coming out of Iraq, out there in theater, so that it can be moved directly across to Afghanistan. So, that's one class of equipment.

There's another class of equipment that we need to get back to the United States so that Guard units and Active-Duty units actually have something to train on and that we can get it.

There's a third aspect here, which is the throughput capacity of our depots and our commercial activities that work this. We're trying to maximize that activity and keep it as efficient, both in cost and effectiveness, as we can.

Then there's the last category, which is that equipment, I think, some of which to you are speaking is, we're probably not going to use this equipment. It's probably coming back, and it's actually out of date in its mods, and we probably are going to replace it with the next generation. So can we take some of that equipment, train people, like Iraqis, to maintain it, and then provide it to them, as a case, so that we'd get the most bang for the buck and we keep them on an American-type system?

So, those classes, we try to balance against. The highest priority is making sure that anything we need in Afghanistan that happens to be located in Iraq, we get there as quickly as possible. Keep the depots moving quickly so that we can train and equip the forces that are in combat. Then we start to work to the lesser categories.

Senator BROWN. Just to pick off what Senator McCain was saying, the whole idea of competition within—dealing with people that are providing equipment for us, in the armed services or any other agency. Secretary Lynn, do you believe that competition is a good thing? If so, what are we doing to promote or send a message to

us so we can do our thing to help promote competition? Do we get a better product? Do we get a better price? It seems like the Federal Government's the only place where we don't.

Mr. LYNN. We think competition is an important tool to get better prices and to get better equipment for the same or lower prices. It doesn't work in every case. You have to make sure that you've structured the competition correctly so that it's not an allocation, so you're not maintaining both contractors indefinitely. You need to ensure that you're not overinvesting upfront. But, in cases where you can avoid those pitfalls, it is a strong tool.

Dr. Carter mentioned the LCS. We've restructured the buy to have much greater competition, and we're finding results from that.

Senator BROWN. Thank you. One final question. When work done by private contractors is absorbed by DOD personnel and labeled "inherently governmental," does it end up costing the taxpayers more money, because the Federal employees cost significantly more, when you take into account retirement and health benefits? Is that an accurate statement? Does it cost more?

Mr. LYNN. You're asking, do Federal employees cost more than private?

Senator BROWN. Yes.

Mr. LYNN. As a general statement, I don't think that's accurate, no.

Senator BROWN. Great. All right.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Brown.

Senator Webb.

Senator WEBB. Thank you, Mr. Chairman.

Before I begin my actual statement, I'd like to point out that a number of community leaders and constituents from Virginia are here today. Congressman Bob Scott was here, I'm not sure if he's still here thank you for coming—Mayor Johnson, from the City of Suffolk, and senior staff representing Governor McDonald.

We are all united in our concern about the process that has been used with respect to JFCOM. I would ask unanimous consent that statements submitted by Senator Mark Warner, Governor McDonald, and Mayor Johnson be entered into the record at the end of my turn here today.

Chairman LEVIN. They will be so entered.

Senator WEBB. Thank you, Mr. Chairman.

[The information referred to follows:]

Prepared statements submitted by Senator Mark Warner, Governor McDonald, and Mayor Johnson are included at the end of this hearing. [See Appendixes E, F, and G].

Senator WEBB. I've served 5 years in the Pentagon. I support, as a general principle, the DOD efforts to bring efficiencies into the process over there. I'm particularly interested in seeing what you can come up with, with respect to grade-creep, which has been significant since my years in the Pentagon, in the 1980s.

I've worked on this issue since I've been in the Senate. Probably the most dramatic impact was when Senator McCaskill and I worked together to create the Wartime Contracting Commission in order to correct systemic deficiencies in that process.

But, any proposal relating to major changes affecting unified combatant commands should be guided by a clear process, a sound analytical basis, in compliance with applicable laws, in a way that everybody can understand it. This is not a parochial issue. It's an issue that's going to become more important to everyone on this committee as Secretary Gates and others follow through on their stated intention to consolidate other military bases and installations.

The present lack of transparency and consultation, particularly with our delegation, stands in stark contrast to how these decisions traditionally are made. We heard, today, that the Pentagon spent several months reviewing proposals, including holding more than 30 meetings. We did not have access. We didn't have an opportunity to provide input. In fact, on August 9, Secretary Lynn, you called me 15 minutes before this decision was publicly announced. That's not the way to conduct a review that has enormous implications to our defense and also to community interests. I believe, in another sport, it's called "stiff-arming."

We need to know the analytical matrix that was used to compare all the commands and the agencies if we're able to evaluate a major proposed organizational disestablishment of one. We need to know if the Department has conducted comparative analysis of other major commands.

This same lack of responsiveness has marked the Department's approach to many other requests for information from our delegation. Seven weeks ago, we began making multiple requests, seeking answers to a variety of important decisions. To this point, we've been stonewalled.

Seven weeks ago, the same week of the JFCOM announcement, I asked for data on the size of major DOD and military department staffs. I think that's a relevant question, particularly all the exchange we've had here, in terms of tooth-to-tail ratios and this sort of thing. I haven't gotten an answer. I haven't gotten an answer on how big the OSD staff is. When I was in the Pentagon, I think that would take maybe an hour. We're still waiting.

The Department has failed to answer even the most basic questions that have come from this delegation with respect to a cost-benefit analysis that shows what savings would be gained by closing JFCOM, and how they would outweigh the elimination of the missions that JFCOM currently performs. We have no real information, at this point, that allows us to quantify the possible effects of this proposal in such areas as fiscal and local economic implications.

The Commonwealth has been a strong supporter—I think everybody knows that—of the military and of its families, particularly this area in the Commonwealth of Virginia. Every day, officials in our communities interact on a multitude of decisions to coordinate actions relating to military facilities. This affects business planning. It affects community planning. It affects real estate values down there. People are perplexed as to why the process guiding this proposal is being conducted in such complete contrast with the Department's traditional approach. So, this has led many to conclude that there is no comprehensive analysis that would support this recommendation to close JFCOM. It leads to the question, ac-

tually, in a larger scale, of how serious DOD really is about lasting reform on a broader scale.

We need to get our questions answered. We deserve to have a full understanding of the Department's analysis and implications. We need facts.

Today I filed an amendment to the NDAA that would require the Secretary of Defense to provide detailed analysis and other assessments that we have requested before the President would close or align any unified combatant command, not simply JFCOM. Senator Warner is a lead cosponsor. I hope my other colleagues will think about this and consider supporting the amendment. I'm also renewing my call to President Obama to withhold any final action on this recommendation until we have that sort of information.

I know my time is up, but let me say one thing, Secretary Lynn. You once were a staffer on this committee. Is that correct?

Mr. LYNN. Yes, sir.

Senator WEBB. Okay. You worked for Senator Kennedy, as I recall.

Mr. LYNN. That's correct.

Senator WEBB. On your way back to the Pentagon today, I would just like you to think about what staff member Lynn would have said to Senator Kennedy, in terms of advice, if Senator Kennedy had been stiffed with a 15-minute phone call, when an announcement of this magnitude was made, and then not provided information for a 7-week period when he tried to gain information. I think I know what the answer to that would have been.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you very much, Senator Webb.

I think we probably ought to give Secretary Lynn an opportunity, if he wants, to comment. He either can do that now or we can do that later. The vote has started, but, I think, if you want to take an opportunity now to comment—if you wish. You may not wish to do so, but——

Mr. LYNN. No, I would like to comment.

Secretary Webb, I—Senator Webb—well, former Secretary Webb—I appreciate that you do not feel that we have shared as much information as you would like, although I think the core issue here is, I think, a disagreement over the recommendation. This was not a business-case analysis, as some have described it. This was a military decision. The Secretary consulted with his closest military advisors on the rationale for the JFCOM. There are four central purposes in the Unified Command Plan having to do with joint manning, joint training, joint doctrine, joint experimentation.

On the joint manning area, the conclusion is that it was duplicative. It was not a value-added function, that that function was better performed here in the Joint Staff, and that the JFCOM should be taken out of that. On the joint training/joint doctrine, those are purposes that continue and that we need to maintain our progress in that, but that we have made sufficient progress in that area that we no longer need the billion-dollar expense and the continued leadership of a four-star military command in that area.

I know we disagree on that, but that is the central rationale.

We will then review implementing that decision. That will determine how much of the billion dollars we might be able to save and how much will need to be continued in order to maintain the joint training/joint doctrine centers and facilities, some of which would continue to stay in the Norfolk area.

Senator WEBB. If I may, Mr. Chairman.

Just as an immediate reaction, there are no decisions of this magnitude that are military decisions. Not in the United States. There are military recommendations to the Secretary of Defense, who then makes a recommendation to the President. Those are essentially civilian decisions.

I appreciate the distinction that you're making, but it doesn't answer the questions that I have. What I would really appreciate from you, the reason I stopped was, I know that we have to go for a vote, and I wanted other people to be able to have their questions. But, I really would ask that your Department be more forthcoming when we were requesting information so that we can evaluate this. It's not simply whether we disagree. We deserve to make our own evaluation, based on information that we can be provided only by you.

Mr. LYNN. I appreciate your request, Senator. We met with some of the members of the Virginia delegation, this morning, to try and start that, including the Governor. We've talked about setting up a meeting with yourself, with the Governor, other members of the Virginia delegation, with Secretary Gates, directly, to discuss that. We are establishing a channel in order that information, that the delegation feels is crucial to be considered, be considered by the task force that's reviewing the implementation of the Secretary's recommendation.

Senator WEBB. Well, Mr. Secretary, I'm asking for basic data. Data you could provide in 1 day. I'm glad to be able to have the meetings, but it doesn't seem to me that it would take 7 weeks for you to tell me how many people are on the OSD staff.

Mr. LYNN. I will get you the number on the OSD staff.

[The information referred to follows:]

Please refer to the attached correspondence to Senator Webb, dated November 17, 2010.

THE SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000

NOV 17 2010

The Honorable James Webb
United States Senate
Washington, D.C. 20510

Dear Senator Webb:

I am writing in response to your recent letter regarding current and historical staffing levels within the Department of Defense.

You would think that your questions for this information would be simple to answer quickly, but unfortunately, it was not. Please find attached our best effort to reconstruct this historical data from a variety of sources.

Without prejudging your assessment of this information, I believe it underscores the concern that the Department of Defense has allowed its headquarters and administrative support functions to grow to inappropriately high levels, diverting resources from critical mission areas. This concern is even more pronounced once you add the data on the significant levels of contractors that are being used in most of the organizations listed plus defense agencies and field activities. This is one critical area of focus for the various reviews we began earlier this year. This effort is nearing its completion, and I look forward to being able to share with you and your colleagues further details on this situation in the weeks ahead.

Thank you, again, for your continued interest and engagement on this issue. I look forward to working with you as we strive to achieve the Department's desired management and budget efficiencies while continuing to ensure the security of our nation.

Sincerely,

Department Headquarters Staff

	1950	1970	1990	2000	2010
OSD	1485 Civilian 453 Military	1949 Civilian[1] 871 Military	1550 Civilian 607 Military	1492 Civilian 482 Military	2284 Civilian[2] 384 Military
Joint Staff	200 Civilian 310 Military	400 Civilian 1293 Military	308 Civilian 1311 Military	209 Civilian 1095 Military	256 Civilian[3] 1018 Military
Army	10917 Civilian[4] 3118 Military	6844 Civilian[5] 3207 Military	1779 Civilian[6] 1326 Military	1416 Civilian[7] 992 Military	2766 Civilian[8] 1047 Military
Navy[9]	1319 Civilian[10] 396 Military	855 Civilian[11] 414 Military	908 Civilian and Military[12]	554 Civilian[13] 316 Military	409 Civilian[14] 113 Military
Air Force	5980[15]	5181[16]	1084 Civilian[17] 1555 Military	789 Civilian[18] 1381 Military	1214 Civilian[19] 1473 Military
AFRICOM	Not Requested	Not Requested	Not Requested	N/A	648 Civilian 837 Military
CENTCOM	Not Requested	Not Requested	Not Requested	197 Civilian 1160 Military	714 Civilian 2650 Military
EUCOM	Not Requested	Not Requested	Not Requested	243 Civilian 1398 Military	548 Civilian 2484 Military
JFCOM	Not Requested	Not Requested	Not Requested	354 Civilian 1368 Military	1613 Civilian 1544 Military
NATO	Not Requested	Not Requested	Not Requested	120 Civilian 2271 Military	9 Civilian 2391 Military
NORAD	Not Requested	Not Requested	Not Requested	32 Civilian 254 Military	64 Civilian 260 Military
NORTHCOM	Not Requested	Not Requested	Not Requested	N/A	609 Civilian 881 Military
PACOM	Not Requested	Not Requested	Not Requested	700 Civilian 2320 Military	1018 Civilian 2778 Military
SOCOM	Not Requested	Not Requested	Not Requested	332 Civilian 1420 Military	1672 Civilian 1911 Military
SOUTHCOM	Not Requested	Not Requested	Not Requested	115 Civilian 705 Military	615 Civilian 1086 Military
SPACECOM	Not Requested	Not Requested	Not Requested	438 Civilian 1242 Military	N/A
STRATCOM	Not Requested	Not Requested	Not Requested	369 Civilian 1368 Military	1352 Civilian 1966 Military
TRANSCOM	Not Requested	Not Requested	Not Requested	500 Civilian 597 Military	577 Civilian 861 Military

[1] After considerable searching, the Department was not able to find data for 1970 in sufficient detail. Therefore, the data listed is from 1969.
[2] The personnel numbers provided to Senator Webb on October 1, 2010 were slightly different: 2278 Civilians and 384Military. The numbers provided on this chart are the most up to date.
[3] The personnel numbers provided to Senator Webb on October 1, 2010 were slightly different: 284 Civilians and 1002 Military. The numbers provided on this chart are the most up to date.
[4] Data from 1950 is taken from the 30 September 1985 letter from Acting Secretary of the Army to Senator Barry Goldwater and it reflects actual strength not authorized strength.
[5]Data is from 1970 taken from the *Army Progress Report: The Manpower Program: Civilian Personnel Strength* (Office, Assistant Chief of Staff for Force Development, January 1970), and *The Army Manpower Program: Military Personnel Strength Report: Services---Administrative, Protective (Quarterly)* (Office of the Deputy Chief of Staff for Personnel, January 1970). Actual strength numbers were 5590 civilians and 3222 military. Actual strength numbers are taken from the 30 September 1985 letter from Acting Secretary of the Army to Senator Barry Goldwater.
[6] Data from 1990 is taken from *Project VANGUARD Final Report, Volume I* (Project VANGUARD, 15 December 1990).
[7] Source is from G-3/5/7's Force Accounting and Documentation.
[8] Source is from G-3/5/7's Force Accounting and Documentation.
[9] The personnel numbers for the U.S. Navy include U.S. Marine Corps personnel. In addition, the Navy understood "headquarter staffs" in the inquiry to include only the Department of the Navy (i.e. SECNAV) staffs.
[10] The data is from Fiscal Year 1950 and it is derived from the Personnel of the Naval Shore Establishment January 1950. Actual end strength numbers were 1256 Civilians and 387 Military.
[11] The data is from Fiscal Year 1969 and it is derived from Personnel of the Naval Shore Establishment December 1969.
[12] The data is derived from OSD report of 1 May 2001 and it was not broken out between civilian and military personnel.
[13] The data is from Fiscal Year 2000 and it is derived from FY 2000 PB-22.
[14] The data is from Fiscal Year 2010 and it is derived from FY 2010 PB-55.
[15] Based on the data available, the Air Force was unable to breakout military and civilian data for 1950. The data for was obtained from historical records.
[16] Based on the data available, the Air Force was unable to breakout military and civilian data for 1970. The data for 1970 was obtained from historical records.
[17] The data for 1990 was obtained from Future Years Defense Program (actual strength) for respective years. The data was current as of 8 Nov 2010.
[18] The data for 2000 was obtained from Future Years Defense Program (actual strength) for respective years. The data was current as of 8 Nov 2010.
[19] The data for 2010 was obtained from Future Years Defense Program (actual strength) for respective years. The data was current as of 8 Nov 2010.

Senator WEBB. We have a series of questions that are data-oriented, that literally could be answered in 1 day, and in 7 weeks we haven't gotten any answers.

Mr. LYNN. I'll look into those, though the OSD question, I wasn't aware of, but we'll look into those questions and get you the data as soon as we can.

[The information referred to follows:]

Please refer to the previous response to Senator Webb, dated November 17, 2010.

Senator WEBB. Thank you.

Thank you, Mr. Chairman.

Chairman LEVIN. The data will come, not just to Senator Webb, but the committee as well?

Senator WEBB. Yes.

Mr. LYNN. Of course.

Chairman LEVIN. We all, obviously, have an interest in this. I think his frustration reflects the kind of frustration that many of us would have about a lack of process and analysis. I made reference to that in my opening statement. I don't know whether, Senator Webb, you were here or not. But, I do feel that—on the process and the analysis issue, that there's really a feeling, at least some of us have, and I surely do, that it was not adequate here. Putting

aside for a moment what that data would show, there is an absence, here, of an analysis that's been forthcoming, not just to Senator Webb, but, I think, generally, publicly on this matter. That material, it would seem to me, should have been available prior to the decision, not just after the decision.

That represents my own views. I think it also represents—I'm here, guessing a bit—the views of many members of the committee, who, if put in the same position as the Virginia delegation, would react in the same way.

What we're going to do is recess now. We're going to have two votes. This probably inconveniences our panel. I don't know if you were notified in advance—talking about process—of the fact that this would likely happen. If not, I apologize. But, if you were notified, that's the situation we're now in. We will probably get back here in about 25 minutes.

Thank you. [Recess.]

Okay, we're going to begin this.

Senator McCaskill is supposed to be here in just a few minutes.

Secretary Lynn, I know that you are going to the funeral, and so, when you need to leave, just wave your hand and leave.

Mr. LYNN. About 10 minutes, I would think.

Chairman LEVIN. Okay, that'd be fine.

Let me start, then, while we're waiting for Senator McCaskill.

Dr. Carter, you made reference, I believe, to the test-and-evaluation issue, that the Acquisition Reform Act was so determined to reestablish that position. I think you've already indicated that a robust developmental test-and-evaluation capability is important, and that's not going to be disturbed. Is that correct?

Dr. CARTER. That's correct.

Chairman LEVIN. Okay. Now, one of the Defense organizations that the Secretary plans to eliminate is the Assistant Secretary of Defense for Networks and Information Integration. ASDNII, I guess it's called. The Department has indicated that the functions currently performed by ASDNII will be transferred to the Defense Information Services Agency, Cyber Command, and other appropriate agencies.

Secretary Lynn, if the Department delegates the oversight-and-management roles that it currently performs to lower-level agencies and commands, isn't there a risk that either of these agencies will be responsible for overseeing themselves or that there will be no oversight? In other words, how will the OSD staff conduct oversight of command-and-control efforts, cyber security efforts, and other critical IT functions, without the resources of the ASDNII?

Mr. LYNN. Couple of things there, Mr. Chairman. One, is, we will retain the chief information officer, and that individual will be a direct-report to the Secretary of Defense. So, in terms of the level, you will still have that direct-report that the NII has now. We think that, with the steps that we're taking, we're going to give that CIO greater resources. We're going to pull in the resources from the Joint Staff's J–6 directorate, from DISA, as you indicated, and potentially some functions from other areas, to unify the IT oversight in the Department. We think we'll end up with a stronger CIO.

Chairman LEVIN. Okay.

Dr. Carter, the Secretary's established a task force on a reports, studies, boards, and commissions study group that is analyzing ways in which the number of advisory studies can be reduced to a more efficient level, to recommended which boards and committees provide insufficient value. I think a number of you made reference to that part of the decision of Secretary Gates. What I'm concerned about are the rumors that the Military Services' Science and Technology Advisory Groups could be targeted for those cuts.

What is your view of the contribution of the Military Services' Science and Technology Advisory Groups in making recommendations to the Department's future investments in critical technology areas?

Dr. CARTER. I know those boards are under review in the Efficiencies Initiative. As the staff member responsible for the day-to-day shepherding of the Defense Science Board, I've provided that information to the group that Mr. Rangel has looking at the advisory boards. We've provided them with all of our data on the Defense Science Board, and they're looking at that and also the Service Science Boards.

Chairman LEVIN. Secretary Lynn, one of the defense components that the Secretary plans to eliminate is the BTA. Now, earlier this year, the Department's Deputy Chief Management Officer (DCMO) told the committee that the BTA plays a crucial role in the business-process reform that is needed to reduce waste and inefficiency in the Department's operations. Over the years, the military departments and the defense agencies have proved incapable of modernizing their own business systems.

The GAO recently reported that the Department's largest modernization programs are running billions of dollars over budget and as much as 6 years late, and BTA was assigned to provide needed leadership, expertise, and assistance in that effort.

Now, the implications, then, of the elimination of the BTA are that the efforts to improve business systems and processes is going to revert to those who have proven incapable of managing that in the past. Or is some other entity going to provide the leadership, the expertise, and the assistance for which the BTA is currently responsible?

Mr. LYNN. The BTA was created prior to the creation, by Congress, of the DCMO, and the functions of the two overlap fairly substantially. So, as we went through looking to delayer, per the Secretary's direction, the conclusion was that we could eliminate the agency, move the oversight functions, that you've described, to the DCMO and save a layer and probably reduce some of the staff resources, due to the duplication. But, there will still be that oversight function, at the OSD-level, on business processes, but it will be in the DCMO office.

Chairman LEVIN. Now, what's the status of the Defense Agencies Initiative? They made some progress in improving the financial and business systems of the Defense agencies—is that initiative something that you're familiar with, offhand? That doesn't ring a bell with you?

Mr. LYNN. Well, you referred, at the outset, to the audit. So, the underlying effort to get a clean audit opinion is the modernization of the financial systems themselves, that's what that refers to.

Chairman LEVIN. Your answer, then, is that you're going to save a layer, but that the responsibility is clear——

Mr. LYNN. Yes.

Chairman LEVIN.—for where that responsibility's going to lie.

Is the 2012 budget, when you submit it, likely to reflect the areas in which the efficiencies have been made; or, decided upon, as well as the areas in which the funding is proposed to be added? Are you going to identify those two things in your budget request?

Mr. LYNN. We're working towards that end. I think you're really talking about track one and the hundred billion dollars. We are looking to do—there's a lot of churn as you build a budget, so it's not as straightforward as you might think, but we are working to establish a baseline and to understand where the shift occur when they move from overhead to warfighting accounts, and we'll present that in the fiscal year 2012 budget.

Chairman LEVIN. They're going to be identified?

Mr. LYNN. We're going to do the best we can to—as I said, when you build a budget, there are a lot of changes, independent of this, so disentangling those changes from these policy changes is a data challenge. But we think this is an important initiative, and we're cognizant of the need to present data to Congress to support it.

Chairman LEVIN. If it's not done in that way, with the budget submission, would it be done in some other way, like kind of a wrap-up, "We set out to do, and this is what we did do, and this is what we expect the savings to be"? Will there be some kind of a summary when the decisions are finally made?

Mr. LYNN. Yes. I think we will present something with the fiscal year 2012 budget. It may be just as you described or it may be something else, but I think, when we present the fiscal year 2012 budget, we will present our conclusions on this $100 billion initiative.

Chairman LEVIN. General, you could answer this. Does the Department expect to retain the Joint Improvised Explosive Device Defeat Organization for the long-term? JIEDDO?

General CARTWRIGHT. I think, Senator, we'll retain it, to the extent and for the amount of time and in a character that is supportive of what we think we need in the field. Whether that becomes a standing organization, independent of the conflict we're in, I think that that would be something that we would take a very serious look at. But, there are elements of JIEDDO—command-and-control activities, intelligence activities, et cetera—and we have already gone through several relooks to make sure that we need each of those pieces to conduct the function we think is essential today.

Chairman LEVIN. Now, there's a number of other rapid response programs and organizations, in addition to that one. Is there opportunities that you see for cost efficiencies through consolidation of those kind of rapid response organizations?

General CARTWRIGHT. I think—and I'll turn this over to Ash Carter here, because he has a big hand in this, but from my perspective, as the warfighter part of the discussion that we've had today about JFCOM is about those things that are actually cross-cutting, that no one service represents the entire Department's position, things like ISR, things like some of these other agencies. the

crosscutting activities have had a significant impact in our ability to do what we're doing in the field, to do it in a way that is coherent so that we don't have four different solutions for the same problem. To the extent that they can continue to do that, that is some of what JFCOM has been able to do for us. So, we have built these organizations, these so-called "horizontal activities," to cover down on those types of things that we, today, call "joint," but, in reality, are also standards and being able to work in the interagency and to work with allies. They have done it in a way that has been very effective and very efficient. So, to the extent they continue to do that and are evaluated as being such, we'll try to retain them.

Ash?

Chairman LEVIN. Okay.

Now, Senator McCaskill's here.

Secretary Lynn, we kept him as long as we could, but he has to go to the funeral.

Senator MCCASKILL. That's fine.

Chairman LEVIN. I think you understand that. Your—your paths crossed as you were coming——

Senator MCCASKILL. Yes, I understand.

Chairman LEVIN.—and he was leaving. Okay.

Senator MCCASKILL. As I was sprinting to get here.

Chairman LEVIN. We know you were, and we were aware of the fact you were coming.

Secretary Carter, you want to add a quick answer to that before I call on Senator McCaskill?

Dr. CARTER. Just one note. It is exactly as General Cartwright said. However, in this field, which is the rapid response, the ongoing fight, we're looking for efficiencies, but the principal objective in looking at all of these organizations that have sprung up over the last 8 years or so to provide rapid and responsive support to the warfighter, is effectiveness. We're still not there, where we should be, in terms of being able, rapidly, and agilely respond to the needs of the warfighter in the acquisition system and the logistic system. This is something that General Cartwright and I work on together every day.

So, efficiency is one thing and obviously, is a very important objective. But, the other thing is truly being responsive, and that's what JIEDDO was created to do, various taskforces and so forth, and we're still looking, I would say, for the right managerial mechanism to support the ongoing fight. A lot of it's done now by the personal attention of General Cartwright, myself, and many others at the top.

Chairman LEVIN. Thank you.

Senator McCaskill.

Senator MCCASKILL. Thank you. Thank you, Mr. Chairman, and I really appreciate your indulgence in allowing me to hustle back here so I could have some time to ask some questions.

Secretary Carter, as a former auditor, I feel your pain at the number of reports that have been developed and that no one reads. It is very common, when you have to make a hard decision, that it's easier to do a report. Most of the time, the call for studies and reports that comes from this place is in lieu of making a hard decision.

Just to give one example—and I think one example where General Cartwright and I disagreed was on Joint Requirements Oversight Council (JROC). I think we have figured out that, over the years, JROC has not always done what it should do, in terms of being a check on acquisition, that it had—when we looked into it, I was hard-pressed to find an example where the various branches were not, "Okay, I'll give you this if you give me that."

So, in an effort to deal with that, I offered two amendments, on the NDAA, that would deal with the problem of the JROC being a giant back-scratching organization, as opposed to an organization that was really holding branches accountable, in terms of the acquisition process.

One of those amendments went through. The amendment that went through was allowing the COCOMs to have some input into the process. The other amendment, that didn't go through was the amendment that would have given you, Secretary Carter, the ability to have some kind of check and balance over the JROC. Now, General Cartwright didn't like that. General Cartwright, once I passed that in the NDAA, said, "Why don't we do a study and look at it?"

I think that's the kind of decision that actually magnifies the problem. I think the right call was to have somebody overseeing this, or have some kind of input into it. I thought the Under Secretary of Defense for Acquisition was the right person.

So, let me ask the question, General Cartwright, how is the study going? What assurances can you give me that the JROC has evolved beyond, "Give me what I want and I'll give you what you want"?

General CARTWRIGHT. Well, the scratch-my-back analogy, I think, is probably a mischaracterization, but we can disagree about that. But, the study basically came out and gave us information, which we have introduced back to Congress now, that does a couple of things. One, it puts the vice chairman in a decision position, similar to a service acquisition chief. So, in other words, I'm accountable for those decisions. Two, it brings other members in and allows us to bring the COCOMs in, in an authoritative way, rather than to just sit at the table and give us an opinion, along with key OSD principals that are necessary, that represent resourcing and acquisition. Three, it brings a very authoritative role in, of the test community, to say, in the JROC, that what you're saying is, in fact, one, testable, that can verify that it—that you're going to get the performance you want or the metrics that you want; and, two, that they are then a part of the activity continuously, all the way through, into the milestone decision process that the acquisition community runs.

We want common or similar representation so that the decisions that are made that represent what the customer says they want, not what someone else may want to give them, are in all of the forums now, all the way through acquisition and resourcing.

So, you have a common group of people that can be held accountable for those decisions from birth to death.

Senator MCCASKILL. Well, you may have been right and I may have been wrong. I definitely am wrong with some frequency. But, I want to know, ongoing—what we couldn't find is a place where

JROC really did what it was supposed to do. We couldn't find a place where JROC stopped anything. I mean, the idea here is that you're supposed to catch things that aren't going to work, that are going to be too expensive, that you're going to figure out why, that you're going to make sure the requirements—and so much of this, probably 90 percent of it, is requirements, and that's why the COCOMs are so important.

Let me move on to another subject: contracting. Wartime contracting has been stovepiped, mostly because it can be. The lack of competition is, frankly, a huge part of the problem. We're not talking about, now—I certainly agreed with Senator McCain, that some of the problem is a lack of competition among Defense contractors for the big stuff. But, there really isn't an excuse for a lot of the services' contracts. We're not talking about a lot of capitalization costs, for a lot of these service contracts. But, once again, what you see is a lack of competition, without a good excuse as to why there's a lack of competition. That, Secretary Carter, is where I think there is real, real money. I just urge you to bring to us, in this effort, how, not only you're looking at contracting in a macro sense, but how you are drilling down on contracting in wartime as it relates, especially, to logistics and troop support.

I'm a conservative person when it comes to estimating numbers, because of my auditing background. I think it's very conservative to say that we've had $100 billion go up in smoke in Iraq, from bad contracting, that it's not as if there weren't competing people who could have been brought in; it just was easier not to. So, I urge you to keep us posted on how you're integrating that kind of contracting into the contracting reforms.

Finally, Mr. Chairman, if I have your indulgence to go over just for——

Chairman LEVIN. No. No.

Senator MCCASKILL.—one more thing.

Chairman LEVIN. You can take your time, here, because this is your second round now, and——

Senator MCCASKILL. Okay.

Chairman LEVIN.—there's no other——

Senator MCCASKILL. Okay, great.

Chairman LEVIN.—no one else here's waiting on their questions.

Senator MCCASKILL. Okay, great.

The audits. I tried to count up how many auditors you all have working in the defense sector, whether it's through IGs or whether it's through DCAA or whether it's through GAO. I quit counting at about 30,000. Thirty-thousand people are tasked with some auditing function within DOD, and sometimes with a little hangover into the Department of State, depending on that.

Now, you're getting plenty of reports, without all the reports we're asking you for, that will give you accountability. The question is: Who's consuming them and whether or not you all have a strategy on consuming audits and following up on audits? I would ask you, Secretary Carter, to address that. Are you comfortable and confident that the millions upon millions of dollars of audit work that is ongoing is actually being embraced by the Department?

Dr. CARTER. I'd like to address that and also your first two points, if I may.

Chairman LEVIN. Let me interrupt you, Secretary Carter, if I can.

Senator McCaskill, can you close? Because I'm going to have to leave.

Senator MCCASKILL. I absolutely can.

Chairman LEVIN. Thank you.

Thank you both.

Senator MCCASKILL. That's a scary thing for these guys, though. I promise I won't keep you here all afternoon.

Chairman LEVIN. Yes. [Laughter.]

Senator MCCASKILL. You know I'm capable of it, Secretary Carter, but I will not. I really only have this auditing area to finish up with, and then I will let you go.

Chairman LEVIN. Thank you.

Thank you both.

Senator MCCASKILL [presiding]. Thank you, Mr. Chairman.

Dr. CARTER. With respect to audits, two comments. The first is that I want to make clear that the auditing function, particularly DCAA, does not report to me; it reports to Secretary Hale. So, I don't want to presume to speak for him at all about that particular function.

The part I can speak to is at the earlier stage, and particularly in contingency contracting. You are right, contingency contracting in Iraq, in the early years, did not have the tradecraft and the controls that were appropriate. We've recognized that. One of the first things Secretary Gates said to me, when he hired me in this job, was that he wanted to make sure we learned the lessons of Iraq and applied them in Afghanistan. We're really trying to do that.

I would like to get our contracting system, in Afghanistan, to a point where we don't need to—we'll still need to be audited, but where we'll pass an audit easily. That means having contracting officers in adequate numbers to do the work right. It means having contracting officer representatives there to make sure the work is done on each contract. That means reducing the use of cash, and all of these things. Now—and we have been assiduously working down that list—which is, I think, exactly the same list that you are working down—in Afghanistan, and made considerable progress in each of those areas. We're not where I think we should be, yet.

Senator MCCASKILL. Let me acknowledge that progress. You have made progress.

Dr. CARTER. Thank you. I think we have. But, again, we're not there yet. As contracting officers, for example, I think, we have about an 86- or 87-percent fill rate now. It should be 100 percent. It's better than 43 percent or something, which it was, a year and a half or 2 years ago. So, all along the chain that culminates in an audit, which you hope simply ratifies the fact that you've done a good job for the warfighter, you've been effective, but also, for the taxpayer, you've been efficient—and all through that chain, I think we do need to improve.

The other thing I'd like to absolutely agree with you on, Senator, is the value to be had from improving how we manage services. It's just an area where we have not paid a lot of attention, where, as I said earlier, a lot of the people who are managing those activities are doing it on a—at the margins of the real function that they're

trying to accomplish; it's an enabler for what they do. So, they don't have all the tradecraft that somebody who was, full-time, acquiring services would have.

I think great savings can be had there, across the Services' spend. It's essential that we look there, because that's half the money. That's half the money—$200 billion a year. So, even if we can just get a few percentage points of improvement every year, that's exactly what Secretary Gates wants, because that's money that we don't have to come to the taxpayer for, that we can then take and reallocate, as he wants, to the warfighting capabilities.

Senator MCCASKILL. Well, I hope that you get Senator McCain the list. I hope we can reduce the number of reports that you're sending to us, and that all of us get in the habit of reading audit reports.

I would love to see you embrace—and I know that some of this is not in your portfolio, some of it is in Secretary Hale's portfolio, some of it, frankly, is other places—but, those 30,000 auditors, I don't think their work has been taken seriously. I don't think, right now, if I made Secretary Gates come up here and do a drawing of where the auditors were and what they were auditing on and where the reports went, I'm willing to bet that you all haven't spent a lot of time even looking at that issue.

Well, you all know DCAA and you know GAO and you know the IGs, but the public doesn't realize that most of the IGs in the active military aren't really IGs. They don't report to the public; they report to the commander. So, their reports, while you all get the benefit of it, we never know whether or not you're paying any attention to what the IGs are saying within the Active Forces, because we don't ever get to see the reports.

Let me close with an example of how, if you would spend more time and energy being deferential to the auditing community within DOD, I think that we would get higher quality, in terms of some of the work that's being done and the people who are attracted to the work. That's essential.

I have written, now, three letters to the President about the Special Inspector General over Afghanistan. We now have had an independent review of his work, by a team of auditors, a peer review. They have said that it is woefully lacking. Probably the whipped cream and the cherry on this particular situation is that—here's somebody who's supposed to be the eyes and ears looking at contracting in a major way in Afghanistan, and he hires someone on a no-bid contract for $95,000 for 2 months' work.

Now, first of all, how do you decide that somebody's worth 45 grand a month of public money? How do you decide that's the one? There's no process there. Now, this is the Special Inspector General for Afghan Reconstruction, hiring somebody for $95,000, for 2 months' work. You wonder why the public thinks we've lost our minds. That is not being accountable, the person he hired formerly was the DOD IG with a lot of blemishes. I mean, we're not even talking about somebody that is—doesn't come with his own baggage. The Special Inspector General over Afghanistan should be fired, today. When you have an independent council of auditors saying that the Special Inspector General in Afghanistan—that their law enforcement authority should be removed from them be-

cause they don't have the right control processes in place, this is a problem.

Now, I know you are not in a position to remove the Special Inspector General. But, now, over a period beginning in March 2009, we have tried to point out to the administration that this Special Inspector General in Afghanistan is not up to the job.

After what happened in Iraq, I just would like you, Secretary Carter, to go back to the Pentagon and say, "You know, there are some people over there that aren't going to give up until we have a change in leadership in the Special Inspector General in Afghanistan." Because I know the kind of respect the President has for Secretary Gates. I have a sense, if Secretary Gates weighed in on this, that maybe we'd get some action. I just think it is enough to make the top of my head blow off.

So, I'm happy to give either one of you an opportunity to respond to what I've said. I'm kind of venting in this public place, because I want to and because I can, and because it's wrong that—we have real work to do, in terms of oversight of contracting in Afghanistan. We don't have time, frankly, to be dealing with someone who hasn't shown that they're up to the job.

I would like to propose that we have one special inspector general over all contingencies, and would like your responses to that proposal. So, we would roll into one office that would be permanent, a special inspector general to deal with any contingency operations that the military was actively involved in, so that you would have continuity, in terms of the expertise on contingency contracting; you'd have continuity, in terms of lessons learned; you would have continuity, in terms of a staff that felt committed to that particular activity, as opposed to, "How long are we going to be around, and do I need to hitch my star to another moving target?"

Do you think that would be something that would be welcome, in terms of your job responsibilities, Secretary Carter: one special inspector general for all contingencies?

Dr. CARTER. I hear you loud and clear—and I'll take that back to the Department for consideration, the idea of one overall.

Senator MCCASKILL. We have really good people that learned a lot in Iraq, and then we're trying to recreate this same kind of office in Afghanistan, and it seems to me that we're missing opportunities here. Certainly, the Lessons Learned document, from Iraq, that was done by the special inspector general, should be required reading, frankly, for any commander. I hope it is. I hope that everyone's reading it. I think—Greg Mortenson's books, I think, are very important for the commanders in Afghanistan. But, that Lessons Learned booklet from Iraq, that was put together by Bowen's shop, I think it's very important reading for everyone there.

I do want to acknowledge the progress that's been made. I will look forward to continuing to interact with you about JROC, General Cartwright. I want to believe that everyone there is capable of very independent decisions and saying no to their dear friends and their colleagues, that they—I mean, I just think that environment is a difficult environment to say no to one another. If you are confident that we've made progress on that, I'll look forward to vis-

iting with you about that, and would be happy to acknowledge that the step I wanted to take was a step too far.

General CARTWRIGHT. I think we should continue that dialogue. We certainly owe—not only to you, but to the American people—the ability to make sure that we understand the implications of that which we ask for, from the institution and from the government writ large, to carry on these conflicts. Oftentimes, though, it is not a pure business decision. Sometimes we react and we throw whatever we have in order to protect lives. But, those are usually in the minority.

On the auditors, I think you have the right attributes. What I don't have, in my own knowledge kit-bag right now, is the span of control. But, how do we, in fact, ensure that those lessons and that continuity is moved from one place to the next, and that we don't have 6 months or whatever spin-up time to learn the job, out in the field, and that we have the sizing construct to be able to manage this span of control? I'll take that back with me, and we will keep up our dialogue.

Senator MCCASKILL. That's great, General.

Overall, I want to say, I'm very supportive of what Secretary Gates is trying to do. There is a lot of efficiencies that can be gained, but it's going to take a kind of focus and concentration, and a not-giving-up, because this isn't going to be easy. There's going to be all kinds of things, including a bunch of folks that sit up here, that are going to try to throw out roadblocks, depending on what it is that you're trying to shrink or make more efficient.

But, I, for one, am a big admirer of the process that Secretary Gates is undergoing, here. I think it's absolutely essential. I think that we can have and maintain the finest military in the world, and still be much more efficient with taxpayer dollars in the process.

I look forward to being helpful in any way I can. I thank you both for waiting until I got back, so I had an opportunity to visit with you.

The hearing is adjourned.

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR CARL LEVIN

TEST AND EVALUATION

1. Senator LEVIN. Mr. Lynn, Dr. Carter, and General Cartwright, how will the Department of Defense (DOD) ensure that its developmental test and evaluation enterprise has the necessary resources to ensure that it does its job effectively, as required by Weapon Systems Acquisition Reform Act (WSARA)?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. Acquisition, Technology, and Logistics (AT&L) is actively engaged in developing a path forward to implement Secretary Gates' efficiency initiatives. In particular, we are driving the acquisition community toward greater efficiency and productivity in defense spending. We believe these initiatives are consistent with the objectives of the WSARA of 2009. We are resourcing a robust developmental test and evaluation capability for the Department and we will ensure the initiatives are in full compliance with title 10 U.S.C. 139d, enacted by section 102 of WSARA. We will continue to review our manpower and budget allocations to achieve a prudent balance across the critical missions within AT&L, to include Developmental Testing and Evaluation.

DOD LABORATORIES

2. Senator LEVIN. Dr. Carter, the realistic use of the scientific and technology expertise in the Department's laboratories, such as, the Army's Tank and Automotive Research, Development and Engineering Center in Michigan, the Naval Undersea Warfare Center in Rhode Island, the Air Force Research Laboratory in New Mexico, and the Army's Aviation and Missile Research, Development and Engineering Center in Alabama, can help develop more mature technologies, reducing the cost of major weapon systems. As you are aware, this committee has provided the Department over the years with a number of authorities to provide the labs with flexibilities needed to hire the best and brightest scientists and engineers. What is the Department's view on the role of the defense laboratories to improve the acquisition process and make the acquisition of weapon systems more efficient?

Dr. CARTER. The role of the DOD labs is to contribute to basic science, develop and apply technologies to warfighting challenges, and reduce the technical risk of integrating these technologies into weapon systems. Our defense laboratories perform these functions with excellence including prize winning contributions to science, unique prototyping facilities, and systems integration/engineering skills that contribute to successful and more efficient, mature acquisition programs. As a testament to their commitment to the acquisition community, most of our scientists and engineers are certified as acquisition professionals through Defense Acquisition University's rigorous education programs. The Department will continue to look to the labs to tackle the toughest technical problems and to build success and efficiency into programs early in their life-cycle.

3. Senator LEVIN. Dr. Carter, is the Department contemplating any specific efficiency actions, as part of the broader acquisition efficiency initiatives, to strengthen and improve the DOD laboratories?

Dr. CARTER. The strength and diversity of our DOD lab system has always been at the heart of our success in acquisition. Most recently, we have identified and are validating the first group of core technical competencies (e.g., energetics, armor, electronic warfare and low observable/counter-low observable technologies) of the DOD labs to focus its investments against competencies that must be maintained to ensure the DOD possesses the technology necessary to execute its missions. By focusing investment earlier in the process the labs will contribute to reducing the cost of developing new weapons systems. Taken together and with the continued support of Congress, these steps will achieve efficiencies that will strengthen and improve the DOD lab capabilities.

INDUSTRY INDEPENDENT RESEARCH AND DEVELOPMENT AND INDUSTRIAL BASE HEALTH

4. Senator LEVIN. Dr. Carter, one of the objectives in your September 14th memo was to reinvigorate industry's independent research and development (IRAD) and protect the defense technology base. Despite significant increases in the Department's budget over the last decade, there are significant issues facing the health of certain critical industrial base sectors such as solid rocket motors, microelectronics, and rare earth metals. Can you provide any additional specifics on how you plan to go about reinvigorating industry's IRAD program and ensuring that these investments are directed in a way that will provide the greatest benefit to the Department and to the national defense?

Dr. CARTER. The DOD reimburses industry for its IRAD efforts using rates negotiated by the Department's contract offices. IRAD enables industry's understanding of its own concepts and capabilities to maximize the productivity of research and development investment. In most cases, from a technical perspective, a firm will have a better idea than the Department where the next dollar of R&D spending at that particular company will be most likely to yield a meaningful breakthrough. On the other hand, the Department best understands where innovation would most contribute to warfighters' needs or to meeting other requirements. Open communication between industry and the Department should guide industry's prioritization of IRAD. My sense is this communication between Industry and DOD on specific IRAD investments is not as strong as it could be as a result of changes made during the 1990s to the law governing IRAD processes.

As part of the Efficiency Initiative, the Defense Contract Audit Agency is undertaking a more comprehensive data collection on IRAD expenditures, and the Department will work with industry to find ways to leverage the Department's IRAD investments. This includes adopting improved processes to communicate with industry about both priority investment areas and the results of IRAD spending. The Director of Defense Research and Engineering (DDR&E) is pursuing the implementation

steps identified in the September 14 memo. In the near term, DDR&E has contacted nine of the largest performers of DOD IRAD for discussions and will engage with the National Defense Industrial Association for the larger industry perspective. My goal over the next year is to launch one or more pilot projects that would reinvigorate innovation through better use of IRAD investments, and I will examine all possible approaches allowed by the existing law.

Parallel to the IRAD effort, the Department monitors the industrial base, including specific areas of concern like solid rocket motors, microelectronics, and rare earth elements. The Department is coordinating a sustainment plan for the solid rocket motors industry. A DDR&E-sponsored study is collecting data on domestic and foreign microelectronics suppliers and on defense and commercial demand. The study will also recommend a strategy for the future. The Office of Industrial Policy also prepared a study of rare earth elements supply and demand.

5. Senator LEVIN. Dr. Carter, are you concerned about gaps and shortcomings in the industrial base—and if so, how do you plan to go about identifying and addressing problem areas?

Dr. CARTER. While the Department routinely monitors potential issues in the defense industrial base, we must improve on meeting our responsibility to suppliers by executing stable, well-structured programs with optimized acquisition strategies that will help sustain essential industrial capabilities.

My office periodically conducts industrial assessments to evaluate and address changes in key system, subsystem, component, and/or material providers that supply multiple programs, and affect competition, innovation, and product availability. DOD Components also conduct their own assessments when: (1) there is an indication that industrial or technological capabilities associated with an industrial sector, subsector, or commodity important to a single Component could be lost; or (2) it is necessary to provide industrial capabilities information to help make specific programmatic decisions.

Of particular concern to me are potential gaps and shortcomings in defense-unique and niche product areas where there is low peacetime demand, industrial capabilities are limited, and there is very little competition at the subsystem/component level. Accordingly, we must use many single/sole source suppliers—suppliers for which there may be minimal innovation incentive. Ultimately, these defense-unique industry segments may have an insufficient business case to justify continuing in the market. We have identified many products that cause us concern. Examples include armament and military-unique forgings and castings; metallic and composite armor materials; thermal batteries; solid rocket motors; inertial measurement units; GPS receivers; seekers; fuzes; and warheads. To address these types of issues, the Department is adopting a more integrated approach to identify these single-point failures/concerns earlier in the acquisition process, and establishing more comprehensive (and, when appropriate, interagency) approaches to addressing industrial base issues.

QUESTIONS SUBMITTED BY SENATOR JOSEPH I. LIEBERMAN

SERVICE SUPPORT CONTRACTORS

6. Senator LIEBERMAN. Mr. Lynn and Dr. Carter, I'd like to ask about your efforts to reduce the Department's reliance on services contracts. On the one hand, you've announced your intent to reduce funding for service support contractors by 10 percent in each of the next 3 years. On the other hand, you've announced a civilian workforce freeze for parts of DOD, including the Office of the Secretary of Defense (OSD). I am wondering if we can gain some of the same efficiencies by careful human resource planning that determines, for each function, what is in the best interest of the government. Congress has enacted provisions requiring DOD to implement insourcing guidelines and to review its inventory of service contracts. The purpose of these reviews should not be to make arbitrary decisions, but to make a determination of whether work has been in the wrong hands, for example, has inherently governmental work been contracted out?

Mr. LYNN and Dr. CARTER. We agree that the purpose of these reviews is to determine the most effective allocation of human capital—government and contract personnel alike. Our goal is to improve both the effectiveness of the Department and to find savings by eliminating low-priority functions. Toward that end and consistent with statutory requirements, all DOD Components are reviewing contracted services and considering whether government or private sector personnel are the best means for providing those personnel. We are finding some cases where contrac-

tors are providing services that would more effectively be provided by government personnel. For DOD organizations where the Secretary has directed us to limit organizational growth, in-sourcing efforts are being evaluated in terms of mission priorities and, where appropriate, exceptions for in-sourcing related to growth may be submitted.

7. Senator LIEBERMAN. Mr. Lynn and Dr. Carter, how does this type of human resource planning square with your efficiency review?

Mr. LYNN and Dr. CARTER. The considerations and planning described above are integral to our efficiency review.

8. Senator LIEBERMAN. Mr. Lynn and Dr. Carter, if under the insourcing review DOD determines that a function would more appropriately be performed by Federal employees, or that DOD could achieve savings by insourcing, how does a workforce freeze make sense?

Mr. LYNN and Dr. CARTER. Note that we are implementing a personnel cap, not a hiring freeze. We are trying to control the growth in the size of our workforce. We are allowing some in-sourcing where there is a compelling case for it. In order to effectively optimize the size of our workforce, we must be extremely judicious about creating additional billets for any reason. Consistent with statutory requirements, all DOD components are reviewing contracted services and providing consideration for in-sourcing those services. While some organizations indicated that they have no contracted services that are appropriate for in-sourcing, no DOD organizations are outright exempted from in-sourcing. For DOD organizations where the Secretary has directed us to limit organizational growth, in-sourcing efforts are being evaluated in terms of mission priorities and, where appropriate, exceptions for in-sourcing related growth may be submitted.

QUESTIONS SUBMITTED BY SENATOR MARK BEGICH

READINESS

9. Senator BEGICH. Mr. Lynn, Dr. Carter, and General Cartwright, I support the objective of the initiative, but am concerned the attempt to realize near-term cost savings will come at the expense of the readiness of the current force. Under the initiative, military services can keep what they save, and reinvest those dollars in high priority warfighting needs. However, the Services already make hard choices between the current force, evolving requirements, and the future force. In past budgets we've seen underfunding of base operation and sustainment, depot maintenance, training accounts, and other day-to-day requirements to free up dollars for other investments. Over the years, the investment shortfalls negatively impact readiness by leading to dilapidated infrastructure beyond repair and deferred maintenance of current equipment. What specific guidance was given to the military services with respect to the initiative to prevent detrimental impacts to overall readiness of the current force?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. It was precisely these concerns that prompted the Secretary to aggressively shift resources toward uses that would protect current and future military capabilities. In June, we issued guidance to the military departments explaining that the purpose of this effort was to improve the effectiveness and efficiency of our business operations so that we can increase funding available for our mission functions. Specifically, this guidance instructed the military departments to take resources from areas like headquarters, administrative functions, support activities, and other overhead and reinvest them in areas like personnel in units, force structure, readiness, procurement, and RDT&E.

10. Senator BEGICH. Mr. Lynn, Dr. Carter, and General Cartwright, how will OSD ensure the military Services redirect investments to high priority warfighting needs?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. As stated above, the guidance to the military departments was very clear. In addition, the Department's efficiencies are being carefully reviewed to ensure that this guidance was followed.

MILITARY CONSTRUCTION

11. Senator BEGICH. Mr. Lynn, Dr. Carter, and General Cartwright, the Services have been authorized to consider consolidation of excess bases and other facilities

where appropriate. What guidance was given the Services by OSD to promote an objective and legitimate process in determining excess infrastructure?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. In June, we issued guidance to the Military Departments explaining that the purpose of this effort was to improve the effectiveness and efficiency of our business operations so that we can increase funding available for our mission functions. Significant proposals like consolidating bases and facilities are vetted through the Deputy's Senior Advisory Working Group as a means of ensuring that these decisions are both objective and well-considered.

12. Senator BEGICH. Mr. Lynn, Dr. Carter, and General Cartwright, cost savings have not always been realized when anticipated in previous Base Realignment and Closure (BRAC) rounds, and sometimes not at all, so why would the Department assume cost estimates associated with infrastructure initiatives would be realistic? What has changed?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. Accurately estimating the cost of infrastructure savings has proven to be difficult, however reclaiming savings is a part, but not the sole driver of this initiative. The goal is to streamline our process and eliminate needless bureaucratic layers. In specific examples, getting rid of a headquarters or an overhead layer also means that the infrastructure that supported it is no longer necessary.

13. Senator BEGICH. Mr. Lynn, Dr. Carter, and General Cartwright, as part of the initiative, DOD is conducting a global force review to determine the necessity of current overseas infrastructure and future investment in overseas installations. Please describe the review more thoroughly. When will the review be complete and available for Congress?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. We are still evaluating these options. We expect to be able to provide more information on these reviews and the considerations that underlie them as part of the President's budget for 2012.

COST ESTIMATE

14. Senator BEGICH. Mr. Lynn, Dr. Carter, and General Cartwright, DOD has provided information to Congress which states "every new initiative will be accompanied by a cost estimate," yet it is my understanding no cost estimate is available for the Joint Forces Command (JFCOM) closure or any other Secretary of Defense initiative. When can Congress expect the cost estimates? Additionally, will new initiatives outlined in the President's budget submission for 2012 be accompanied by a cost estimate and clear articulation of where those dollars are being reinvested?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. We are still evaluating the alternatives and resource implications of the Secretary's initiatives. We will provide you more information on cost savings as these analyses are completed. New initiatives that are outlined in the 2012 budget will be accompanied by cost estimates and we will be able to show where we reinvested those savings.

15. Senator BEGICH. Mr. Lynn, Dr. Carter, and General Cartwright, as part of the efficiencies initiative, DOD has determined to reduce allocations for fulfilling congressional reporting requirements. How will DOD continue to meet its obligation and direction of Congress in required reports?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. DOD will work with Congress to determine which of the 1,200 to 1,400 congressional reports that DOD produces each year provide valued information, where there are opportunities to consolidate reports, and whether there are reports that we agree are in our collective best interest to eliminate.

SPENDING

16. Senator BEGICH. Dr. Carter, is the Department conducting a review of over budget, behind schedule acquisition programs, such as the Medium Extended Air Defense System (MEADS) as part of the efficiency initiative?

Dr. CARTER. The Department is constantly reviewing programs as part of the normal acquisition oversight process. These reviews seek to mitigate the effects of schedule delays and cost growth, to prevent requirements creep, and to address technology risk or research and design challenges. The MEADS program is under review to address its specific challenges, but this review is not part of the Secretary's efficiency initiative.

17. Senator BEGICH. Dr. Carter, what actions will DOD take to curtail continued spending on programs that are not delivering?

Dr. CARTER. The Department is willing to make the tough decision to cancel programs that are not delivering, or that have too many cost, schedule, and performance challenges. These cancellations demonstrate the Department's commitment to keeping industry accountable and to maintaining requirements realism for our acquisition programs.

Program cancellation is not the only tool we use when faced with various challenges. While there is no "silver bullet" approach to fix a program, the Quadrennial Defense Review (QDR) identified "maintaining budget stability through demanding cost, schedule, and performance realism while holding industry and ourselves accountable" as critical to ensuring better outcomes in our acquisition programs. To foster this stability, the Department is implementing greater use of fixed-price, competitively awarded contracts; forming Configuration Steering Boards to prevent requirements creep; and initiating independent peer review processes to ensure consistency of approach, quality of contracting, and information sharing across military departments and acquisition programs. Furthermore, we are enhancing budget stability and realism through improving life-cycle management and sustainment policy procedures with attention toward accurately estimating long-term ownership costs.

QUESTIONS SUBMITTED BY SENATOR JOHN MCCAIN

INDUSTRY DIALOGUE

18. Senator MCCAIN. Dr. Carter, as part of Secretary Gates' efficiencies initiatives, you met with defense industry officials in June. The high-level session was part of an effort to reverse a trend of the past few years that had left the DOD/industry relationship in a condition you have described as "not healthy." Can you elaborate on this description? Specifically, what part of the relationship is not healthy?

Dr. CARTER. Overall, the Department has a strong and productive relationship with the defense industry, with both sides supporting the warfighter and contributing to national security. However, some specific aspects of the relationship could be improved, notably increasing the communication between these two essential elements of American defense. The meeting in June was part of a Department initiative to revive a series of regular meetings between our senior leadership and the CEOs of major defense suppliers. These high-level meetings can facilitate smooth communication of priorities and help both sides get ahead of developing issues. Having a regular forum improves on the previous system of ad hoc contacts, which in recent years has tended to be too reactive or has made otherwise normal discourse appear like crisis management. The renewed series of meetings is already yielding dividends in terms of mutual understanding, including more aligned goals in the execution of the Department's ongoing Efficiency Initiative.

19. Senator MCCAIN. Dr. Carter, there have been reports that Secretary Gates is asking for the cooperation of defense industry to reduce costs in order to fight off potentially significant cuts to defense spending as part of future budget deficit reduction measures implemented by the White House. As the Wall Street Journal reported on August 3, 2010, "Secretary Gates delivered a terse message: Start delivering cost savings, or the government will do it for you." How will you monitor industry's performance in order to inform future budget discussions?

Dr. CARTER. The quest to increase efficiency in defense acquisition need not breed a hostile relationship between the Department and the defense industry. Industry has its own competitive incentives to drive down costs on defense contracts, motivated by its own good business decisions. These incentives are especially strong in an era when the defense budget is going to shift to relatively slow real growth from the quite rapid real growth trajectory of the past decade. But I have also reminded industry leaders on several occasions of our shared interest in cost savings—not by threatening them with punitive policies but rather by pointing out the reality that cost overruns and continued inefficiency will lead to broken programs and capability shortfalls for warfighters.

As part of the ongoing Efficiency Initiative, the Department is doing two things to strengthen industry's cost-saving efforts. First, we are looking for ways to remove those burdensome rules that lead contractors to increase costs while adding little value. Many of these burdens built up unintentionally in an era when rising budgets made it easier to resolve program difficulties by appealing for more resources than by streamlining processes or rationalizing facilities. Second, we are crafting acquisi-

tion rules and guidelines to let contractors and the military departments share the benefits of cost reduction, giving both buyers and sellers a direct interest in finding savings.

The Department monitors contractor performance through several mechanisms. Acquisition programs go through a series of reviews during which the Department's leadership tracks actual program performance, compares performance to expectations determined earlier in the program, and, if necessary, makes course corrections. The Efficiency Initiative is creating streamlined templates for these reviews that focus on meeting affordability targets that explicitly incorporate projected savings from cost-saving reforms. In addition, we have reinstated the series of regular, high-level meetings between defense industry and Department leaders, and we are soliciting cost-saving ideas from industry—backed by real data—that we can incorporate into our continuing efficiency efforts. These various mechanisms should yield helpful data-based inputs to future budget discussions.

20. Senator MCCAIN. Dr. Carter, what benchmarks or metrics have you established to track the response and performance of the defense industry?

Dr. CARTER. The Department does not have a simple set of metrics to track the response and performance of the defense industry as a whole. The Office of Industrial Policy monitors the health and capability of the defense industrial base, using a variety of measures suited to the different sectors of the industry. For example, Industrial Policy looks at the number of competitors in each sector, the financial health of important companies, new investments and depreciation of physical capital, research and development expenditure, and many other metrics. To the extent possible, Industrial Policy tracks all levels of the supply chain, although the complexity of the defense industry reduces real-time visibility into the lower tiers, especially relative to visibility at the prime contractor level.

The Department also uses databases like the Contractor Performance Assessment Reporting System (CPARS), which includes a rating system for contractors' performance in their previous interactions with the Department. CPARS data contribute to source selection for future contracts. As part of the Efficiency Initiative, the Department is also developing a set of systematic metrics that we will use to choose participants in the new Department-wide pilot Superior Suppliers Innovation Program, but we have not yet finalized the selection process.

SAVING ANALYSIS

21. Senator MCCAIN. Mr. Lynn, obviously, what is proposed by Secretary Gates is aggressive and ambitious. What analysis, if any, has been conducted to determine how much would likely be netted in savings on an annual basis as a result of the eight initiatives?

Mr. LYNN. The Department is still evaluating the implementation mechanisms and resource implications. These initiatives were never about just saving money. The idea was to increase the effectiveness of the Department with the goal of increasing our military capabilities now and in the future. Redirecting resources, in the form of savings, from low-valued to higher-valued uses is an important means toward that end.

22. Senator MCCAIN. Mr. Lynn, how do you intend to track and validate the projected savings that have been achieved? For example, what baseline should we adopt for the total current cost of support contractors that will be reduced by 10 percent over the next 3 years?

Mr. LYNN. Savings are being tracked internally. For service support contractors, the baseline will be set by 2010 service support contract funding. We are surveying our component organizations to determine the actual level of this funding.

23. Senator MCCAIN. Mr. Lynn, what is the projected savings achieved by the elimination of the Business Transformation Agency (BTA) JFCOM?

Mr. LYNN. The exact savings from the disestablishment of JFCOM, BTA, and NII are still being determined. We expect to have cost estimates available on or before the President's budget request is delivered to Congress.

POTENTIAL FOR HOLLOW FORCE

24. Senator MCCAIN. Mr. Lynn, aside from the eight initiatives in Track 4, Secretary Gates has asked the military departments to find $100 billion over the next 5 years. As you know from past years, the tendencies of the military departments

when faced with similar directives have been to cut budgets for support activities such as base operations, facility maintenance, training, and equipment purchases. All of these actions have the effect of degrading readiness over time and contributing to a hollow force. Do you plan to assess the budget submissions of each of the Services to approve the sources of the savings or will the Services be given the flexibility to assume risk in certain mission areas?

Mr. LYNN. Yes, every savings proposal is undergoing an assessment and analysis by OSD as part of the process to build the fiscal year 2012 budget. Maintaining readiness continues to be a top priority and no proposal will be accepted that undermines readiness. To the contrary, the goal is to achieve efficiencies in support functions so that we can strengthen the funding for readiness efforts.

25. Senator MCCAIN. Mr. Lynn, what guidance have you given the military departments to concentrate their efforts on improving efficiencies as opposed to cutting essential operations and maintenance accounts?

Mr. LYNN. In June, we issued guidance to the military departments explaining that the purpose of this effort was to improve the effectiveness and efficiency of our business operations so that we can increase funding available for our mission functions. Specifically, this guidance instructed the military departments to take resources from areas like headquarters, administrative functions, support activities, and other overhead and reinvest them in areas like personnel in units, force structure, readiness, procurement, and RDT&E.

26. Senator MCCAIN. General Cartwright, both the Army and the Marine Corps have indicated that there will need to be continuous investments in the resetting of combat forces well beyond the end of the war in Afghanistan. In past years, these reset costs have been covered in supplemental appropriations requests to provide our combat forces with the equipment and training needed to restore readiness. With the shift to a reliance on base budgets, coupled with the effort to find efficiencies in the current budget, do you expect the Army and the Marine Corps will be able to budget for all the costs of reset in future years?

General CARTWRIGHT. In recent budget requests, the Department has included funding for long-term reconstitution. Long-term reconstitution is the reset of capability and equipment that is not needed immediately to get a unit ready for deployment, but which needs to be done at some point in the future, to ensure the unit's full operational readiness. This reconstitution is expected to take place over several years.

The purpose of the efficiencies initiative is not to reduce the Department's top line budget, but to significantly reduce excess overhead costs and apply the savings to force structure and modernization. The efficiencies initiative will not impact the Department's ability to reset combat forces. In fact, the reset of combat forces is exactly the type of warfighting capability that the efficiencies initiative will bolster using savings garnered from overhead efficiencies.

27. Senator MCCAIN. General Cartwright, regarding the projected growth in the DOD budget adjusted for inflation, you mentioned in your opening statement that "there is risk the projected 1 percent real growth may not be realized." Can you elaborate on this concern?

General CARTWRIGHT. The nation's economic situation, combined with historical budget trends, will likely squeeze Federal spending, to include defense. Without 2 to 3 percent real annual growth, it will be difficult to maintain force structure and modernization efforts. The efficiencies initiative will address overhead cost growth and redirect the savings to high priority warfighting capabilities. This effort will ensure we use Defense dollars to their maximum potential and close the gap toward what is needed for warfighting requirements.

BASE CLOSURES

28. Senator MCCAIN. Mr. Lynn, one of Secretary Gates' announcements specifically sent shivers through every military community in the country—the authorization to each of the military departments to consider consolidation or closure of excess bases and other facilities where appropriate. The Secretary mentioned "legal constraints on DOD's ability to close installations." The only statute currently in place regarding base closure is a requirement for a notification to Congress by the Department of the intent to close a base, along with a justification followed by a wait period of 60 calendar days. In response to requests by previous administrations, Congress specifically authorized a process involving an independent commission to make decisions in five previous rounds of BRAC. Would the Department pre-

fer to select bases for closure without the involvement of an independent commission?

Mr. LYNN. In furtherance of his responsibility to ensure that DOD operates efficiently and effectively in the performance of its missions, the Secretary has asked the Secretaries of the military departments to "consider consolidation or closure of excess bases and other facilities where appropriate." The Department recognizes the value of a BRAC Commission process for ensuring transparency and objectivity when considering closure and consolidation actions. In the absence of BRAC authorities, however, it is prudent for the Department to continue pursuing efficiencies within its statutory limits because of the potential financial and operational benefits that could accrue from such an effort. As you indicated, the Secretary of Defense has the authority to close and realign military installations outside of the BRAC Commission process, provided the action does not trigger the thresholds established in section 2687 or, if it does, the Department follows the procedures set forth in that statute, which are far more extensive than a simple congressional notification. If the Secretaries of the military departments identify any actions that could involve the closure or realignment of a military installation, those actions will only be undertaken in accordance with law.

29. Senator MCCAIN. Mr. Lynn, we have many major reviews and initiatives underway with significant bills including moving marines from Okinawa to Guam, tour normalization in Korea, and the final number of forces in Europe. Regarding base closures, are you also encouraging the consideration of closing bases overseas? If so, will these considerations undergo any operational analysis or assessment to measure impact on global commitments?

Mr. LYNN. The Department encourages efficiencies across the Services, and supports cost-saving measures regardless of location. The Army's consolidation of functions in Germany (at Wiesbaden) is an example of a cost-saving measure overseas. This action will produce efficiencies and allow the return of two sites to the host nation. As is the case for all closure/realignment actions, overseas initiatives undergo analyses to identify associated risks/impacts, to include impact on operational requirements and an assessment of applicable global commitments.

30. Senator MCCAIN. Mr. Lynn, will these assessments of potential cuts in globally arrayed forward deployed forces be accompanied by an estimate of expected savings?

Mr. LYNN. Yes, but note that these decisions will not be made on the basis of savings alone. The Department will consider all of the resource implications pertaining to changes in forward deployed forces.

DOING MORE WITHOUT MORE

31. Senator MCCAIN. Dr. Carter, it seems like a common request we always make of our men and women in the military is to keep on "doing more without more." To the personnel in the field, they see cuts to manning and service contracts and the directive to do it themselves, so that someone higher up the chain can claim an achievement of efficiency. What is the Department doing to ensure that military personnel are not saddled with these additional tasks?

Dr. CARTER. The goal of the Secretary of Defense efficiency effort is to move overhead resources to where we need it most—to the field. We believe these initiatives will benefit our combat forces in two significant ways. First, they will make the Department flatter and more effective by eliminating needless layers of bureaucracy. Second, where removing bureaucratic layers and the functions generate savings, they will be refocused toward current forces and the development of future capabilities.

32. Senator MCCAIN. Dr. Carter, what do you expect will be the impact of these efficiencies to our combat forces?

Dr. CARTER. These initiatives should benefit our combat forces in two ways. First, many of these initiatives are geared to make the Department flatter and more effective by eliminating needless layers of bureaucracy. Second, where removing these layers and the functions that go with them have generated savings, those savings are being refocused toward current forces and the development of future capabilities.

33. Senator MCCAIN. Dr. Carter, the most recent QDR was supposed to take a hard look at requirements and challenges over the next 20 years and to set forth

a series of priorities to meet those challenges. Yet, it seems like there has been little analysis in the effort to reduce requirements or at least reevaluate roles and missions efficiently meet those requirements. In the directive given to the military departments to find $100 billion in efficiencies, how much flexibility do they have to engage in an assessment of relative roles and missions?

Dr. CARTER. The Track 1 effort that you are referring to was not intended to prompt a comprehensive roles and missions review for the military departments. Rather, it is an effort to improve the effectiveness and efficiency of our business operations to provide funding available for our mission functions.

34. Senator MCCAIN. Dr. Carter, where does the pursuit of efficiencies end and the assessment of roles and missions begin?

Dr. CARTER. Organizational assessments are a significant part of our efficiency initiatives and scrutinizing roles and missions are a fundamental component of these assessments. In particular, recommendations to disestablish JFCOM, BTA and NII are rooted in a detailed assessment of the value of their discrete roles and missions and the best means to continue providing those roles and missions that are highly valued.

FIXED-PRICE CONTRACTING

35. Senator MCCAIN. Dr. Carter, there appears to be some concern or confusion surrounding what you intend on fixed-price contracting. Please describe this initiative in more detail.

Dr. CARTER. While I recognize that one size does not fit all, there are times when the use of Fixed-Price Incentive Firm Target (FPIF) contracts is not only appropriate but desirable. FPIF contracts establish an appropriate balance or sharing of reward and risk between the government and industry. This type of contract structure is generally appropriate in early production efforts and in single-source production where improvement in price on a year-to-year basis can be rewarded.

As I have stated previously, a good starting point in an FPIF contract is a 50/50 share line and a ceiling of 120 percent. Again, one size does not fit all and, in specific instances, the share line may need to be adjusted to address more uncertainty in cost. The issue of cost uncertainty may exist in programs that are early in production and in those instances, the issue of cost risk needs to be discussed and fully understood by both sides prior to establishing the share line.

Based on historical experience, the 120 percent ceiling is generally appropriate for establishing the government's liability in an overrun of the target cost. As I noted in my September 14 memorandum to the DOD acquisition professionals, a higher proposed ceiling requires explanation to the relevant head of the contracting authority and a lower ceiling would suggest that a firm fixed-price contract may be in order.

36. Senator MCCAIN. Dr. Carter, what has your response been to industry criticism that your approach would require contractors to take on too much risk and could ultimately hamper the fielding of technologically advanced capability?

Dr. CARTER. AT&L is interested in balancing risk and reward between the government and industry. We want to move away from imposing fixed-price contracts on programs where significant innovation and unknown costs can be anticipated—specifically, programs that are developing technologically advanced capability where the risk of successful performance is significant. Generally, we want to avoid Cost Plus Award Fee contracts because they contain subjective measures of award fee that are not clearly tied to cost control and solid results. We suggest the use of FPIF Target as a preferred choice where appropriate because in many circumstances it does achieve an appropriate balance of risk and reward for both the government and industry.

An FPIF contract structure would be considered appropriate early in production or in single-source production where year-on-year price improvement can be rewarded. There may well be other occasions where conditions can be created that will support the use of an FPIF contract. Ultimately, the benefit of an FPIF contract is that it shares the costs of overruns and rewards underruns in a given transaction. It incentivizes both industry and the government to perform well.

The share line of 50/50 that we have suggested for an FPIF is a recognition that the government and the contractor have a common view of the likely outcome of the contract's execution cost. If that view is not shared, there needs to be discussion of the factors that support a different share line. Also, the 120 percent ceiling starting point recognizes the historical experience in DOD with regard to program overruns.

TARGETING AFFORDABILITY AND DRIVING PRODUCTIVITY

37. Senator MCCAIN. Dr. Carter, I appreciate your intent to "mandate affordability as a requirement" and "drive productivity through 'should cost' management." Setting an affordability target early; requiring that tradeoffs be made between engineering elements, time, and cost a lot earlier than we've done to date; and having that analysis guide how the program will be managed throughout its lifecycle, reflects many of the concepts that we identified as important in the WSARA of 2009. I am, however, concerned about the Department's ability to do the kind of engineering tradeoff analysis and cost-estimating needed to make those initiatives work. I'm particularly concerned about whether the Services, which would presumably cover smaller programs in this regard, have the requisite capability. Having sufficient relevant cost- and engineering-related capability is, needless to say, vital to ensuring that those affordability and productivity initiatives will work as intended. Do you agree that, currently, the relevant cost- and engineering-related capabilities within the Department are insufficient to support your affordability and productivity proposals now, and if so, how do you intend to address those capability gaps?

Dr. CARTER. The Department has cost and engineering capabilities within the existing acquisition workforce to perform a range of analytical trade studies critical to facilitating affordability decisions. However, the Department recognizes that the size and composition of this existing cost and engineering workforce must be expanded to be able to apply those core capabilities to meet the more detailed affordability analysis needs of all acquisition programs and to more fully enhance those capabilities in support of Major Defense Acquisition Programs.

The Department is committed to revitalizing cost-related capabilities and reversing a decade-long decline in the organic workforce. To get best value for taxpayers, DOD will enhance the cost-estimating and pricing capability to improve program estimates and ensure we price contracts appropriately. As reported in our April 2010 report to Congress "The Defense Acquisition Workforce Improvement Strategy fiscal year 2010," to improve quality, the Department is expanding and improving training programs in this area. We have created a separate cost-estimating career path within the Business career field, and now require 7 instead of 4 years of experience to achieve Level III certification. Currently, the Department has more than 900 cost-estimating positions in the DOD acquisition workforce supporting a diverse set of technical and program activities. The cost analysis capability at the program office level is supported and guided by existing cost analysis organizations within each Component acquisition product division and organizations at the Component headquarters level that provide independent cost analyses to support Component Acquisition Executive decisions. In the Office of the Secretary of Defense, the Cost Assessment and Program Evaluation organization provides an additional level of capability to provide estimates to inform Department-level decisions on acquisition programs and their affordability.

In terms of engineering-related capabilities within the acquisition workforce, the Department currently has 38,000 positions in the "Systems Planning Research Development Engineering (SPRDE)" technical workforce. The SPRDE workforce represents the Department's core capabilities for executing the range of engineering trade-off studies including life cycle cost modeling in all phases of the acquisition process. These trade studies and modeling activities are critical to making informed choices that impact system affordability.

38. Senator MCCAIN. Dr. Carter, how long do you think it will be before DOD and, in particular, the military departments will have the relevant cost- and engineering-related capability needed to make those initiatives work?

Dr. CARTER. For cost-related capability: The Department has the capability to make these initiatives work and is already seeing examples to increase our confidence. The Department has been working closely with the military departments on several MDAPs, with good results from carefully thinking through requirements, costs and engineering trade-offs. As Secretary Gates has said, "There is no silver bullet" for changing how the Department conducts business, and it will take time to fully implement these ideas across the Department and inculcate these practices in all acquisition programs.

For engineering-related capability: As part of the Organization and Capability Assessment efforts mandated by WSARA of 2009, the Department is currently working with the military departments and agencies to assess the current capability of the workforce members providing engineering-related expertise. The Department possesses the capabilities needed at the present time by using government personnel with augmentation from systems engineering-focused Federally-Funded Research

and Development Centers and other contractor personnel. The transition to an indigenous organization of government technical personnel is in progress and is anticipated to take several years.

BUSINESS TRANSFORMATION AND PROTECTING CORE COMPETENCIES

39. Senator McCAIN. Dr. Carter, for a while now, I have called on the DOD to achieve audit-ready financial statements. In my view, that is vital to ensuring that taxpayer dollars are not being wasted, stolen, or otherwise abused. But, that can only be achieved by getting robust "transaction-level" accountability—through "end-to-end" business systems developed under a single, broad business enterprise architecture plan. Much of the technical expertise that has supported that effort has resided within the Office of Business Transformation Agency (BTA). Now that the BTA will be dismantled under the savings and efficiencies initiative, how will those skill sets be preserved and cultivated and where will they go?

Dr. CARTER. When the BTA was established in 2006, it was entrusted with the mission of reforming and modernizing the Department's business practices. In 2008, Congress created a Chief Management Officer (CMO) and Deputy Chief Management Officer (DCMO) to improve business operations from the highest levels of the Department. The Secretary determined this arrangement is duplicative and that it is time to close the BTA and consolidate some of its functions within the Office of the DCMO and other organizations.

The DCMO is working with the Department's senior leadership to ensure BTA's critical skillsets and functions are retained. While it is premature to say specifically what the results of this effort will be, statutorily required key drivers of our business transformation efforts, such as the Business Enterprise Architecture, will continue to be key management priorities. The Department is committed to accomplishing the Secretary's vision of reducing overhead costs by eliminating excess and duplication while still ensuring every taxpayer dollar is well spent.

40. Senator McCAIN. Dr. Carter, what about other competencies related to, for example, how the Department buys major systems—in particular, those that actually enable savings and efficiency and are, as such, worthy of increased investment?

Dr. CARTER. The purpose of the efficiency initiative is to redirect the Department's limited resources from unproductive to productive purposes. A natural result of this process will be increased investment in areas where the Department identifies more productive uses for our limited resources. The Department will identify those areas for increased investment by pursuing the five following goals: (1) Target Affordability and Control Cost Growth; (2) Incentivize Productivity and Innovation in Industry; (3) Promote Real Competition; (4) Improve Tradecraft in Services Acquisition; and (5) Reduce Non-Productive Processes and Bureaucracy. In parallel with these efficiency initiatives the Department is continuing to build its acquisition workforce, both in size and in capability.

41. Senator McCAIN. Dr. Carter, in those areas, the better we perform in those areas, the more money will be saved for the taxpayer. Are they subject to being cut under the initiative?

Dr. CARTER. The Department will not cut the core competencies that are saving the Department money; doing so would be inconsistent with the goals of the Secretary's efficiency initiative.

42. Senator McCAIN. Dr. Carter, when will we get auditable financial statements?

Dr. CARTER. We recognize that Congress places a high priority on the Department's audit readiness and that the National Defense Authorization Act for Fiscal Year 2010 requires DOD to have fully auditable financial statements by 2017. Achieving auditability is not an easy task for the Department. However, the current approach put in place by the Under Secretary of Defense (Comptroller) is sound.

The Department is focusing first on improving the quality, accuracy, and reliability of the financial and asset information that we use 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 the daily management of our financial enterprise. The Department has also created a strong governance framework to manage its audit readiness efforts and dedicated the necessary resources to the effort to achieve success.

Achieving auditability is dependent on a number of factors—such as the successful implementation of many defense business systems, including Enterprise Resource Planning Systems. With the successful implementation of these systems, ad-

ditional resources devoted to financial improvement, and a well developed Financial Improvement and Audit Readiness Plan, the Department should achieve significant progress toward audit readiness by 2017.

INSOURCING

43. Senator McCAIN. Dr. Carter, Secretary Gates stated on August 9, 2010, his intent to discontinue the conversion of contracted work to in-house work, also known as insourcing. The reason that he cited for reversing course was that he wasn't seeing expected savings from insourcing those jobs. Please elaborate on the lack of expected savings from insourcing. Specifically, what has been the end result of 2 years of growing the civilian personnel manning without assessing the long-term impact in terms of benefits.

Dr. CARTER. In April 2009, the Secretary announced that he wanted to find $900 million in savings through insourcing a specific segment of contracted services. These positions were insourced and the $900 million goal was reached, but these positions were only about 1 percent of all contracted services. While we were insourcing this small segment of services, we were also spending a lot more on providing most other services. The net increase turned out to be more than $5 billion from fiscal year 2009 to fiscal year 2010. While insourcing remains an appropriate course of action in cases where contracted functions would be more effectively performed by government personnel, we must focus on reducing our total growth. For DOD organizations where the Secretary has directed us to limit organizational growth, in-sourcing efforts are being evaluated in terms of mission priorities and, where appropriate, exceptions for in-sourcing may be submitted.

44. Senator McCAIN. Dr. Carter, despite Secretary Gates' statement, I understand that, in actuality, the Department is not reversing its insourcing initiative. While there will be a billet freeze on DOD components (other than the military departments), insourcing within the military departments will not only continue but it will continue at its original pace. Is this correct? Can you clarify Secretary Gates' current plan on insourcing?

Dr. CARTER. All DOD components are reviewing contracted services and providing consideration for in-sourcing those services. There are DOD organizations at which no contracted services have been identified as appropriate for in-sourcing but no DOD organizations are outright exempted from in-sourcing. For DOD organizations where the Secretary has directed to limit organizational growth, in-sourcing efforts are being evaluated in terms of mission priorities and, where appropriate, exceptions for in-sourcing related growth may be submitted.

45. Senator McCAIN. Dr. Carter, in those cases where you do a cost analysis to determine whether insourcing would be more cost-effective than outsourcing, problems exist with the quality of these analyses (e.g., bad or old data, assumptions, et cetera). As the Department continues its in-sourcing initiative, to what extent will those business cases be done openly and transparently—to ensure their fidelity?

Dr. CARTER. When cost effectiveness is the determining factor for in-sourcing contracted services, such as those services determined to be not inherently governmental, not closely associated with inherently governmental, or not otherwise exempted from private sector performance (i.e., to mitigate risk, ensure continuity of operations, build internal capacity, maintain control and oversight of operations, meet readiness needs, etc.) cost analyses are required to be done in accordance with the business rules set forth in Directive Type Memorandum (DTM) 09–077.

This DTM establishes business rules for use in estimating and comparing the full costs of military and DOD civilian manpower and contract support. The full costs of manpower include current and deferred compensation costs paid in cash and in-kind as well as non-compensation costs. The DTM mandates that DOD components shall use the business rules to estimate the full costs of the defense workforce in support of strategic planning, defense acquisition, and force structure decisions, as well as when performing an economic analysis in support of workforce decisions. This includes, but is not limited to, determining the workforce mix of new or expanding mission requirements that are not inherently governmental or exempt from private-sector performance. The DOD Components shall also use the business rules to decide whether to use DOD civilians to perform functions that are currently being performed by contractors but could be performed by DOD civilians. All DOD Components must adhere to these rules which are publicly available via the DOD's issuances website. Additionally, the cost factors the DTM requires for consideration are all in the public domain.

Individual cost analyses in support of in-sourcing actions are not made publicly available by the Department due to concerns over the inclusion/release of private sector propriety pricing information and business sensitive information. Furthermore, public release of cost analyses could put at risk the integrity and fidelity of future procurements and the ability of affected private sector interests to be competitive. Firms affected by individual in-sourcing decisions may request a cost analysis through Freedom of Information Act (FOIA) channels. Requests will be reviewed and adjudicated in accordance with all standard FOIA regulations and Department practices.

46. Senator MCCAIN. Dr. Carter, what, if anything, are you doing to ensure that openness and transparency across the military departments, in particular?

Dr. CARTER. Our acquisition workforce strategic plan, available to the public online, at https://acc.dau.mil/acquisitionworkforce, details our workforce strategies, key measures, and initiatives. DOD provided this plan, which includes appendices for each of the Military Departments, to Congress in April 2010. Openness and transparency are also achieved by sharing and reviewing progress at the defense acquisition workforce senior steering board that I chair and is composed of senior acquisition component and functional leaders.

47. Senator MCCAIN. Dr. Carter, what, if anything, are you doing to ensure that your proposal on insourcing is being implemented properly and consistently among all the military departments?

Dr. CARTER. When it comes to my efforts to rebuild the capacity and capability of the Defense Acquisition Workforce, in part through insourcing contracted services, I have supplemented Deputy Secretary Lynn's and other Department-wide policies implementing statutory workforce shaping with guidance directly geared to the acquisition community and its leaders. To date, our monitoring of growth resulting from insourcing within the acquisition workforce, consistent with our human capital planning efforts, is strengthening our in-house engineering and program management capability. This growth is consistent with our broader strategies to strengthen key in-house acquisition workforce capability.

ADJUSTING PROGRESS PAYMENTS TO INCENTIVIZE PERFORMANCE

48. Senator MCCAIN. Dr. Carter, as you of course know, from a financing perspective, how the DOD customarily pays its bills (that is, upfront, regularly and often before the contractor performs) tends to overwhelmingly favor industry. So, without any benefit to the taxpayer, the DOD tends to provide industry with a high cash flow return on invested capital. I'm intrigued about what you intend to do to change that. Please explain what you intend to do more fully.

Dr. CARTER. There will be short- and longer-term aspects to this initiative to insure we are being fair to industry while protecting the interests of the taxpayer.

The current Federal Acquisition Regulations states that when Government financing is provided, Performance Based Payments (PBPs) are the preferred method on fixed price contracts. PBPs provide financing up to a maximum of 90 percent of the contract price which provides considerably better cash flow to the contractor than customary progress payments which, for large businesses, provide 80 percent of the contract cost. The financial value of this better cash flow is measurable. Based on Department data, it does not appear that the Government has been receiving adequate consideration when PBPs are used.

My September 14th memorandum entitled "Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending" stated that the Department will negotiate prices on the basis of customary progress payments and then consider an arrangement that provides better cash flow to the contractor and negotiate adequate consideration. The Department is developing a tool (cash flow model) that will be made available and mandated for use by all contracting officers when the Government provides PBPs in lieu of customary progress payments. This tool will also be adapted for use in other situations in which improved cash flow might be provided to the contractor. Since industry and the Government have a different view of the time-value of money, a win-win solution (Lower Price for Better Cash Flow) can be identified. This use of the tool will allow both sides to benefit fairly from the improved cash flow.

Longer term, the Department is examining the structured approach (Weighted Guidelines) used to develop Government profit objectives on contracts. The impact of contract financing will be a part of this review to ensure the benefits of cash flow are adequately addressed in the profit policy. Changes to profit policy require

changes to associated regulations and public input and comment, which will take longer to implement.

49. Senator MCCAIN. Dr. Carter, do you have even a rough sense of how much taxpayers could benefit from this particular initiative?

Dr. CARTER. Based on data collected in the Department's profit reporting system, a conservative estimate of savings would be approximately hundreds of millions per year based on the value of contracts using Performance Based Payments as the method of contract financing.

ELIMINATING LOW VALUE ADDED STATUTORY PROCESSES

50. Senator MCCAIN. Dr. Carter, among the internal processes that you have identified as providing little value are certain Nunn-McCurdy reviews—in particular "full" reviews of programs that have grown in cost only because of changes in how many units we want to buy. I understand that, in those cases, you want some relief. We have, however, come far in changing Nunn-McCurdy from just a "paper tiger" into a tool that can help keep program costs from growing excessively. Also, bear in mind, that all too many times, we have had to cut how much we intend to buy in a program precisely because that program has been poorly managed or because it's otherwise poorly performed. Rarely do so-called "technical" breaches (a term that has no meaning in any DOD Instruction or other authority, by the way) occur in a vacuum. So, I would strongly suggest caution here. Regarding Nunn-McCurdy, please explain exactly what you identify to be the problem here and what you have in mind to have the process changed.

Dr. CARTER. I fully support the Nunn-McCurdy process, to include the recent improvements that were made by the WSARA of 2009. The Department takes each of these breaches very seriously, and we conduct the prescribed review according to the provisions of the statute. However, each review is costly to perform and should be avoided when the critical breach is caused primarily by a change in quantity that was made in response to changes in threat or other fielding requirements and not the result of poor performance or mismanagement. For example, the Army Acquisition Objective for the Guided Multiple Launch Rocket System and, more recently, the Excalibur projectile program were both reduced by more than 70 percent due to an approved change in force requirements. Due to a learning curve and the amortization of development costs, significant quantity reductions frequently result in critical Nunn-McCurdy breaches.

My proposed revision to section 2433a of title 10, U.S.C., would reduce the statutory requirements for critical Nunn-McCurdy breaches caused primarily by quantity changes (as long as the quantity change was not made as a result of an increase in unit cost). In our proposal, the root cause of the cost growth would need to be validated by the WSARA-created office of Program Assessment & Root Cause Analysis. Since the statutory requirements of a Nunn-McCurdy critical breach under section 2433a are extensive, this section would reduce the requirements for quantity-related critical breaches. That is, for the review, only a root cause analysis would be conducted to substantiate the causal effects of the quantity change, followed by a written statement from me that it is in the best interests of the Government to continue the acquisition program notwithstanding the increase in unit cost.

51. Senator MCCAIN. Dr. Carter, similar to your proposal on Nunn-McCurdy, I am concerned about your interest in relieving the Department from doing so-called "look-back" milestone certifications for programs that are already in the development and production pipeline. As you of course know, this committee's interest here arose from high-profile examples of big weapons acquisition weapons being "put on rails" almost right after they started. That resulted in billions of dollars of the taxpayers' money invested without, for example, alternatives ever having been analyzed, critical technologies having matured, design drawings having been reviewed, et cetera. So, we made these milestone elements that needed to be certified to and, for programs already in the pipeline, required the DOD to go back and make sure these things were done. I believe that what this committee did here was a move in the right direction. So, just as with Nunn-McCurdy, I would similarly caution care here in changing the current requirement dramatically. Please explain what exactly the problem is and how Congress can help you address it.

Dr. CARTER. The Department requests the repeal of requirements to perform retroactive certifications. The process of applying the certification criteria retroactively to programs that had already received Milestone (MS) A or MS B approval prior to enactment of WSARA provides, at best, marginal utility as a forensic tool and,

at worst, is a non-productive use of the Department's limited funding and personnel resources. Personnel resources available across the enterprise were inadequate to review all of the 50-plus programs (identified for retroactive certification) against the appropriate certification criteria within the time allotted by WSARA. As one example of the burden, both the 2366a and 2366b certification criteria require an independent cost estimate (ICE) to be performed. Even if the Department's cost estimation personnel had been wholly dedicated to just that task—forsaking all work on programs that are currently approaching Milestone events or that have experienced unit cost breaches—the Director of Cost Assessment and Program Evaluation could not have completed the necessary 50-plus ICEs with the current number of personnel within the allotted timeframe. The Department's resources are best employed toward focusing on the appropriate certification activities for programs currently approaching a Milestone decision event, rather than attempting to apply those certification criteria to programs already well-past those events. The lack of a real benefit proportionate with the personnel and resource costs of doing retroactive certifications is even more evident in the case of those programs that had already entered the Production and Deployment phase.

52. Senator McCain. Dr. Carter, you also assert that organizational changes that Congress mandated within your organization (that is, at Acquisitions, Technology and Logistics) may require a relook or an adjustment. In the WSARA of 2009, we required certain organizational changes where, with the benefit of analysis done by or for the DOD, we found that some functional areas within your organization that are vital to effective program management and oversight had atrophied. In those areas (like developmental testing, systems engineering, and cost-estimating), we concluded that additional investment would likely result in greater savings. Now, however, you say that you need "flexibility" to resource your organization. Please describe exactly what the problem is here and specifically what you propose in this area. Exactly how does your proposal here derogate from organizational changes that Congress (and this committee) required?

Dr. Carter. In support of continuing to implement WSARA and continuing to stand up the responsible offices, AT&L has requested that the remaining WSARA resources be exempted from the Secretary's authorization freeze, to adequately staff the Systems Engineering, Developmental Test & Evaluation and Performance Assessment & Root Cause Analysis offices.

AT&L needs to implement WSARA while also finding "efficiencies" in our workforce by putting the right people in the right positions, which may require resource flexibility to fill the desired acquisition billets.

TECHNOLOGICAL READINESS LEVEL REVIEWS

53. Senator McCain. Dr. Carter, I understand that among the OSD-level reviews, you would like to change at reviews for "technological readiness levels" (TRL). As you of course know, these reviews are vital to informing the Department's investment decisions on programs early in the defense acquisition system and to managing those programs effectively. For those same reasons, this committee has been pushing the Department to review engineering and integration risk similarly. But, you would like to eliminate the OSD's review of those kinds of risk from its TRL review. If that's done, at what point would the Department independently vet engineering and integration risk so as to inform its investment decisions on major systems?

Dr. Carter. The DDR&E has cognizance over both research and systems engineering. In response to my concerns about how the Technology Readiness Level review and certification process has grown well beyond our original intent, his research staff is currently finalizing a new approach for evaluating technologies and associated risks to inform both program managers and the Defense Acquisition Board decisions. On the other hand, I look to the engineering staff to assess independently the engineering and integration risks associated with systems and systems of systems. They support this effort by conducting Program Support Reviews prior to milestones to assess the adequacy of the planning and execution of technical and management activities, which include engineering and integration efforts. Results are presented to the Overarching Integrated Product Team, and a risk assessment is presented at my Defense Acquisition Board meetings. These engineers also maintain continuous engagement with programs to monitor progress and technical risk mitigation activities.

SERVICE SUPPORT CONTRACTS

54. Senator MCCAIN. Mr. Lynn, Secretary Gates has stated many times that health care costs are unsustainable within the Department's budget and will impinge on readiness if unconstrained. The President's budget requested over $16 billion for care purchased from civilian providers through large health care contracts, an increase of approximately $1.5 billion from the previous year. In March 2008, the Department announced a new acquisition program for DOD purchased care, known as the Third Generation of Contracts (T–3). This program was designed to encourage competition, improve contractor performance, weed out fraud and abuse, and achieve cost savings. 18 months later, only one of three contracts has been signed; two others remain in dispute or discussion as a result of flaws in the acquisition process. As a result, in addition to not achieving anticipated savings in the new contracts, billions have been expended by the Department in extension of the existing contracts, which is never advantageous to the taxpayer. Several weeks ago we were informed that the Department is now beginning to design yet another version of these contracts, known as T–4, before the previous version has even been awarded. These are some of the largest service support contracts in DOD. Is any effort underway to examine the acquisition system that has resulted in obvious "inefficiency" in proceeding with this program?

Mr. LYNN. Yes, there is an effort underway to examine the acquisition system. In early 2010, the Assistant Secretary of Defense for Health Affairs appointed a Component Acquisition Executive (CAE), as defined in the DOD 5000 series of directives pertaining to managing the Defense Acquisition System. Following this action, DOD developed a variety of improvements and infrastructure of the acquisition process for the Military Health System. For example,

(a) The CAE hired and appointed an Acquisition Career Manager to oversee identification and certification of the acquisition workforce, including conducting a survey to identify the acquisition workforce.
(b) The CAE also hired 9 contract specialist developmental positions in fiscal year 2010 with plans to hire an additional 22 developmental positions in various acquisition career fields in fiscal year 2011 and beyond to improve TMA's ability to efficiently execute timely acquisitions. The CAE is also in the process of identifying and appointing Program Executive Officers and Program Managers for major acquisitions. To facilitate this effort, the CAE hired professionals in program management, systems engineering, and logistics for the CAE staff to oversee TMA programs and ensure they meet the DOD 5000 series requirements.
(c) In addition, the CAE is hosting the first ever Industry Day to provide transparency into TMA information technology acquisitions.
(d) The CAE is aggressively insourcing contract support personnel to reduce reliance on contractors and is conducting a spend analysis to identify opportunities for strategic sourcing to reduce duplicative acquisition requirements and improve the Government's buying power.

At the same time, as part of initiatives announced by the Secretary of Defense; the Under Secretary of Defense for Acquisition, Technology, and Logistics; and the Assistant Secretary of Defense for Health Affairs/TRICARE Management Activity are reviewing various acquisition initiatives with a goal to reduce expenditures of our managed care contracts.

55. Senator MCCAIN. Mr. Lynn, why begin design of a new contract, without the benefit of experience under the proposed improvement?

Mr. LYNN. The Department began the design of a new contract acquisition process because the acquisition process is lengthy and requires deliberation in order to obtain the best value for the Department. We believe that one of the mistakes made in the past was not addressing future requirements soon enough to allow for full vetting of requirements and approaches. The Third Generation of TRICARE Contracts (T–3) current contracts consist of incremental changes from those under the Next Generation of TRICARE (TNEX).

The Twenty-One Total Technology (T4) group will be determining appropriate actions during the second year of T–3 delivery and any potential statutory or regulatory changes that may be sought could be underway with resolution in the third year of service delivery. This schedule allows 18 to 24 months to process the follow-on acquisition in order to have contracts in place by the end of the current contracts.

Contracts option exercises are granted for 1 year. The Department has a unilateral right to exercise, or not, those options. If the Department is able to identify efficiencies and cost reduction through a new approach to the acquisition of health

care, it would be advantageous to the Government to pursue potential additional savings, even if it results in less than 5 years of delivery under the T–3 contracts.

COST SHARE INCREASES

56. Senator McCAIN. Mr. Lynn, in view of the comments about the need to control health care costs, it would come as no surprise to me if discussions were not already underway within the Department on specific cost saving proposals. I hope that the Department has learned from previous mistakes and will consult with Congress, as Secretary Gates has pledged, before proposing changes in medical benefits. We also expect the Department to consult with beneficiary organizations as well prior to proposing changes in the DOD medical program. Can we get those commitments from you now?

Mr. LYNN. The Department is currently considering specific cost saving proposals in the DOD and some of those do involve health care costs. However, these proposals are still being reviewed. At this time, it would be premature for congressional consultation. At the appropriate time, we will consult with Congress and discuss these with beneficiary organizations.

CAPABILITY PORTFOLIO REVIEWS

57. Senator McCAIN. Dr. Carter, in your guidance memo of 14 September, you indicated that you plan to conduct capability portfolio reviews similar to the Army's review, which led to the cancellation of the Non-Line-of-Sight Launch System (NLOS–LS). Will your reviews be confined to acquisition programs only? Or will you review Services' contracts as well?

Dr. CARTER. We currently only plan to conduct capability portfolio reviews on acquisition programs. OSD-level assessments of services contracts that are valued at $1 billion or more have and will continue to entail three elements: (1) Review and approval of acquisition strategies to ensure alignment with the Department's architecture for service contracts; (2) Pre-award peer reviews to ensure new service contracts are executed in accordance with law and regulation considering best practices and lessons learned; and (3) Post-award peer reviews to evaluate whether service contractors are delivering value and whether the government team is providing effective oversight. As our management of service contracts matures we will consider whether or not to conduct portfolio reviews of certain types of service contracts.

58. Senator McCAIN. Dr. Carter, will those programs reviewed by your office be limited by dollar threshold (e.g. ACAT Level 1 only), by special interest items, or by some other criteria?

Dr. CARTER. The reviews are intended to identify redundancies in warfighting portfolios. That is, I want to ensure that decisions on whether to pursue a specific acquisition program are based on whether a portfolio of systems and programs taken together provide all or most of the needed capability. As such, the portfolio reviews will not be limited by dollar thresholds.

59. Senator McCAIN. Dr. Carter, when defense-wide/joint capabilities overlap with Service-specific capabilities, who will conduct the review, your office or the Service?

Dr. CARTER. Generally, my staff will lead those portfolio reviews at the joint and Department-wide level. However, we expect all stakeholders to participate.

60. Senator McCAIN. Dr. Carter, what is your time frame for completing the first two defense-wide reviews of Ground Moving Target Indicator (GMTI) systems and Integrated Air and Missile Defense (IAMD) systems?

Dr. CARTER. For both of these studies, the initial phase of the study has been completed and is in the process of being briefed to senior leaders to determine if further analysis is required.

61. Senator McCAIN. Dr. Carter, would you be willing to brief the committee on the results of these reviews once finalized?

Dr. CARTER. The IAMD and GMTI reviews will inform the fiscal year 2012 President's Budget (PB) deliberations. As such, they will not be completely finalized until the PB is released. Until then, they are pre-decisional, and we would not plan to brief them; however, I will be happy to discuss the results after the PB is submitted.

62. Senator McCAIN. Dr. Carter, what subsequent portfolio reviews do you plan on conducting?

Dr. CARTER. We have not directed additional portfolio reviews at the Department or joint level at this time. The Component and Agency Acquisition Executives will be conducting portfolio reviews to inform individual program milestone decisions and budget decisions.

63. Senator MCCAIN. Dr. Carter, in the same letter, you also directed the Services to conduct review for smaller programs. On its own initiative, the Army has already conducted/is conducting numerous reviews. Have those reviews been sent to you yet?

Dr. CARTER. Not yet. My specific direction was to conduct reviews of ACAT II and III programs to identify and eliminate redundancy and to provide a report on the results of those reviews, with the first report due March 1, 2011. My intent in directing these portfolio reviews of smaller programs was to have the Component and Agency Acquisition Executives examine their smaller programs and look for opportunities to shift resources within their own portfolios from redundancy or low-value added programs to other programs that provide warfighting capability.

64. Senator MCCAIN. Dr. Carter, what deadline will the Services have to meet in conducting their own reviews?

Dr. CARTER. AT&L has asked for a report on the results of Component and Agency Acquisition Executive portfolios by March 1, 2011, and annually thereafter. However, there is not a specific deadline for them to conduct their reviews.

65. Senator MCCAIN. Dr. Carter, what will the process be for your review of their work?

Dr. CARTER. The Component and Agency Acquisition Executives will provide reports on the results of their portfolio reviews on March 1, 2011, and annually thereafter. These results will inform both individual program decisions and budget deliberations.

66. Senator MCCAIN. Dr. Carter, what will happen if you disagree with a Service's findings/conclusion on their own program?

Dr. CARTER. The Services' reviews will inform individual program decisions and budget deliberations. If the Services and AT&L come to different conclusions, additional analysis may be performed to resolve uncertainties. In some cases decisions may be taken through the DAB process or the budget process that differs from Service-preferred positions.

QUESTIONS SUBMITTED BY SENATOR JAMES M. INHOFE

EFFICIENCY INITIATIVE

67. Senator INHOFE. Mr. Lynn, Dr. Carter, and General Cartwright, while I support the overall efficiency initiative begun by DOD, I also have several concerns. First, it appears the $100 billion savings number was chosen to compensate for a decreasing defense budget, projected to only be 1 percent real growth. Secretary Gates has said the military needs about 2 to 3 percent real growth in its modernization and force structure accounts to maintain the force. Projected savings are approx $7 billion in fiscal year 2010, $11 billion in fiscal year 2013, $19 billion in fiscal year 2014, $28 billion in fiscal year 2015, and $37 billion in fiscal year 2016. Next year, each of the Services has a bogie savings of approximately $2 billion. What percentage of internal budget growth will this savings provide DOD? Is it enough to modernize and sustain our military or will Congress see more defense cuts along with the cuts that are driving these savings?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. The Secretary has been very clear that he does not support any reduction to the Defense topline. He continues to feel that modest growth in the Defense budget is absolutely essential to meet the national security challenges of today. The intent of the current initiatives is to reduce funding for support efforts, the so-called "tail" portion of the Defense budget, and increase funding for readiness and modernization, the so-called "tooth" portion of the Defense budget. As the Department shifts $100 billion into warfighting needs, the Nation will gain a much more capable Defense force for the foreseeable future.

68. Senator INHOFE. Mr. Lynn, Dr. Carter, and General Cartwright, what analysis went into selecting the targeted budget savings each year and the overall $100 billion savings target?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. Secretary Gates explained that the Department needs 2 to 3 percent real growth in order to sustain the force. In order to achieve this growth, he realized that we needed to scrutinize all of our spending and specifically reduce low priority accounts like overhead. Given that such profound changes in our spending patterns would require equally profound changes in behavior, the Secretary and the Chairman settled on $100 billion in savings as an amount that would both free up a sufficient amount of resources and force behavioral change.

69. Senator INHOFE. Mr. Lynn, Dr. Carter, and General Cartwright, what is the analysis that shows these savings are achievable?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. As he considered this decision, the Secretary received a variety of information concerning combatant commands, Defense agencies, and the OSD staff, including missions, staffing levels, and other data. He spent considerable time discussing alternatives, critically considering the input of his most senior advisors, including the Chairman and Vice Chairman of the Joint Staff, the Deputy Secretary of Defense, the outgoing JFCOM Commander, and others.

70. Senator INHOFE. Mr. Lynn, Dr. Carter, and General Cartwright, what happens if they cannot or do not achieve their target savings?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. These initiatives are as much about changing from a culture of spending to a culture of savings as they are about achieving specific fiscal targets. While I have no reason to doubt that we will achieve our targets, I can tell you that the pressure to continue to be vigilant about carefully allocating resources will continue regardless of this year's outcome.

71. Senator INHOFE. Mr. Lynn, Dr. Carter, and General Cartwright, what analysis is going into the cuts being proposed by each of the Services?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. Efforts are currently underway to assess the Services' excess overhead costs versus investments in force structure, warfighting capabilities, and modernization programs. We are reviewing and tracking the service submissions, and the fiscal year 2012 budget will reflect the results when it is submitted in February 2011.

72. Senator INHOFE. Mr. Lynn, Dr Carter, and General Cartwright, this efficiency initiative also reduces the total number of support contractors by 10 percent for the next 3 years, reduces funding for congressionally mandated studies by 25 percent, cuts funding for boards and commissions by 25 percent, reduces intelligence advisory and assistance contract funding by 10 percent, and cuts some organizations such as JFCOM. What analysis went into selecting the reduction percentages I just mentioned?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. The Secretary embarked upon a four-track approach aimed at making the Department more efficient and effective. Before taking any action, the Secretary received various assessments that indicated that efficiencies would be gained by taking the actions announced in August 2010. These cuts were enacted to create persistent decreases in the substantial growth in these areas over the last 9 years.

73. Senator INHOFE. Mr. Lynn, Dr. Carter, and General Cartwright, did that analysis look at potential impacts of those cuts?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. Yes. We continue to monitor these effects as we implement the cuts.

74. Senator INHOFE. Mr. Lynn, Dr. Carter, and General Cartwright, are those hard numbers or will they be based on future assessments, meaning the numbers could be more or less than the targeted percentage?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. The Department will continually evaluate the numbers in an effort to further the Secretary's efficiency goals.

READINESS

75. Senator INHOFE. Mr. Lynn, Dr. Carter, and General Cartwright, during a difficult economy, resources must be focused on our forces, future capabilities, and our troops. It is critical for DOD and Congress to work together to increase effectiveness and efficiencies but with a bottom line of always providing the necessary funds so that our troops are the best trained and equipped military in the world. While the

savings are internal and not a top line budget cut, people and things will be cut. What is DOD's plan to coordinate with Congress on attaining these savings?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. The Department will provide details on all savings proposals no later than the time when the fiscal year 2012 President's budget request is submitted.

76. Senator INHOFE. Mr. Lynn, Dr. Carter, and General Cartwright, when will Congress be informed of the proposed areas that will generate the savings in fiscal year 2012 and beyond?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. The Department will provide details on all savings proposals no later than the time when the fiscal year 2012 President's budget request is submitted.

DEFENSE SPENDING, EFFICIENCIES, AND ACQUISITION REFORM

77. Senator INHOFE. Mr. Lynn, Dr. Carter, and General Cartwright, since the end of the Cold War, our military has done much more with much less. Our troops on the front lines are forced to use equipment that is well past its service life, in some instances by 30 years. The equipment problem is compounded by the fact that the pace at which we are purchasing new equipment has been drastically scaled back. The fact that Secretary Gates is trying to scrape together $100 billion over the next 5 years from various accounts across DOD in order to fund modernization efforts is evidence that current spending will not sustain our military. Again, while I support this initiative, I firmly believe that alone it will not provide the funding for modernization and sustainment of our military.

In addition to Congress and DOD working together to increase effectiveness and efficiency, Congress must increase overall DOD funding and streamline the acquisition process with legitimate and continued reform. Secretary Gates and Admiral Mullen have both talked about a goal of setting a target for base or core defense spending ... the number used has been 4 percent and I agree with them. This level of spending will guarantee our qualitative and technological superiority, increase our military's capability to fight across the full spectrum of warfare, and operate at higher readiness rates with lower costs.

This increased spending must accompany continued acquisition reform. We cannot sustain our military when programs are running 8 years behind schedule and 150 percent over budget.

Unfortunately, our answer is to grow our acquisition bureaucracy and procurement process to provide additional oversight. This result has often been less accountability due to diffused responsibilities and a slowing of the entire process. We currently have Program Managers spending most of their time managing oversight requirements instead of managing their actual programs. Result is increased costs, delays in procurement times, cancelled programs, and wasted funds.

Congress and the DOD must reduce the complexity of the process by removing the multiple layers of oversight and the cumbersome reporting requirements and regulations.

What would you think about creating a Congressional and Executive Branch Bipartisan Task Force focused on reforming our Federal acquisition process ... a task force targeted at reducing and streamlining our Federal acquisition regulations, maintaining oversight but consolidating and reducing reporting requirements, and given the authority to effect all areas of our acquisition process from bids through procurement with the goal of cost savings, efficiency, and timeliness for the production of military hardware?

Mr. LYNN and Dr. CARTER. The Department shares your concern regarding the acquisition process and the challenges we face as we seek to modernize our forces and weapon systems. As part of the Secretary's broad initiative to improve the American taxpayer's return on his investment in national defense, Secretary Gates has tasked us to improve the Department's buying power and attempt to "fix" many of the areas you bring to light.

To put it bluntly, we cannot support our troops with the capabilities they need unless we do this. Our challenge is to sustain a military at war, take care of our troops and their families, and invest in new capabilities—all in an era when defense budgets will not be growing as rapidly as they were in the years following September 11.

The Department welcomes the opportunity to work with members of Congress and staff, and we are appreciative of Congress' generous support for the Department's modernization programs. At this time, however, we do not support a congressional and bipartisan Task Force. We believe we can and are addressing these problems

effectively. The recent WSARA and the measures we are putting in place to strengthen the acquisition workforce under the Defense Acquisition Workforce Improvement Act of 1990 need to be given a chance to succeed.

General CARTWRIGHT. I agree with the urgent need to improve our acquisition processes. In fact, the type of reform proposed is being pursued aggressively on two fronts.

The Joint Staff, in partnership with the military departments and OSD, is reassessing the Joint Capability Integration System (JCIDS) process to improve responsiveness and decision support to the Joint Requirements Oversight Council (JROC), to include affordability-based conclusions. In order to improve our efficiency, the Chairman also recommended fiscal year 2011 legislative changes. These changes would expand the JROC to formally include, by direction of the Chairman, a combatant commander when matters related to the area of responsibility or functions of that command will be under consideration by the Council. This proposal also extends advisory status to select principals in OSD and to other civilian officials as deemed necessary by the Secretary of Defense. The Joint Staff will again, as part of the fiscal year 2012 legislative proposals process, recommend this legislative action.

Concurrently, OSD is conducting a top-down assessment, directed by Dr. Ashton Carter, to restore affordability and productivity in defense spending.

We look forward to working with the oversight committees to continue to make progress on these critical issues.

STRENGTHENING THE ACQUISITION WORKFORCE

78. Senator INHOFE. Mr. Lynn and Dr. Carter, one critical component of this initiative is estimating costs. Whether it is "Should-Cost" or "Will-Cost", DOD needs accurate cost estimates. In conjunction with the passage of the WSARA of 2009, DOD has been increasing the size of its acquisition workforce. At the same time, it is also attempting to increase the skill levels and experience of that work force. Secretary Carter, you have acknowledged the need to improve the quantity and quality of the acquisition work force. What is the current status of our acquisition workforce?

Mr. LYNN and Dr. CARTER. Secretary Gates' initiative to strengthen the acquisition workforce, announced in April 2009, is well underway. We have completed 7,000 of the planned 20,000 new hires. Targeted growth and other quality-focused initiatives are strengthening our engineering, contracting, cost estimating, and other critical skill capabilities and capacity.

79. Senator INHOFE. Mr. Lynn and Dr. Carter, what is the project end state growth of the acquisition workforce?

Mr. LYNN and Dr. CARTER. The Department continues to pursue the President's March 2009 direction to ensure the acquisition workforce has the right capability and capacity. The President's fiscal year 2011 budget request provides for continuing the Secretary of Defense initiative to grow the acquisition workforce by 20,000 positions by 2015. While DOD force planning and requirements will evolve, the current estimate of workforce size by 2015 is 155,000.

80. Senator INHOFE. Mr. Lynn and Dr. Carter, what is the impact of this efficiency initiative on the workload for the existing workforce?

Mr. LYNN and Dr. CARTER. Our initiatives to improve buying power include targeting affordability and cost growth, incentivizing productivity and innovation in industry, promoting real competition, improving tradecraft in services acquisition, and reducing non-productive processes and bureaucracy. While these initiatives will focus acquisition workforce effort, they are not new and should be part of our normal expected workload as we accomplish the business of acquisition. DOD efforts to strengthen the acquisition workforce in size and quality are key to successful implementation of our acquisition reform efforts to improve how we buy and our buying power.

81. Senator INHOFE. Mr. Lynn and Dr. Carter, how will another cost estimate expedite our acquisition process?

Mr. LYNN and Dr. CARTER. Our intention is to employ "should cost analysis" [the additional cost estimate we believe you refer to] to drive productivity improvement into our programs and make the most efficient use of every taxpayer dollar. We want our program managers to scrutinize every element of program cost, assessing whether each element can be reduced relative to the year before, challenging learn-

ing curves, dissecting overheads and indirect costs, and targeting cost reduction with profit incentive—in short executing to what the program "should cost." The objective is to more efficiently manage scarce resources and drive leanness into each program. Should cost analysis is not specifically designed to expedite the acquisition process, but the information resulting from the analysis will facilitate better business arrangements, improved program planning, and promote more predictable cost, schedule and performance outcomes.

QUESTIONS SUBMITTED BY SENATOR JOHN THUNE

FORCE STRUCTURE SUSTAINMENT AND MODERNIZATION

82. Senator THUNE. Dr. Carter and General Cartwright, as you know, Secretary Gates stated in his May 8, 2010, speech at the Eisenhower Library that "the fact that we are a nation at war . . . calls for sustaining the current military force structure" and that the goal of this efficiencies initiative is to "cut our overhead costs and to transfer those savings to force structure and modernization within the programmed budget."

On August 9, 2010, Secretary Gates stated that "the task before us is . . . to significantly reduce [the department's] excess overhead costs and apply the savings to force structure and modernization." Yet over the summer, there have been rumors that the B–1 bomber fleet, which has been a near constant presence above Afghanistan throughout the war, might be proposed to be retired in pursuit of the $2 billion in savings the Air Force is required to find under this initiative. General Petraeus was before this committee just a few months ago and spoke very highly of the B–1's presence and performance in Afghanistan. So I'm perplexed by rumors such as these that propose retirement of the B–1 fleet to obtain the required savings, in light of Secretary Gates' emphasis on sustaining and modernizing our force structure.

Cutting force structure to find savings under this efficiencies initiative contradicts Secretary Gates' directive to cut overhead costs and transfer those savings to force structure and modernization, does it not?

Dr. CARTER and General CARTWRIGHT. The efficiencies initiatives will not cut force structure. The goal is to reduce excess overhead costs and apply the savings to operational forces and modernization.

83. Senator THUNE. Dr. Carter and General Cartwright, can you confirm that the Department is looking only at bureaucratic redundancies and overhead and will not reduce force structure in order to provide the savings the Department seeks?

Dr. CARTER and General CARTWRIGHT. The Department is determined to protect current and future warfighting ability. In pursuit of this goal, we are considering how to best allocate our scarce resources to maximize our capabilities. These considerations remain under review and deliberations.

84. Senator THUNE. Dr. Carter and General Cartwright, has Secretary Gates issued a mandate which directs the Services to look beyond bureaucratic inefficiencies and redundancies and consider reducing current force structure as a means to modernize and recapitalize the current force structure? If so, please provide a copy of that mandate.

Dr. CARTER and General CARTWRIGHT. The Secretary has not issued such a mandate.

REDUCING FORCE STRUCTURE

85. Senator THUNE. Mr. Lynn, Dr. Carter, and General Cartwright, Secretary Lynn has stated that there is an ongoing "scrub" of the warfighting accounts to "see if we can gain better effectiveness, better efficiency, better productivity from those forces." What reductions in force structure do you believe would be required to make the forces we have the most effective they can be to accomplish the mission? Please provide specifics.

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. This "scrub" refers to the Department's commitment to identify every opportunity to reduce overhead and associated costs not an attempt to cut force structure. The Secretary's goal was to effect a real cultural change in how we do business and gain efficiencies to protect current force structure and modernization.

86. Senator THUNE. Mr. Lynn, Dr. Carter, and General Cartwright, should we expect another announcement requesting a further reduction in combat air forces, similar to the 250 fighter aircraft that were retired this year, with those savings being applied to aircraft modernization and recapitalization? If so, what aircraft will you seek to retire?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. The Department is currently reviewing the fiscal year 2012 budget, and no final decisions have been made with respect to specific programs. Consistent with Secretary Gate's efficiencies initiatives, the Department's intent is to focus on efficiencies that enable movement of resources from overhead activities to fund capabilities required to fight the current war and prepare for future conflicts.

87. Senator THUNE. Mr. Lynn, Dr. Carter, and General Cartwright, with regard to the B–1 bomber fleet, do you agree with General Petraeus, the current commander of our forces in Afghanistan, that the B–1 bomber aircraft plays "a very big role" with regard to providing close air support for our troops on the ground in Afghanistan, and that the B–1 is "a great platform" and "a very capable bomber"?

Mr. LYNN and Dr. CARTER. Yes, as a team member among multiple combat assets providing close air support to our troops in Afghanistan, the B–1 plays a large role and is a capable platform. The B–1 provides the Joint Force Commander massive conventional firepower coupled with significant loiter capability perfectly suited for the inconsistent tempo of today's ongoing operations in Afghanistan. The B–1's supersonic dash capability allows a single aircraft to perform as a "roving linebacker" over large portions of the Area of Responsibility.

General CARTWRIGHT. The B–1 provides the Joint Force Commander conventional firepower coupled with a loiter capability well suited for the tempo of today's ongoing operations. The B–1's dash capability allows a single aircraft to perform as a roving standby asset over large portions of the area of responsibility (AOR). The Air Force continues to improve the B–1's conventional capability through ongoing modernization efforts. For example, the B–1 is the threshold platform for the Extended Range version of the Joint Air-to-Surface Standoff Missile (JASSM–ER). When combined with the ongoing Fully Integrated Data Link (FIDL) modification, these investments will ensure the B–1 remains a leading-edge combat platform.

88. Senator THUNE. Mr. Lynn, Dr. Carter, and General Cartwright, Secretary Gates has said that "the fact that we are a nation at war . . . calls for sustaining the current military force structure". The B–1 bomber fleet is an example of the kind of current military force structure fighting the war in Afghanistan that should be sustained rather than cut, is it not?

Mr. LYNN and Dr. CARTER. The B–1 is a critical part of our combined team of platforms supporting our ground troops in Afghanistan. DOD is committed to the continuing sustainment and modernization of the B–1 fleet and will continue to work toward completing the modifications we have outlined in the Future Years Defense Program (FYDP). The Air Force is currently reviewing the B–1's long-term role as part of the overall Long-Range Strike force structure, along with Tactical Air force structure, considering military requirements, modernization and sustainment costs, and fiscal constraints.

General CARTWRIGHT. DOD continues to sustain and modernize the B–1 fleet and we will continue to work towards completing the modifications programmed in the FYDP. The Air Force is currently reviewing the B–1's long-term role as part of the overall Long-Range Strike (LRS) force structure and will provide recommendations to DOD leadership for the proper balance of bomber assets.

CONSOLIDATION OR CLOSURE OF EXCESS BASES AND OTHER FACILITIES

89. Senator THUNE. Mr. Lynn and General Cartwright, as part of his August 9, 2010, announcements, Secretary Gates authorized the military departments to "consider consolidation or closure of excess bases and other facilities where appropriate." At the time that you are answering this question in writing for the record, have there been any recommendations made about base closures or consolidations since the Secretary's August 9 announcement? If so, please specify.

Mr. LYNN and General CARTWRIGHT. Not to my knowledge.

GLOBAL FORCE POSTURE REVIEW

90. Senator THUNE. Mr. Lynn and General Cartwright, Secretary Lynn referred to an ongoing global force posture review during the hearing. When was the review authorized?

Mr. LYNN and General CARTWRIGHT. The review began as part of the 2010 QDR.

91. Senator THUNE. Mr. Lynn and General Cartwright, how long has the review been in effect?

Mr. LYNN and General CARTWRIGHT. This review began as part of the 2010 QDR and is ongoing.

92. Senator THUNE. Mr. Lynn and General Cartwright, when will the review be completed?

Mr. LYNN and General CARTWRIGHT. We expect some elements of the review to be completed in time to inform the fiscal year 2012 budget. Beyond fiscal year 2012, the Department will continue to conduct rigorous analysis of global force posture, and consider adjustments of our approach as the environment warrants.

93. Senator THUNE. Mr. Lynn and General Cartwright, who is conducting this review?

Mr. LYNN and General CARTWRIGHT. The review is strategy-driven and led by the Office of the Under Secretary of Defense for Policy, in close consultation with other elements of OSD, the Joint Staff, the combatant commands, and the military departments and Services.

94. Senator THUNE. Mr. Lynn and General Cartwright, what has been learned so far during the review?

Mr. LYNN and General CARTWRIGHT. First, forward stationed and rotationally-deployed U.S. forces continue to be relevant and required. The long-term presence of U.S. forces abroad reassures allies and partners of our commitments—we cannot simply "surge" trust and relationships on demand.

Second, our defense posture must balance the need for a permanent overseas presence with the need for a flexible ability to respond to contingencies, emerging threats, and global security needs.

Third, we must balance the need for assured access to support ongoing operations with the risks of introducing fragility into the lines of communication. We will seek innovative ways to add strategic depth to our posture network.

Fourth, America's defense posture should provide a stabilizing influence abroad and be welcomed by the host nation.

Finally, our defense posture will continuously adapt to changes in the strategic environment. Deliberate, ongoing assessments of national interests, military requirements and the strategic environment should guide U.S. global defense posture planning.

95. Senator THUNE. Mr. Lynn and General Cartwright, have any conclusions been drawn during this review?

Mr. LYNN and General CARTWRIGHT. First, forward stationed and rotationally-deployed U.S. forces continue to be relevant and required. The long-term presence of U.S. forces abroad reassures allies and partners of our commitments—we cannot simply "surge" trust and relationships on demand.

Second, our defense posture must balance the need for a permanent overseas presence with the need for a flexible ability to respond to contingencies, emerging threats, and global security needs.

Third, we must balance the need for assured access to support ongoing operations with the risks of introducing fragility into the lines of communication. We will seek innovative ways to add strategic depth to our posture network.

Fourth, America's defense posture should provide a stabilizing influence abroad and be welcomed by the host nation.

Finally, our defense posture will continuously adapt to changes in the strategic environment. Deliberate, ongoing assessments of national interests, military requirements and the strategic environment should guide U.S. global defense posture planning.

96. Senator THUNE. Mr. Lynn and General Cartwright, what are the objectives of this review?

Mr. LYNN and General CARTWRIGHT. The purpose of the review is to examine the Department's current approach to global posture and to make strategic judgments

about the need for adjustments. The review is strategy-driven, and seeks to rationalize global posture planning with resource constraints in a dynamic geostrategic environment.

97. Senator THUNE. Mr. Lynn and General Cartwright, what is the intent of this review?

Mr. LYNN and General CARTWRIGHT. The purpose of the review is to examine the Department's current approach to global posture and to make strategic judgments about the need for adjustments. The review is strategy-driven, and seeks to rationalize global posture planning with resource constraints in a dynamic geostrategic environment.

98. Senator THUNE. Mr. Lynn and General Cartwright, will this review be used to inform decisions on base closures and consolidations in the fiscal year 2012 budget?

Mr. LYNN and General CARTWRIGHT. Our ongoing review of global posture assesses the strategic and operational implications of overseas basing. As such, it helps inform overseas closure and consolidation choices.

99. Senator THUNE. Mr. Lynn and General Cartwright, will you provide us a copy of the complete review?

Mr. LYNN and General CARTWRIGHT. The global posture review is an ongoing process to position the United States for emerging threats and opportunities in a dynamic geo-strategic environment. DOD provides an annual report to Congress on Global Defense Posture. DOD will complete the next iteration of this report during the first quarter of 2011.

JOINT BASING

100. Senator THUNE. General Cartwright, according to a September 20, 2010, Air Force Times article, the Air Force Chief of Staff, General Schwartz, said that the 2005 BRAC initiative to consolidate 26 installations into 12 joint bases is a failure that has not produced the cost savings the DOD expected. In fact, the Government Accountability Office stated "it was unclear whether joint basing will result in actual savings," and an Air War College study stated that joint basing is "actually costing DOD more money than if the 26 bases and posts had remained separate." What is your reaction to this criticism that the 2005 BRAC joint basing initiative has probably ended up costing money, rather than saving money?

General CARTWRIGHT. The Chairman and I are supportive of the Department's initiative to streamline installation support at 26 of our geographically proximate locations into 12 joint bases. The first five bases obtained full operational capability (FOC) on October 1, 2009, and we are less than 6 weeks into the final seven joint bases obtaining FOC. Therefore, it is too early to judge the overall success and viability of joint bases. Some innovative solutions have been enacted in support of joint bases. Application of a jointly developed support-standard could potentially have an impact across all installations. The Department has also implemented a formalized quality and cost control reporting mechanism for joint bases that could also have far reaching effects. As expected and planned, there has been cost growth early in implementation of these complex mergers. We fully expect lessons to be learned that will streamline operations and allow joint basing to realize its potential while also acting as a beta test for innovative solutions that can be applied to all joint bases.

The 12 joint bases are:

Phase 1 (established 1 Oct 09)

1. Joint Base Andrews-Naval Air Facility Washington (AF Lead)
2. Joint Base McGuire-Dix-Lakehurst (AF Lead)
3. Joint Expeditionary Base Little Creek-Ft Story (Navy Lead)
4. Joint Region Marianas (Navy Lead) = Naval Base Guam, Andersen AFB
5. Joint Base Myer-Henderson Hall (Army Lead)

Phase 2 (established 1 Oct 10)

6. Joint Base Charleston (AF Lead)
7. Joint Base Elmendorf-Richardson (AF Lead)
8. Joint Base San Antonio (AF Lead) = Lackland AFB, Randolph AFB, Fort Sam Houston
9. Joint Base Langley-Eustis (AF Lead)
10. Joint Base Anacostia-Bolling (Navy Lead)
11. Joint Base Pearl Harbor-Hickam (Navy Lead)

12. Joint Base Lewis-McChord (Army Lead)

JOINT UNMANNED AIRCRAFT SYSTEMS CENTER OF EXCELLENCE

101. Senator THUNE. Mr. Lynn, Dr. Carter, and General Cartwright, with regard to the proposed closure of JFCOM, I'm concerned about the future of the Joint Unmanned Aircraft Systems Center of Excellence (JUAS COE), which is owned by JFCOM, and is headquartered at Creech AFB in Nevada. One of the key issues General Odierno said he wanted to focus on as the new head of JFCOM was to bring his many years of experience as a commander in Iraq to bear on the issue of coordinating intelligence, surveillance, and reconnaissance (ISR) assets and understanding how to best utilize them in an asymmetric environment. Can you discuss what the plan is for this JUAS COE?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. The mission of the JUAS COE is to optimize Joint UAS employment through the development and integration of UAS common operating standards, capabilities, concepts, technologies, doctrine, tactics, techniques, procedures, and training. The JUAS COE publishes the Joint UAS CONOPS, where they utilize lessons learned from current operations, to form a joint vision for the operation, integration, and interoperability of UAS. The CONOPs examine unmanned-manned integration, airspace management, and urban operations issues. This joint look is critical as we rely more and more on UAS.

We are reviewing all USJFCOM functions, including the JUAS COE, to determine whether the continuation of each function is essential. These and other considerations, will inform the Secretary of Defense's recommendations and decisions concerning each of these functions.

102. Senator THUNE. Mr. Lynn, Dr. Carter, and General Cartwright, who will own it and where will it be located?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. The integration of unmanned aircraft systems (UAS) into joint operations has improved and the need for a separate center of excellence to manage the joint integration of these systems is yet to be determined. The knowledge and expertise associated with the UAS operations located at Creech Air Force Base is being considered to serve as a catalyst to drive the continued development and improvement of the tactics, techniques, and procedures associated with this maturing capability.

103. Senator THUNE. Mr. Lynn, Dr. Carter, and General Cartwright, do you believe this is an important initiative in light of our heavy reliance on this capability in the wars we're fighting?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. The JUAS COE is an important initiative with the mission to optimize Joint UAS employment through the development and integration of UAS common operating standards, capabilities, concepts, technologies, doctrine, tactics, techniques, procedures, and training. The JUAS COE publishes the Joint UAS CONOPS, where they utilize lessons learned from current operations, to form a joint vision for the operation, integration, and interoperability of UAS. The CONOPs examine unmanned-manned integration, airspace management, and urban operations issues. This joint look is critical as we rely more and more on UAS.

We are reviewing all USJFCOM functions, including the JUAS COE, to determine whether the continuation of each function is essential and unique. These and other considerations, will inform the Secretary of Defense's recommendations and decisions concerning each of these functions.

104. Senator THUNE. Mr. Lynn, Dr. Carter, and General Cartwright, what can be done to ensure that General Odierno will still be able to focus on this important issue if JFCOM is in fact closed?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. Any decision concerning the JUAS COE will take into account current and future operational UAS and ISR capability requirements of joint mission roles across all Services and combatant commanders.

FUNDING FOR ADVISORY AND ASSISTANCE CONTRACTORS IN INTELLIGENCE

105. Senator THUNE. Mr. Lynn, Dr. Carter, and General Cartwright, Secretary Gates in his August 9, 2010, speech said that he was implementing a 10 percent reduction in funding for advisory and assistance contractors in intelligence areas and a freeze in the number of senior executives in the defense intelligence organiza-

tions. Following the attacks of September 11, 2001, we determined that we had a critical shortfall in intelligence and immediately began building up this capability. It takes years and in some cases decades to build up experienced personnel. How will you determine the proper level of manpower to eliminate while ensuring we won't harm our current intelligence capability?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. The Department's efficiency initiatives are designed to protect current and future capability; saving money and reallocating those savings towards building capabilities is a means to that end. In that respect, we are approaching the intelligence review with the same methodology we are approaching every other part of the Department. We are looking for unnecessary redundancies and overhead that offer little contribution to the critical capabilities that you reference. As part of that effort, we are reviewing and prioritizing the Department's Civilian Senior Executive requirements, to include our Defense Intelligence Senior Executive Service and Defense Intelligence Senior Level positions. While this work is still in process, we are actively involving the Director of National Intelligence and both the providers of intelligence capabilities and their end users in an effort to get a complete understanding of where there are opportunities to shift resources toward highly valued applications.

106. Senator THUNE. Mr. Lynn, Dr. Carter, and General Cartwright, how much in savings do you expect to gain from this 10 percent reduction?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. These reductions are still under review. We expect to provide you more information on these savings by January.

REDUCING CONGRESSIONAL REPORTS WHILE MAINTAINING OVERSIGHT

107. Senator THUNE. Mr. Lynn, Secretary Gates stated in his August 9, 2010, Pentagon briefing that "this Department is awash in taskings for reports and studies. In 1970, the Pentagon produced a total of 37 reports for Congress, a number that topped off at more than 700 reports in last year's cycle." In addition he stated that in order to accomplish these reports, the Department employs nearly 1,000 contractors with more than 200 of them working full time with a good number of those reports internally driven, with the remaining being mandated by Congress. Can you discuss why you think there has been such an increase in the number of required reports?

Mr. LYNN. There are a number of reasons and I'll just summarize a few. First, considering that the Department has waged two wars spanning most of the past decade, and that its operating budget has grown apace, it is not surprising that Congressional oversight has expanded through its report assignments. Second, during the annual Authorization and Appropriation bill processes legislative proposals that need more time to fully mature into viable statutory provisions are often supplanted by reporting requirements, so that both Congress and the Department can gain valuable information to make good proposed law into better and viable law. Third, and finally, I also believe that the congressional report process itself produces duplicative reporting requirements and requests, and that both Congress and the Department would be better served if, in partnership, we could more often combine similar reports and provide committees interested in the same information one report that satisfied all of their oversight requirements, rather than producing many reports on the same topic from incrementally different perspectives or data-sets.

108. Senator THUNE. Mr. Lynn, Secretary Gates has proposed working with Congress to meet our needs while at the same time reducing the number of mandated reports. Can you discuss your thoughts on how to go about reducing the number of mandated studies?

Mr. LYNN. The congressional reports process is not appropriately coordinated. For example, many of the requested reports cover similar issues or are outdated. We would like to have an agreement with Congress that streamlines reports so as to eliminate duplication and to ensure that what we do provide continues to have value.

109. Senator THUNE. Mr. Lynn, how would you recommend Congress conduct oversight and see the analysis behind your decisions without requiring these reports?

Mr. LYNN. The Secretary believes that the intent of eliminating duplication and overlap in the requested reports should not negatively impact Congress' oversight responsibilities. More efficient use of the Department's resources will enhance the quality of the reports and the underlying analysis used to support decisions.

ARMY-AIR FORCE UNMANNED AERIAL VEHICLE DUPLICATING

110. Senator THUNE. Mr. Lynn, Dr. Carter, and General Cartwright, the Army's 2011 budget proposal requested over $578 million toward the acquisition of MQ–1 unmanned aerial vehicles (UAV), as well as their payload and weaponization. With that money, the Army would buy 26 more aircraft next year in addition to the 24 purchased this year with 158 total aircraft in the Army inventory by the end of 2015. By comparison, the Air Force has 144 MQ–1s today. The rationale for these duplicative purchases is that there is an urgent need for more ISR platforms in the field. Specifically, the Air Force has been tasked to provide 65 combat air patrols (CAP) on a daily basis using these types of aircraft. As part of this efficiency initiative, Secretary Gates has directed each Service to find savings of $2 billion in next year's budget. What synergies do you envision could be made between the Army and the Air Force with regard to unmanned capabilities and where do you think they can save money and reduce duplication?

Mr. LYNN and Dr. CARTER. The Air Force MQ–1B Predator and the Army MQ–1C Gray Eagle are not duplicative efforts. In fiscal year 2009, the Air Force ceased procurement of the MQ–1B and has transitioned to maximum procurement of MQ–9 in order to effectively field 65 orbits of combined MQ–1B/MQ–9 aircraft. Remaining procurement in the MQ–1 Predator program is for conversion of existing MQ–1 aircraft to the MQ–1B configuration and to support incremental modification of those aircraft to include new capabilities such as digital video and encrypted data links. As the Air Force has transitioned from the MQ–1B to the more capable MQ–9, the Army plans to meet their ISR capability needs with the more capable MQ–1C aircraft. The MQ–1C program has leveraged significant investment in the MQ–1B program to field initial capability quickly in the form of Quick Reaction Capability (QRC) deployments as the system completes developmental testing and heads into full-rate production. The Office of the Secretary of Defense's Unmanned Aircraft Systems Task Force was directed in 2007 to look for acquisition efficiency areas between the two systems. The Task Force found efficiencies and savings in areas of the sensor ball and communications data links used by both systems. The Army and Air Force have committed to procurement of a common sensor ball configuration between MQ–1B and MQ–1C as well as fielding interoperable communication data links. The Task Force is continuing to look at ground station architectures with the intent of defining a future architecture that would allow the military departments to take advantage of the power of a service-oriented-architecture to achieve increased competition and efficiency in software development.

General CARTWRIGHT. The Army's MQ–1C Gray Eagle and the Air Force's MQ–1B Predator are different aircraft that complement each other in meeting extensive ISR demands. Physically, the MQ–1C was built from lessons learned using the MQ–1B. The MQ–1C is slightly larger and has improved payload and range performance than its predecessor, the MQ–1B. Operationally, the MQ–1B provides theater level support, while the MQ–1C directly supports ground commanders with tactical ISR data, thereby enabling a full spectrum of support. The Air Force will operate both the MQ–1B (procurement ended in fiscal year 2009) and the much larger, more capable, MQ–9 Reaper to meet the required theater-level 65 CAPs by the fourth quarter fiscal year 2013. Remaining procurement funding in the MQ–1B Predator program supports modifications such as encrypted data link.

The Department continues to pursue commonality and full interoperability where appropriate. The Services are dedicated to fielding interoperable communication data links and a common (EO/IR) sensor ball configuration between both the Predator and the Gray Eagle. The UAS Task Force is also defining a future ground station architecture that would significantly drive down costs by moving away from proprietary stand alone ground station architectures.

111. Senator THUNE. Mr. Lynn, Dr. Carter, and General Cartwright, are you seeing this as an opportunity for the two Services to work together to achieve the goal of 65 CAPs that the Combatant Commander has requested?

Mr. LYNN and Dr. CARTER. The Resource Management Directive 700 signed on December 23, 2009 directed the Air Force to add funds to procure additional MQ–9 Reaper aircraft and to deploy 65 Combat Air Patrols (CAP) of MQ–1B Predator and MQ–9 Reaper by 2013 to meet theater-level requirements. There are currently 44 Air Force CAPs in place, 30 MQ–1B CAPs and 14 MQ–9 Reaper CAPs supporting theater-level needs. MQ–9 Reaper aircraft continue to deliver until a total of 65 CAPs of MQ–1/MQ–9 capability are fielded in fourth quarter, fiscal year 2013.

Separately, the Army is delivering organic Intelligence, Surveillance, and Reconnaissance capability with a variety of systems including the Raven, Shadow, and Gray Eagle Unmanned Aircraft System at the brigade level and below. This capa-

bility is not duplicative with higher theater level requirements but reduces the organic ground forces requirement that is requested at the theater level. Capacity at both the organic and theater-level provides flexibility and responsiveness to meet a range of warfighter requirements.

General CARTWRIGHT. We are continuously looking at operations to provide the combatant commander with the right level and type of capability to prosecute our strategy. The Army's MQ–1C and the Air Force's MQ–1B are complementary aircraft that support the warfighter at the tactical and theater level respectively. The 65 CAPs (combined Air Force MQ–1B/MQ–9 aircraft) support the Combatant Commander at the theater level. The MQ–1B Predator and MQ–9 Reaper systems are on a path to reach the 65 CAP goal by the fourth quarter of fiscal year 2013.

INSOURCING

112. Senator THUNE. Mr. Lynn and Dr. Carter, I would like to discuss for a few moments Secretary Gates' insourcing initiative. Under this initiative, he directed a 10 percent reduction each year, over the next 3 years, in funding for support contractors. His goal is to reduce the number of contractors that are performing functions that are inherently governmental. Can you describe how big of a problem this is within the DOD?

Mr. LYNN and Dr. CARTER. The Secretary's goal in reducing funding for service support contractors is to reduce the Department's overreliance on those types of contractors. Independent of that goal, functions that are inherently governmental should not be performed by contractors. While there may be some overlap between these initiatives, they are largely separate.

113. Senator THUNE. Mr. Lynn and Dr. Carter, what savings do you expect to receive from this initiative and would you agree that we should stop insourcing jobs that are not inherently governmental?

Mr. LYNN and Dr. CARTER. Not necessarily. On a case-by-case basis DOD components and organizations find that they can perform some functions more cost effectively using government civilians than through continued private sector personnel. In other cases, the private sector may provide the most efficient and effective means of providing valued functions. The goal is to curb cost growth and redirect spending to more highly valued uses. We can provide more information on the extent of these savings by January.

ECONOMIES OF SCALE AND MULTI-YEAR BUDGET

114. Senator THUNE. Mr. Lynn and Dr. Carter, one of the goals that Secretary Gates outlined was the ability to achieve greater benefits in cost and efficiency through the use of economies of scale. Although he used the consolidation of the IT infrastructure as an example, I believe another example of economies of scale would be the ability to make multi-year purchases. We recently saw the benefit of this when we authorized the Navy to purchase F/A–18s as part of a multi-year contract. I recently proposed an amendment as part of an overall budget reduction plan, that proposes transitioning the budget process to a multi-year process versus accomplishing it every year. Creating a budget every year doesn't seem to be the best way to save money. Multi-year contracts allow us the opportunity to buy equipment over 2 years and take advantage of a multi-year buy in purchasing negotiations. What inefficiencies do you see with maintaining a yearly budget and do you believe you could obtain more savings from contractors if the DOD budget transitioned to a multi-year budget?

Mr. LYNN and Dr. CARTER. From an acquisition perspective, mature major weapon system procurements can often benefit from multi-year purchases and/or multi-year budgets by providing some fiscal stability. Our concern is that we do not give up flexibility while gaining stability. Annual budgets with multi-year appropriations work well for investment programs, but it depends on the acquisition stage of the major weapon system. Multi-year procurement contracts are best suited to those programs with consistent requirements, reasonable production runs, and stable design configurations. Without these attributes, there is greater risk in not achieving the projected savings associated with economies of scale or absorbing costs from breaking a multi-year commitment. Multi-year budgeting does not guarantee certainty in the procurement process, and there is no guarantee that contractors will pass on savings to the government. Multi-year budgeting is effective if it is used with other fiscal tools such as the ability to reprogram funding within the Depart-

ment to accommodate dynamic program requirements and the changing fiscal environment.

QUESTIONS SUBMITTED BY SENATOR SUSAN COLLINS

SAVINGS DISTRIBUTION

115. Senator COLLINS. Mr. Lynn, a key assumption of Secretary Gates' efficiency initiatives is that the Services will be able to direct the savings they identify in overhead towards modernization accounts for additional ships, planes, or other assets. So long as the Services are actually empowered to reinvest savings from overhead costs to modernization accounts, many of us that have urged the Department to increase its investment in building and maintaining a 313-ship Navy or a larger Air Force might welcome such a proposal. However, as you know, there have been instances in the past where the Services identified savings but were unable to translate those savings into increased procurement. Has the President or the Director of the Office of Management and Budget assured you or Secretary Gates that the savings identified by the Services will not be used to reduce the overall defense budget top-line or be redirected to other priorities?

Mr. LYNN. The President understands and supports the effort. Secretary Gates explained that the goal is not to reduce the Department's top line budget and that the Services will be able to keep the savings they generate to reinvest in higher priority warfighting needs and modernization programs. The President has called the effort, "another step forward in the reform efforts.to reduce excess overhead costs, cut waste, and reform the way the Pentagon does business." He has also affirmed that the funds saved will help us sustain the current force structure and make needed investments in modernization in a fiscally responsible way.

116. Senator COLLINS. Mr. Lynn, in his August 9, 2010, announcement of the efficiency initiatives, Secretary Gates stated that, "I believe that sustaining the current force structure and making needed investments in modernization will require annual real growth of 2 to 3 percent, which is 1 to 2 percent above current top-line budget projections." This statement suggests that Secretary Gates believes that a 1 to 2 percent growth in the annual defense budget is a fair and realistic assumption for the future. Have you received assurances from the President or the Director of the Office of Management and Budget that they share Secretary Gates' assumption that a 1 to 2 percent growth in the DOD budget is a fair and realistic assumption for future budget projections?

Mr. LYNN. The President has not commented specifically on this item, although he applauded Secretary Gates on August 9 for undertaking this critical effort to support our men and women in uniform and strengthen our national security.

117. Senator COLLINS. Mr. Lynn, as a part of the Department's efficiency initiatives, Secretary Gates authorized the military Services to consider consolidating or closing excess military facilities as a part of their efforts to find savings in their budgets. As you know, in many towns and communities, a military installation can serve as the economic engine for an entire region. The announcement made by Secretary Gates creates immense uncertainty for the many businesses in these communities that are struggling in an already uncertain economic environment. It is the investment by these very businesses that can create many of the jobs that are needed in our country. What assurances, if any, can you provide the businessmen and women looking to expand their businesses in the hundreds of communities that are home to military installations about the future of those military installations?

Mr. LYNN. Closure and realignment decisions are difficult and the Department does not undertake them lightly. While Military Value has been the primary consideration in each of the five BRAC rounds, the Department fully considered the impact on local communities and is keenly aware of the close relationship between military installations and the surrounding communities. In each round, the Department made difficult choices based on thorough analyses and subsequent evaluation by an independent, legislatively mandated commission. In carrying out any closure or realignment decision, the Department seeks to minimize the economic impact of the decision to the local community. The Office of Economic Adjustment, in coordination with other Federal agencies, assists States and communities to work with affected businesses, workers, and community stakeholders to understand and respond to the impacts of these actions.

BASE CLOSURE

118. Senator COLLINS. Mr. Lynn, Dr. Carter, and General Cartwright, when budget analysts go searching for defense savings, it usually does not take long for someone to suggest another BRAC round. In fact, General Roger Brady, the four-star general who commands our U.S. Air Forces in Europe, said on September 15, 2010, that we have too many bases and that we need to consider additional base closures. However, it seems to me that it is premature to discuss a future BRAC round until we know if the ongoing 2005 BRAC round resulted in the savings it promised to deliver. A July 2010 GAO analysis found that DOD's reported costs for the 2005 Round are not complete because the Army has not reported all of its BRAC-related costs. In addition, the current $35 billion cost estimate to implement the 2005 BRAC is 50 percent more than the Department's original cost estimate, and costs could increase as the BRAC 2005 deadline approaches next September. Given the current status of the 2005 BRAC round and the economic uncertainty facing many of our businesses, do you or this administration support another BRAC round?

Mr. LYNN, Dr. CARTER, and General CARTWRIGHT. The Secretary has directed the military Departments to "consider consolidation or closure of excess bases and other facilities where appropriate." Regarding savings, the GAO estimated in its November 2009 report that the BRAC 2005 round would produce $3.9 billion in annual recurring savings beginning in fiscal year 2012. These savings will be used to support new capabilities and improve operational efficiencies. This is a significant benefit that comes as a direct result of successfully implementing the BRAC 2005 recommendations. The Department is not currently seeking authority for another BRAC round.

119. Senator COLLINS. Dr. Carter, Secretary Gates has asked the Services to identify $100 billion in savings over the next 5 years. Would you estimate the savings that will result over 5 years from the changes you are seeking strictly within the acquisition community alone?

Dr. CARTER. Last year, we identified savings in the defense budget by canceling unneeded programs, and we will need to do more of that. We must also find savings within active programs and in ongoing activities. The Department must achieve what economists call "productivity growth" and what I have called "learning to do more without more;" delivering the programs that both the Department and warfighter need for the amount of money we are going to get.

The goal of this productivity growth is to redirect defense budget dollars from unproductive to productive purposes, and we will get there by laying the policy groundwork to increase the Department's buying power as I detailed in my September 14 memorandum to acquisition professionals. Redirecting tens of billions of dollars to productive purposes is a result of the necessary changes we were making in the way we do business; we are not implementing broad reforms to simply reach a fixed dollar target of saving, and doing so would be dishonest to the process. Even if it were possible, we would be reluctant to project the total value of resources redirected over the next 5 years in acquisitions. Right now we are focused on getting the policies right and implementing true reforms, and billions in savings will be the natural result.

ACQUISITION WORKFORCE

120. Senator COLLINS. Dr. Carter, the defense acquisition workforce has experienced an increasing workload resulting from expanded uses of services contracts, increased procurement requirements from Congress, and efforts supporting counterinsurgency operations over the last 9 years. In your September 14, 2010, memo to acquisition professionals, you describe the importance of achieving productivity growth—in your words: to "do more without more." Given that the acquisition workforce is already stressed and possibly overworked, are you confident that there is existing capacity in the acquisition workforce to follow the 23 points identified in the memo to achieve the intended savings targets in addition to their current duties and responsibilities?

Dr. CARTER. Yes. In addition, DOD is continuing efforts to strengthen the acquisition workforce size and quality. This is key to successful implementation of our acquisition reform efforts to improve how we buy and our buying power. Also, reducing non-productive processes and bureaucracy is a key efficiency initiative that will enable the acquisition workforce to focus critical skills and efforts on improving acquisition outcomes.

121. Senator COLLINS. Dr. Carter, one of the targeted areas in your 23-point plan is to mandate "affordability" as a requirement. Can you explain how this requirement will be evaluated in acquisition decisions?

Dr. CARTER. In my September 14 memorandum to acquisition professionals, I outlined several specific measures directing program managers to treat affordability as a requirement before granting milestone authority to proceed with the program. Specifically, at Milestone A, my Acquisition Decision Memorandum (ADM) approving formal commencement of the program will contain an affordability target to be treated by the program manager like a Key Performance Parameter (KPP) such as speed, power, or data rate—i.e., a design parameter not to be sacrificed or compromised without my specific authority. At Milestone B, when a system's detailed design is begun, I will require presentation of a systems engineering tradeoff analysis showing how cost varies as the major design parameters and time to complete are varied. This analysis would allow decisions to be made about how the system could be made less expensive without loss of important capability. This analysis would then form the basis of the "Affordability Requirement" that would be part of the ADM decision. These measures will help us control costs while delivering the best possible capability to the warfighter.

122. Senator COLLINS. Dr. Carter, in your September 14, 2010, memo, you indicate that you want to work with Congress to develop special rules to eliminate some of the detailed Nunn-McCurdy reporting for critical cost breaches and the associated requirement for a Milestone A or Milestone B recertification. You identified more than $10 million and 95,000 hours of overhead labor associated with compliance of Nunn-McCurdy requirements for programs that had a critical cost growth breach simply based upon a change of procurement quantity approved by Congress. What was the impact on the cost, schedule, and capabilities of the programs that were subjected to a Nunn-McCurdy review simply because of a change in the procurement quantity?

Dr. CARTER. First, let me state that I think there has been a misunderstanding about the impact on the Department for having to perform Nunn-McCurdy reviews for programs that have experienced a critical unit cost growth simply based upon a change of procurement quantity. The impact has not been the $10 million and 95,000 hours of overhead labor for those programs alone. Rather, as my September 14 memorandum set forth, this estimate covered all six of the Nunn-McCurdy reviews that the Department conducted in the spring of 2010. An actual number for programs that have experienced a critical unit cost growth because of quantity adjustments is not possible, because the Department does not closely segregate costs for its overhead functions and it does not track Nunn-McCurdy review cycles for so-called "innocent" or "administrative" breaches separate from those breaches where problems in program execution have triggered the unit cost growth. We comply irrespective of the fundamental causes. However, in cases where the unit cost breach can be attributed to changes in quantity, the fundamental, if not sole, question is whether it is in the best interests of the Government to continue with the acquisition of the program notwithstanding the increase in unit cost.

There are also costs imposed by second order impacts stemming from the Nunn-McCurdy certification process. Regardless of the circumstances, if the program is certified, the previous Milestone must be rescinded and repeated, and no funding can be obligated for any contract without specific prior approval of the Milestone Decision Authority (MDA). A repeat Milestone requires new cost estimates, new Milestone certification documentation, preparation reviews, etc. Much of this is required in separate statutory requirements for those decision points, but it becomes necessary as a result of the Nunn-McCurdy review. Repeating these things comes at additional expense to the taxpayer and, in the case of quantity-driven changes, adds little value to the process or product if the Department has already answered the fundamental question about proceeding with the program. The additional time and effort obtaining MDA approval is burdensome and distracting to those executing the programs.

123. Senator COLLINS. Dr. Carter, what changes to policy, regulation, or statute would be required to implement the special rules regarding the Nunn-McCurdy process that you describe in your September 14, 2010, memo?

Dr. CARTER. I fully support the Nunn-McCurdy process, to include the recent improvements that were made by the WSARA of 2009. The Department takes each of these breaches seriously, and we conduct the prescribed review according to the provisions of the statute. However, each review is costly to perform and should be avoided when the critical breach is caused primarily by a change in quantity that was made in response to changes in threat or other fielding requirements and not

the result of poor performance or mismanagement. For example, the Army Acquisition Objective for the Guided Multiple Launch Rocket System and, more recently, the Excalibur projectile program were both reduced by more than 70 percent due to an approved change in force requirements. Due to a learning curve and the amortization of development costs, significant quantity reductions frequently result in critical Nunn-McCurdy breaches.

My proposed revision to section 2433a of title 10, U.S.C., would reduce the statutory requirements for critical Nunn-McCurdy breaches caused primarily by quantity changes (as long as the quantity change was not made as a result of an increase in unit cost). In our proposal the root cause of the cost growth would need to be validated by the WSARA-created office of Program Assessment & Root Cause Analysis. Since the statutory requirements of a Nunn-McCurdy critical breach under section 2433a are extensive, this section would reduce the requirements for quantity-related critical breaches. That is, for the review, only a root cause analysis would be conducted to substantiate the causal effects of the quantity change, followed by a written statement from me that it is in the best interests of the Government to continue the acquisition program notwithstanding the increase in unit cost.

[Appendixes A through G follow:]

APPENDIX A

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

JUN 28

MEMORANDUM FOR ACQUISITION PROFESSIONALS

SUBJECT: Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending

I have written to you previously to emphasize, with President Obama and Secretary Gates, that your highest priority is to support our forces at war on an urgent basis. Over the last year, the Department has also worked to reform its acquisition system, including implementing the Weapon Systems Acquisition Reform Act. Today I write to give direction on another important priority: delivering better value to the taxpayer and improving the way the Department does business.

We are a nation at war, and the Department does not expect the defense budget to decline. At the same time, we will not enjoy the large rate of growth we experienced during the years after September 11, 2001. We must therefore abandon inefficient practices accumulated in a period of budget growth and learn to manage defense dollars in a manner that is, to quote Secretary Gates at his May 8, 2010 speech at the Eisenhower Library, "respectful of the American taxpayer at a time of economic and fiscal distress."

This reality, combined with a determination to take care of our service members and avoid major changes in force structure, has led the Secretary and Deputy Secretary to launch an efficiencies initiative in the Department. The initiative requires the Department to reduce funding devoted to unneeded or low-priority overhead, and to transfer these funds to force structure and modernization so that funding for these warfighting capabilities grows at approximately three percent annually. This is the rate of growth needed historically to continue to give the troops what they need.

Some of these savings can be found by eliminating unneeded programs and activities; and, indeed, the Department's leadership has already taken strong action in this area and will need to do more. But other savings can be found within programs and activities we do need, by conducting them more efficiently. Deputy Secretary Lynn expects that two-thirds of the savings transferred to warfighting accounts should come about this way. Pursuing this kind of efficiency is the purpose of my message today to the Department's acquisition professionals. We need to restore affordability to our programs and activities. I would like

us to embark upon a process today to identify and then act on steps we can take to obtain two to three percent net annual growth in warfighting capabilities without incurring a commensurate budget increase by identifying and eliminating unproductive or low-value-added overhead; in effect, doing more without more.

The Department is spending approximately $700 billion per year for our nation's defense. Approximately $300 billion of those funds are spent within the Department's walls – on the salaries and benefits of military personnel and civilian employees, and on the buildings and facilities within which they work. But the remainder – $400 billion – is spent on contracts issued to entities outside of the Department of Defense. This $400 billion is divided about equally between products (e.g., weapons, electronics, fuel, and facilities) and services (e.g., IT services, knowledge-based services, facilities upkeep, and transportation). We, the Department's acquisition officials, agree to these contracts on behalf of the taxpayer. Each of these contracts contains a statement of the services or products it is procuring; an arrangement between the government and the contractor for how the costs of those items will be paid; and the overheads, indirect charges, and fees that complete the business transaction and make it possible for the defense industry to be economically viable.

The guidance memorandum I plan to issue will require each of you, as you craft and execute the Department's contracts in coming years, to scrutinize these terms to ensure that they do not contain inefficiencies or unneeded overhead. The guidance will give you specific features to examine and targets to hit in the pursuit of greater efficiency. The guidance will focus on getting better outcomes, not on our bureaucratic structures. But it must also take note of where the government's processes and regulations contribute to inefficiency in our business relationships.

Today I want to share with you the preliminary outlines of this guidance, so that I can have the benefit of your experience and perspective before I issue it in final form. I am also asking our partners in industry for their thoughts and input. I am also sharing these plans with the Congress. A process of analysis and dialogue is necessary to make sure our actions are effective and soundly based.

I want to emphasize two points about this initiative:

First, the savings we are seeking will not be found overnight. It has taken years for excessive costs and unproductive overhead to creep into our business processes, and it will take years to work them out. We will be concentrating on new contracts as they are awarded in coming years, to ensure that they reflect new efficiencies. Some of the targets and objectives we decide to pursue will only be able to be achieved on a timeline of several

years. On the other hand, Secretary Gates has explained clearly why we need to embark now. And the earlier we embark, the easier it will be to succeed.

Second, we in the Department cannot succeed at this task alone. We need the input and involvement of industry, and I will be actively seeking their support and ideas. We do not have an arsenal system in the United States: the Department does not make most of our weapons or provide many non-governmental services essential to warfighting – these are provided by private industry. Our industry partners are patriots as well as businessmen. This initiative should contribute to the continuing vitality and financial viability of the defense industry in the era ahead by aligning the direction and incentives of the Department and industry. It is intended to enhance and incentivize efficiency and total factor productivity. Most of the rest of the economy exhibits productivity growth, meaning that every year the buyer gets more for the same amount of money. So it should be in the defense economy. Increased productivity is good for both industry and government. So also is avoiding budget turbulence and getting more programs into stable production.

We also need the help of Congress. Members of Congress observe with dismay as they are asked to approve ever-increasing funding for the very same product or service. We will need their input and support to make necessary adjustments that will in some cases be difficult.

What is contained in the attached charts is an initial framework for restoring affordability to defense. I will be refining this framework over coming weeks, in full consultation with you, with industry, with Congress, and with outside experts and leaders. I plan to issue a final version of this mandate later this summer.

Realizing the objective of this initiative will be a formidable endeavor. But it is imperative. Secretary Gates, Deputy Secretary Lynn, and I have concluded that we cannot support our troops with the capabilities they need unless we achieve greater efficiency.

Ashton B. Carter

Ashton B. Carter

Objectives

- Deliver the warfighting capability we need for the dollars we have
- Get better buying power for warfighter and taxpayer
- Restore affordability to defense goods and services
- Improve defense industry productivity
- Remove government impediments to leanness
- Avoid program turbulence
- Maintain a vibrant and financially healthy defense industry

Obtain 2-3% net annual growth in warfighting capabilities without commensurate budget increase by identifying and eliminating unproductive or low-value-added overhead and transfer savings to warfighting capabilities. Do more without more.

Providing Incentives for Greater Efficiency in Industry

- **LEVERAGING REAL COMPETITION:** Avoid directed buys and other substitutes for real competition. Use technical data packages and open systems architectures to support a continuous competitive environment.
- **USING PROPER CONTRACT TYPE FOR DEVELOPMENT AND PROCUREMENT:** Phase out award-fee contracts and favor fixed-price or cost-type incentive contracts in which government and industry share equally in overruns and underruns, and overruns have analytically-based caps. Use cost-reimbursement contracts only when either government requirements or industry processes cannot be adequately specified to support pricing. Adjust sole-source fixed-price contracts over time to reflect realized costs. Work down undefinitized contract actions. Seek authority for multi-year contracts where significant savings are possible.
- **USING PROPER CONTRACT TYPE FOR SERVICES:** Phase out Time and Material and sole-source ID/IQ contracts wherever possible. Utilize fixed-price performance-based contracts when requirements are firm and can be measured, with payments tied to performance. Utilize fixed-price level of effort or cost-plus-fixed-fee contracts (with profit/fee tied to weighted guidelines) when requirements are still being defined. Award fees should be used only by exception. Maximize the use of multiple-source, continuously competitive contracts.
- **ALIGNING POLICY ON PROFIT AND FEE TO CIRCUMSTANCE:** Align opportunity to earn profits/fees to both value to the taxpayer and risk to the contractor. Apply weighted guidelines to profit/fee levels. Reward higher productivity with higher profits. Incentivize investment in innovation.
- **SHARING THE BENEFITS OF CASH FLOW:** Ensure that taxpayers receive adequate consideration (price reductions) for improved cash flows. Progress payments must reflect performance but can be increased above customary levels in return for consideration by the contractor. Reduce over time the gap between proposed and actual rates in forward price rate agreements.
- **TARGETING NON-VALUE-ADDED COSTS:** Identify and eliminate non-value-added overhead and G&A charged to contracts. Limit fees for subcontractor management to reflect actual value provided (risk assumed by prime and continuous subcontractor risk reduction). Limit B&P allowable costs in sole source contracts and encourage effective use of IRAD.
- **INVOLVING DYNAMIC SMALL BUSINESS IN DEFENSE:** When establishing multiple award contracts for services, make every effort to provide for small business participation. If at least two small businesses are deemed capable of performing on such a contract, consider setting aside that work for competition among them.
- **REWARDING EXCELLENT SUPPLIERS:** Emulate the Navy's pilot program to provide special benefits to consistently excellent industrial performers.

Adopting Government Practices that Encourage Efficiency

- **ADOPTING "SHOULD-COST" AND "WILL-COST" MANAGEMENT:** Use historically informed independent cost estimation ("will-cost" estimates) to inform managing of programs to cost objectives ("should-cost" estimates).
- **STRENGTHENING THE ACQUISITION WORKFORCE:** Achieve SECDEF goal of adding to government acquisition workforce with increased skill levels. Leverage unique qualities of non-profit FFRDCs and UARCs to augment acquisition workforce capability.
- **IMPROVING AUDITS:** Improve consistency and quality of government audits, and focus them on value-added content.
- **MANDATING AFFORDABILITY AS A REQUIREMENT:** In new programs such as the SSBN-X nuclear missile submarine, the Presidential Helicopter, the Ground Combat Vehicle, and the Air Force/Navy Long Range Strike Family of Systems, cost considerations must shape requirements and design.
- **STABILIZING PRODUCTION RATES:** To ensure more programs are in stable, economically favorable rates of production and avoid cost escalation, program managers may not adjust production rates downward without head of component authority.
- **ELIMINATING REDUNDANCY WITHIN WARFIGHTING PORTFOLIOS:** Emulate the Army's Precision Fires Capability Portfolio approach to identify where multiple programs are pursuing similar objectives.
- **ESTABLISHING SENIOR MANAGERS FOR PROCUREMENT OF SERVICES:** Follow the Air Force lead in establishing a Program Executive Officer for services in each DOD component to focus on improving policy and practice in this high-dollar-value area.
- **PROTECTING THE TECHNOLOGY BASE:** Protect the future by sustaining investment while focusing on high value-added work.

APPENDIX B

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

SEP 14 2010

ACQUISITION, TECHNOLOGY AND LOGISTICS

MEMORANDUM FOR ACQUISITION PROFESSIONALS

SUBJECT: Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending

On June 28, I wrote to you describing a mandate to deliver better value to the taxpayer and warfighter by improving the way the Department does business. I emphasized that, next to supporting our forces at war on an urgent basis, this was President Obama's and Secretary Gates' highest priority for the Department's acquisition professionals. To put it bluntly: we have a continuing responsibility to procure the critical goods and services our forces need in the years ahead, but we will not have ever-increasing budgets to pay for them. We must therefore strive to achieve what economists call productivity growth: in simple terms, to DO MORE WITHOUT MORE. This memorandum contains specific Guidance for achieving the June 28 mandate.

Secretary Gates has directed the Department to pursue a wide-ranging Efficiencies Initiative, of which this Guidance is a central part. This Guidance affects the approximately $400 billion of the $700 billion defense budget that is spent annually on contracts for goods (weapons, electronics, fuel, facilities etc., amounting to about $200 billion) and services (IT services, knowledge-based services, facilities upkeep, weapons system maintenance, transportation, etc., amounting to about another $200 billion). We estimate that the efficiencies targeted by this Guidance can make a significant contribution to achieving the $100 billion redirection of defense budget dollars from unproductive to more productive purposes that is sought by Secretary Gates and Deputy Secretary Lynn over the next five years.

Since June, the senior leadership of the acquisition community – the Component Acquisition Executives (CAEs), senior logisticians and systems command leaders, OSD officials, and program executive officers (PEOs) and program managers (PMs) – has been meeting regularly with me to inform and craft this Guidance. We have analyzed data on the Department's practices, expenditures, and outcomes and examined various options for changing our practices. We have sought to base the specific actions I am directing today on the best data the Department has available to it. In some cases, however, this data is very limited. In these cases, the Guidance makes provision for future adjustments as experience and data accumulate so that unintended consequences can be detected and mitigated. We have conducted some preliminary estimates of the dollar savings anticipated from each action based on reasonable and gradual, but steady and determined, progress against a clear goal and confirmed that they can indeed be substantial.

Changing our business practices will require the continued close involvement of others. We have sought out the best ideas and initiatives from industry, many of which have been adopted in this Guidance. We have also sought the input of outside experts with decades of experience in defense acquisition.

Going forward we will need the support of Congress, which will be essential to the success of this endeavor and we have tried to take their concerns fully into account in formulating this Guidance.

A capable, qualified, and appropriately sized acquisition workforce will be key to achieving efficiency. While Secretary Gates has directed a scrub of the oversight staff in OSD and the military commands, he has also determined that the acquisition workforce increases planned last year should proceed, since they are focused on specific skill sets near to the point of execution. You, the acquisition leaders, and your workforce will be essential to the success of this Guidance.

This Guidance contains 23 principal actions to improve efficiency organized in five major areas. Specific guidance is contained in directives I am issuing today or in the near future. Over the coming months, the acquisition leadership will discuss with each of you how you can implement this Guidance and monitor progress against its metrics.

There is every reason to believe the efficiencies we are seeking can be realized. It has taken years for excessive costs and unproductive overhead to creep into our business practices, but over the coming years we can surely work them out again. Those who hesitate to go down the road of greater efficiency must consider the alternative: broken or cancelled programs, budget turbulence, uncertainty and unpredictability for industry, erosion of taxpayer confidence that they are getting value for their defense dollar and, above all, lost capability for the warfighter in a dangerous world. Not only can we succeed: we must.

TARGET AFFORDABILITY AND CONTROL COST GROWTH

Mandate affordability as a requirement. Affordability means conducting a program at a cost constrained by the maximum resources the Department can allocate for that capability. Many of our programs flunk this basic test from their inception. As the Department begins new programs like the Ohio-class SSBN(X) replacement, the new Presidential Helicopter, the Army's Ground Combat Vehicle (GCV), and the joint Family of Systems for long-range strike in the near future, I will require program managers to treat affordability as a requirement before granting milestone authority to proceed with the program. *Specifically, at Milestone A, my Acquisition Decision Memorandum (ADM) approving formal commencement of the program will contain an affordability target to be treated by the program manager (PM) like a Key Performance Parameter (KPP) such as speed, power, or data rate – i.e., a design parameter not to be sacrificed or compromised without my specific authority. At Milestone B, when a system's detailed design is begun, I will require presentation of a systems engineering tradeoff analysis showing how cost varies as the major design parameters and time to complete are varied.* This analysis would allow decisions to be made about how the system could be made less expensive without loss of important capability. This analysis would then form the basis of the 'Affordability Requirement' that would be part of the ADM decision. I will be issuing a directive in the near future to implement this guidance that will apply to both elements of a program's life cycle cost – the acquisition cost (typically 30 percent) and the operating and support cost (typically 70 percent). For smaller programs, the CAEs will be directed to do the same at their level of approval. I recognize that we need to improve the Department's capability to perform this kind of engineering tradeoff analysis, but the ability to understand and control future costs from a program's inception is critical to achieving affordability requirements.

The Navy has been conducting just this sort of analysis in connection with the commencement of the Ohio-class replacement. This submarine will be the bulwark of our survivable nuclear deterrent for the indefinite future as required by the Nuclear Posture Review, but at the price originally estimated, its construction would swamp the Navy's shipbuilding budget during the 2020-2030 periods. By conducting the kind of design tradeoffs I will require at Milestone B and trimming requirements as a result without compromising critical capability, the Navy has reduced the estimated average procurement cost by 16 percent with a goal of fully 27 percent. Over the next five years, the Department expects to begin new programs with acquisition costs in the FYDP of over $50 billion and totaling over $200 billion. If the forecast costs of these new programs can be scrubbed down by even a fraction of that achieved in the SSBN(X) program, billions of dollars just within the FYDP can be reallocated to more productive purposes.

Drive productivity growth through Will Cost/Should Cost management. During contract negotiation and program execution, our managers should be driving productivity improvement in their programs. They should be scrutinizing every element of program cost, assessing whether each element can be reduced relative to the year before, challenging learning curves, dissecting overheads and indirect costs, and targeting cost reduction with profit incentive – in short, executing to what the program *should cost*. The Department's decision makers and Congress use independent cost estimates (ICE) – forecasts of what a program *will cost* based upon reasonable extrapolations from historical experience – to support budgeting and programming. While ICE Will Cost analysis is valuable and credible, it does not help the program manager to drive leanness into the program. In fact, just the opposite can occur: the ICE, reflecting business-as-usual management in past programs, becomes a self-fulfilling prophesy. The forecast budget is expected, even required, to be fully obligated and expended.

To interrupt this vicious cycle and give program managers and contracting officers and their industry counterparts a tool to drive productivity improvement into programs, *I will require the manager of each major program to conduct a Should Cost analysis justifying each element of program cost and showing how it is improving year by year or meeting other relevant benchmarks for value. Meanwhile, the Department will continue to set the program budget baseline (used also in ADMs and Selected Acquisition Reports (SARs)) using an ICE.*
We will use this method, for example, to drive cost down in the Joint Strike Fighter (JSF) program, the Department's largest program and the backbone of tactical air power for the U.S. and many other countries in the future. This aircraft's ICE (Will Cost) average unit price grew from $50 million Average Unit Procurement Cost (APUC) when the program began (in 2002 dollars, when the program was baselined) to $92 million in the most recent ICE. Accordingly, the JSF program had a Nunn-McCurdy breach last year and had to be restructured by the Secretary of Defense. As a result of that restructuring, a Should Cost analysis is being done in association with the negotiation of the early lot production contracts. The Department is scrubbing costs with the aim of identifying unneeded cost and rewarding its elimination over time. The result should be a negotiated price substantially lower than the Will Cost ICE to which the Department has forecasted and budgeted. Secretary Gates indicated in his Efficiency Initiative that monies saved in this way could be retained by the Service that achieved the efficiency; in this case the Air Force, Navy, and Marine Corps could reallocate JSF funds to buy other capabilities.

The Department will obligate about $2 trillion in contracts over the next five years according to Will Cost estimates, so savings of a few percent per year in execution are significant.

The metric of success for Should Cost management leading to annual productivity increases is annual savings of a few percent from all our ongoing contracted activities as they execute to a lower figure than budgeted. Industry can succeed in this environment because we will tie better performance to higher profit, and because affordable programs will not face cancellation.

Eliminate redundancy within warfighter portfolios. The Army recently determined that it could forego the Non-Line-of-Sight Launch System (NLOS-LS) short-range guided missile because it already had weapons that had some (though not all) of the same features as NLOS-LS and because the cost of NLOS-LS – almost $300,000 each – was too high for the narrow capability gap it would fill. This was a classic value decision that could not have been made by looking at the NLOS-LS program in isolation. The Army had to look at the entire "warfighting portfolio" of precision weapons to see that NLOS-LS's cancellation would not, in fact, result in a major sacrifice of military capability.

I intend to conduct similar portfolio reviews at the joint and Department-wide level with an eye toward identifying redundancies. These reviews will initially cover Ground Moving Target Indicator (GMTI) systems and Integrated Air and Missile Defense. *I am directing the components to do the same for smaller programs and report the results.* The savings from these reviews cannot be estimated until they are conducted, but the savings could be substantial.

Make production rates economical and hold them stable. Government and industry both benefit from economic order quantity (EOQ) rates of production, and from stability in production year after year. Unfortunately, quantity cutting and turbulence to meet budget targets is widespread. Production rates are a critical part of any acquisition strategy approved by me. *Therefore, beginning immediately, I will expect production rate to be part of the affordability analysis presented at Milestones A and B. Furthermore, at Milestone C, I will set a range of approved production rates. Deviation from that range without my prior approval will lead to revocation of the Milestone.*

Recent examples where the Department ensured cost savings by implementing economical production rates include the Navy's E-2D Advanced Hawkeye program and the Air Force's Small Diameter Bomb II program. During reviews for initial production for both programs, business case analyses demonstrated significant dollar savings and more rapid achievement of operational capability, with the use of aggressive but attainable production profiles. Those EOQs were directed and are expected to realize savings of $575 million for the E-2D and $450 million for the SDB II as a result.

I expect to see a 5 percent annual increase in the number of ACAT 1D and 1C programs executing at their EOQ level.

Set shorter program timelines and manage to them. The leisurely 10-15 year schedule of even the simplest and least ambitious Department programs not only delays the delivery of needed capability to the warfighter, but directly affects program cost. As all programs compete for funding, the usual result is that a program settles into a level-of-effort pattern of annual funding that does not deviate much from year to year. The total program cost is the level-of-effort times the length of the program. Thus a one-year extension of a program set to complete in 10 years can be expected to result in 10 percent growth in cost as the team working on the project is kept on another year.

Yet managers who run into a problem in program execution generally cannot easily compromise requirements and face an uphill battle to obtain more than their budgeted level of funding. The frequent result is a stretch in the schedule.

An example of the importance of addressing schedule directly as an independent variable is the Army's GCV. An initial acquisition plan had this program taking approximately 10 years to complete a first production vehicle, typical of the normal leisurely pace of programs. (In contrast, the MRAP-ATV began in 2009 and delivered more than 5,700 vehicles to Afghanistan by August 2010.) Given the large investment in ground vehicle technology made in the cancelled Future Combat Systems (FCS) program, there was no need to take this much time, especially if the basic requirements were limited to those essential to an infantry fighting vehicle and incorporating the lessons of recent wars. The Department determined that the GCV program should have a seven-year schedule to first production vehicle. Requirements and technology level for the first block of GCVs will have to fit this schedule, not the other way around. *When requirements and proposed schedules are inconsistent, I will work on an expedited basis with the Services and the Joint Staff to modify requirements as needed before granting authority for the program to proceed. In particular, I will not grant authority to release requests for proposals until I am confident requirements and proposed schedules are consistent. From now on, I will also require as part of the cost tradeoff analysis at Milestone B to support affordability, a justification for the proposed program schedule. This justification will be part of the ADM authorizing the program to proceed. Deviation from that schedule without my prior approval will lead to revocation of the Milestone.*

INCENTIVIZE PRODUCTIVITY AND INNOVATION IN INDUSTRY

Reward contractors for successful supply chain and indirect expense management. The Department pays profit/fee to prime contractors on work they conduct themselves, work subcontracted by the prime contractor to subcontractors, and allowable overhead and administrative costs. All three are appropriate, but in each instance the level of profit should be calculated to reward performance. Profit on subcontracted work is meant to compensate the prime for taking on the burden of managing subcontractor risk and delivering subcontractor value. Otherwise, the government would have to manage the subcontractor itself (an alternative called "breakout"). It follows that higher profit should be awarded to management of higher-risk subcontracts, and higher profit should be given when the prime succeeds in driving down subcontractor costs every year. Likewise, profit on overhead should incentivize control of overhead cost. There is evidence, however, that blanket profit levels are set and, what is more, are not revisited periodically in light of actual performance. This should be done as a matter of course. Additionally, incentives have not kept pace with fundamental changes in the defense industrial environment, among them the growth of services contracts and a shift in the role of prime contractors from manufacturers to integrators of components manufactured by subcontractors.

I am instructing the Director of Defense Procurement and Acquisition Policy (DPAP) to review the Weighted Guidelines for profit with the aim of emphasizing the tie between profit and performance. In the meantime and effective immediately, I expect all managers of ACAT 1D programs to provide to me, as part of their acquisition strategy, the reward and incentive strategy behind their profit policy, including consideration of breakout alternatives where

appropriate. I direct the CAEs to do the same in programs for which they have acquisition authority.

It is important to note that the savings to be expected from this direction will be in cost, not in profit. Savings are not expected in profit per se since in some instances profit will increase to reward risk management and performance. But if profit policy incentivizes reduction in program cost, the overall price to the taxpayer (cost plus profit) will be less.

The value of considering a breakout option is illustrated by the results of a recent review of DDG-51 Destroyer costs. During this review, it was noted that the new cost for the Restart Main Reductions Gears (MRG), previously subcontracted by two construction shipyards as Class Standard Equipment, was now more than three times the previous cost. The incumbent manufacturer had exited the market for MRGs and had sold its intellectual property to another firm. The prime passed on this subcontractor's new bill to the government without aggressive cost management. The PEO broke out the MRG from the prime contract and conducted a full and open competition, which resulted in savings over $400 million to the government for a lot buy of nine ship sets.

Increase the use of Fixed-Price Incentive Firm Target (FPIF) contract type where appropriate using a 50/50 share line and 120 percent ceiling as a point of departure. Choosing contract type is one important way of aligning the incentives of the government and the contractor. One size does not fit all. At one time, the Department attempted to impose fixed-price contracts on efforts where significant invention (and thus unknowable costs) could be anticipated. More recently, Cost Plus Award Fee (CPAF) contracts with subjective measures of award fee not clearly tied to cost control became widespread. In between these extremes is the FPIF contract, which should be the contracting officer's point of departure whenever conditions obtain (or can be created) that make it appropriate. "Fixed Price" is appropriate when the government knows what it wants and does not change its mind, and when industry has good control of its processes and costs and can thus name a price. While these preconditions do not always exist (as in, for example, a risky development where invention is needed), they are certainly desirable, and both parties to the contract should aspire to fulfilling them. "Incentive" is important, since it shares the costs of overruns and rewards of underruns between government and industry, giving both sides of the transaction an incentive for good performance. FPIF will normally be appropriate early in production and in single-source production where year-on-year price improvement can be rewarded.

A 50/50 share line suggests that the government and contractor have a common view of the likely contract execution cost. A 50/50 share line should represent a point where the estimate is deemed equally likely to be too low or too high. A flat or steep share line suggests that the government and contractor do not see project cost the same way. These differences in view should be discussed and considered as the basis for adjusting the target cost before an uneven share line is agreed to in contract. This might occur, for example, earlier in a program where the costs are inherently more uncertain.

A ceiling of 120 percent on an FPIF contract sets a 20 percent limit on the government's liability for overrun of the contract target cost. This is reasonable in view of historical experience in program overruns, and also reasonable because programs that overrun more than this amount in an era of relatively flat defense budgets should face review with an eye to cancellation.

A higher proposed ceiling requires explanation to the relevant head of contracting authority. Likewise, a lower ceiling than 120 percent suggests that perhaps a firm fixed-price contract is appropriate.

I am considering whether to issue more formal guidance on this matter, but effective immediately, I will require a justification of contract type for each proposed contract settlement be made to the relevant acquisition executive before negotiations are concluded. The metric for success of this measure would be fewer programs that overrun their cost targets.

The Navy, for example, recently concluded negotiations for a multi-year procurement of 124 F/A-18 strike fighter and E/A-18 electronic attack aircraft, which will yield over $600 million (greater than 10 percent) savings to the Department and the taxpayer. The F-18 program was able to drive down cost for each lot of aircraft procured in the framework of a fixed-price incentive contract that meets the Department's objectives for realistic costs, reasonable profit, a 50/50 shareline, and a 120 percent ceiling.

Adjust progress payments to incentivize performance. The government is an exceptionally reliable customer in terms of financing. The Department pays up front and regularly, sometimes before products are delivered. The Department also finances most industry investment needed to prepare products for the defense market. The Department can therefore offer its contractors a high cash flow return on invested capital, a feature highly valued by investors. This financial environment in turn offers another opportunity to reward good performance. The Department should take advantage of this circumstance through the use of innovative contract financing methods to incentivize vendors with the time value of money in exchange for lower prices/costs. *As a matter of practice, on all fixed price type contracts, I expect that the basis of negotiations shall be the use of customary progress payments. After agreement on price on the basis of customary progress payments, the contractor shall have flexibility to propose an alternate payment arrangement for the Government's consideration.* By having determined the projected contract cost, the contracting officer should be able to determine the consideration being offered by the contractor for a more favorable payment structure. The benefits of that improved cash flow shall be documented and the contracting officer will clearly identify in the business clearance the amount of consideration the Government received for the use of the improved cash flow opportunity. *I will direct that the Director of DPAP develop for my review a cash flow model to be used by all contracting officers contemplating financing other than customary progress payments and make certain that the guidance is developed to ensure that the improved cash flow opportunities provide benefit to both industry (at both prime and subcontractor level) and the taxpayer.*

Extend the Navy's Preferred Supplier Program to a DoD-wide pilot. The Department should recognize and reward businesses and corporations that consistently demonstrate exemplary performance. The Department has experience with these types of programs in certain parts of our business. For example, the Defense Logistics Agency's Strategic Supplier Alliance (SSA) has established long term relationships with major original equipment manufacturers (OEMs) within commodity groups for parts and supplies, and they are eligible to receive contract awards on a sole source basis. SSA suppliers have their performance tracked via a vendor scorecard tool that reports administrative lead time, production lead time, percent obligations and other measures and are eligible for preferred status based upon these measures.

The Navy has announced a pilot program that would allow contracting authorities to set favorable post-award special terms and conditions that recognize those businesses and corporations that have demonstrated, over time, superior performance in delivering quality products and services, robust subcontracting management, cost containment, and on-time delivery. In the Navy's pilot, the special terms and conditions can, for example, include more favorable progress payments, higher designated ranges in the weighted guidelines, special award fee pools, and other potential post-award advantages. I believe this has significant potential to appropriately reward those corporate/business suppliers that the Department can count on to repeatedly deliver the value that we expect. *I am directing the Navy to continue to lead the pilot program but to immediately include the other Services and DoD components in order to transition to a full DoD program as soon as practical.*

Reinvigorate industry's independent research and development and protect the defense technology base. The Department reimburses industry as an allowable cost over $3 billion annually in "Independent Research and Development" (IRAD). This is one of the Department's principal investments in technology innovation, larger than any single military department's annual Science and Technology (6.1-6.3) program. Yet, we do not have insight into how or where these funds go or if they benefit the Department or promote the technological prowess of our industry. Beginning in the 1990s, the Department reduced its technical exchanges with industry, in part to ensure the "independence" of IRAD. The result has been a loss of visibility into the linkage between funding and technological purpose. Additionally, there is some evidence that the defense industry has reduced its in-house laboratory infrastructure to a point not envisioned in the 1990s.

The capability to perform work in science and technology has increased throughout the world. Data suggests U.S. world share is continuing to decline. In order to maintain our innovative edge, secure the basis for a strong economy, and provide for national security, we must implement new policies to effectively use Department resources and maintain appropriate investment in technology development and lower cost and time required for providing those capabilities.

Understanding that industry needs to maintain independence, but acknowledging that the public funds these investments, I am reviewing how we can work with industry to identify and eliminate impediments to innovation, provide better feedback to industry researchers, and better define the Department's needs to our industry partners.

I intend to take action to align the purpose of IRAD to actual practice. Unfortunately, as noted above, the Department does not have the information about how the program is actually functioning that I would need to undergird a policy change at this time. Accordingly, I am today directing three steps that I will review in six months with the objective of issuing a directive on this subject at that time. First, the Director of Defense Research and Engineering (DDR&E) should engage with the largest of the performers of IRAD to collect data on how they have used these funds in recent years, the resulting benefits to government and industry, and how they obtain insight into technical areas of potential interest to the government. Second, I will ask the Defense Contract Audit Agency (DCAA) to collect and provide to me IRAD financial data from all firms with allowable IRAD costs. Third, I direct the DDR&E to provide to me within 60 days a plan for a pilot program, to improve the return on IRAD investments for industry and

government. The pilot program is to apply to as much as a third of the IRAD allocation, and will reflect early insights from the data we will collect.

PROMOTE REAL COMPETITION

Real competition is the single most powerful tool available to the Department to drive productivity. Real competition is to be distinguished from a series of directed buys or other contrived two-source situations which do not harness the full energy of competition. Competition is not always available, but evidence suggests that the government is not availing itself of all possible competitive situations.

Present a competitive strategy at each program Milestone. Since it is not practical to develop two of everything the Department needs, competition must be found in other forms. Program managers should have a competitive strategy for their program even if they do not have classic head-to-head competition. This might take the form of a related program that could serve as partial substitute for the program in question, a plan to re-gain competition in an unproductive sole source situation, breakout of subcontracted work, adapting commercial products, or other strategies.

I will require a presentation of a competitive strategy for each program at each Milestone and expect the CAEs to do the same at their level.

A highly successful example of a competitive strategy is the Navy's Littoral Combat Ship. This program was in danger of falling into a pattern of directed buys rather than real competition, with the result that the price of an LCS was creeping up towards that of a destroyer. The Navy decided to select only one of the LCS designs for production, doing so in an additional competitive selection. Competition in a different form will then be introduced into the program, as other shipbuilders are provided the technical data to build the same ship design competitively. This strategy is expected to save the Navy over $1 billion over the FYDP, with additional savings expected over the life of the LCS acquisition program.

Remove obstacles to competition. In recent years, the Department has achieved the highest rates of competition in its history. Having said that, the fact is that a significant fraction of those competitive procurements have involved what is termed "ineffective competition," since only one offer to a solicitation was received even when publicized under full and open competition. This occurs in about $55 billion of Department contracts annually. One step the Department can take is to mitigate this loss of savings from the absence of competition. A common practice has been to conclude that either a bid or proposal submitted by a single offeror in response to a full and open competition met the standard for adequate price competition because the bid or proposal was submitted with the expectation of competition. As a result, no certified cost or pricing data was requested, no cost or price analysis was undertaken, and often, no negotiations were conducted with that single offeror. *Henceforth I expect contracting officers to conduct negotiations with all single bid offerors and that the basis of that negotiation shall be cost or price analysis, as the case may be, using non-certified data.*

A more important approach is to remove obstacles to competitive bidding. For example, the Air Force's PEO for Services reviewed the Air Force's Design and Engineering Support Program (DESP) for effective competition. She found 39 percent of the task order competitions under the

Indefinite Delivery/Indefinite Quantity (IDIQ) contract resulted in one bid. The Air Force team undertook an analysis to determine why they were getting the one bid and made two changes. First, they amended their source selection methodology so that technical, cost, and past performance factors were more equally weighted. No one factor can be less than 25 percent or more than 50 percent. This served to lessen the advantage of the incumbent contractor since the technical factor could not overshadow past performance and cost. Second, the team provided a monthly report to all DESP IDIQ holders listing all known requirements in the pipeline. The report includes sufficient information to allow contractors to evaluate whether or not to bid and to start to prepare a bid package. The team has effectively added an additional 45 days to the time a requirement is made known to the potential offerors and the bid due date. These two changes have reduced the percentage of task orders receiving one bid by 50 percent. The team continues to evaluate its processes to further reduce the percentage.

Each service component and agency has a competition advocate. *I am directing each competition advocate to develop a plan to improve both the overall rate of competition and the rate of effective competition. Those plans should establish an improvement rate of at least 2 percent per year for overall competition and an improvement rate of at least 10 percent per year for effective competition. Those plans are to be approved by the CAEs. The Department's competition advocate shall brief me on the overall progress being made to achieve those goals.*

o *Require open systems architectures and set rules for acquisition of technical data rights. At Milestone B, I will require that a business case analysis be conducted in concert with the engineering trade analysis that would outline an approach for using open systems architectures and acquiring technical data rights to ensure sustained consideration of competition in the acquisition of weapons systems.* A successful example of the strategic use of open architecture and buying of appropriate technical data rights is the Navy's Virginia-class SSN program. The Virginia program uses a modular open systems architecture and selective sub-component technical data rights procurement that promotes a robust competition at the component supplier level, while still supporting continual and effective block upgrades to the existing systems that reduces the overall life cycle cost of the system.

Increase dynamic small business role in defense marketplace competition. Small businesses have repeatedly demonstrated their contribution to leading the nation in innovation and driving the economy by their example of hiring over 65 percent of all new jobs and holding more patents than all the nation's universities and large corporations combined.

Our defense industry must leverage that innovation and opportunity into our competitions, as small business representation on programs has demonstrated lower costs to the government. For many small businesses, subcontracting on Department contracts is the first step to becoming a Department prime contractor. Components must understand the small business capabilities within their industry and increase market research and outreach efforts to ensure small business utilization is maximized. In order to remove barriers to small business participation in Department contracts and competition, *I direct the CAEs to institute in all competitive and non-competitive procurement actions emphasis on small business utilization through weighting factors in past performance and in fee construct.*

IMPROVE TRADECRAFT IN SERVICES ACQUISITION

Contract support services spending now represents more than 50 percent of our total contract spending. In 2009, the Department spent more than $212 billion in contracting services, using more than 100,000 contract vehicles held by more than 32,200 contractors — with more than 50 percent of the spend awarded to about 100 contractors.

This contractor support is critical to the Department. For professional services, for example, the Department depends upon three sources: the government workforce, the unique not-for-profit FFRDCs and UARCs, and for-profit professional services companies. Management mechanisms are in place for the first two, but far less for the third.

The Department's practices for buying such services are much less mature than for buying weapons systems. It is critically important that we have a cohesive and integrated strategy with regard to the acquisition of services. This substantial amount of spend demands a management structure to strategically source these goods and services.

Create a senior manager for acquisition of services in each component, following the Air Force's example. In order to achieve efficiencies in services contracting commensurate with the scale of the Department's spend, new governance is necessary. *I am directing the CAEs of the military departments and the commanders and directors of the other DoD components to establish a senior manager for acquisition of services, who will be at the General Officer, Flag, or SES level.* This senior manager will be responsible for governance in planning, execution, strategic sourcing, and management of service contracts. The senior manager will be the Decision Authority for Category I service acquisitions valued at $250 million or less or as delegated and collaborate with requiring activities which retain funding authority on service contract spend.

Adopt uniform taxonomy for different types of services. Today, the Department lacks a standard taxonomy for service contract spend that can be used among the components to understand the Department's aggregate spending and value of specific services contracting. Without a standard approach, the Department has no way of measuring productivity in more than 50 percent of its contracting investment. *I am directing, therefore, each component to use the following primary categories of service spend: Knowledge-based services; Electronics and Communications Services; Equipment Related Services; Medical Services; Facility Related Services; and Transportation Services. These are derived from, and consistent with, Product Service Code (PSC) categories contained in the PSC manual maintained by the General Services Administration, Federal Procurement Data Center, and Office of Management and Budget (OMB). This taxonomy will be used by each component to ensure basic consistency.*

Address causes of poor tradecraft in services acquisition.

- *Assist users of services to define requirements and prevent creep via requirements templates.* The Department has experienced significant increases in mission/requirements creep for services spending, particularly in knowledge management services, which has increased 400 percent in the last decade. These requirements often require the same function or service to be provided but are written uniquely among various commands so that competition is limited. *Therefore, I am directing two initiatives to address mission/requirements creep. First, the Services and DoD components should establish, through their senior managers for services,*

maximum use of standard templates in developing Performance Work Statements (PWS) to improve contract solicitations. Successful examples of the use of standard templates are the Navy's SEAPORT acquisitions and DLA's use of templates to acquire Headquarters support services. *Second, I also expect market research to be strengthened in order to understand industry's capabilities and appropriate pricing within the market in which we are buying. I expect the military departments and DoD components will achieve this by establishing dedicated market research teams at the portfolio management level.*

o *Enhance competition by requiring more frequent re-competes of knowledge based services.* Although 89 percent of the Department's services contracting spend was awarded under competitive conditions, in 24 percent of those cases only one bid was received. This suggests bona fide competition (two or more bids) is not occurring in the $31 billion represented by those cases. To improve competition in services, *I will require the military departments and DoD components to review the length of time that services contracts remain in effect before re-competition occurs.* Single-award contract actions should be limited to three years (including options) unless, by exception, it is fully justified for longer periods by the senior manager for services. Contract length should be appropriate for the activity performed. Knowledge-based services readily meet the three-year limit. Other services such as Performance Based Logistics (PBL), LOGCAP, and environmental remediation, as examples, may not. The intent is that each service requirement will be reviewed by the appropriate official and only those with a sound business rationale will contain longer contract performance provisions. Multiple award IDIQ contracts may be up to five years if on-ramp provisions are included to refresh/update the competitor pool. In addition, *I expect Service components to align contract spend data, to the maximum extent that is practical, to the functional/requirements elements executing the spend.* This will focus all elements of the Department on the importance of achieving improved results.

o In cases where "1-bid" proposals are received, *I will require fully negotiated pricing and cost data as appropriate. Further, I will require solicitations that receive only one bid, and that were open to industry for less than 30 days, to be re-advertised for a minimum additional period of 30 days.*

o *Limit the use of time and materials and award fee contracts for services.* Today, more than 20 percent of the Department's services acquisitions are written using Time & Material (T&M) or Cost Plus Award Fee (CPAF) contract types. At a time when the Department is driving toward more fiscal discipline, we spend about $24 billion in services using T&M contract types, which are the least preferred contract type for understanding costs. Similarly, CPAF contract types provide only limited motivation for cost discipline. The acquisition of services differs greatly from the acquisition of supplies and equipment. The contractor at-risk capital is typically much lower for most service acquisitions and must be factored into the contract decision process. *I will issue further detailed guidance for establishing a taxonomy of preferred contract types in services acquisition, but starting immediately, I expect services acquisitions to be predisposed toward Cost-Plus-Fixed-Fee (CPFF), or Cost-Plus-Incentive-Fee (CPIF) arrangements, when robust competition or recent competitive pricing history does not exist to build sufficient cost knowledge of those services within that market segment. I expect thet cost knowledge gained from those contracts to inform the Should Cost estimates of future price and contract type negotiations. When robust competition already exists, or there is recent competitive pricing history, I expect components to be predisposed toward Firm-Fixed-Price*

(FFP) type contract arrangements. FFP should also be used to the maximum extent reasonable when ongoing competition is utilized in multiple award contract scenarios.

o *Require that services contracts exceeding $1 billion contain cost efficiency objectives.* With large Department outlays of capital for services contracting, it is important that the Department incentivize, achieve, and share in cost improvements over the period of performance for support services acquisitions, including knowledge management services. In acquisitions of material and production end items, we expect the contractor to be on a learning or efficiency curve to drive costs down and value up. We should incentivize and expect similar cost improvement on high-value services contracts. *Beginning immediately, I will require services contracts valued at more than $1 billion to contain provisions in the contract to achieve productivity improvements and cost efficiencies throughout the contract period.*

Increase small business participation in providing services. Small businesses provide the Department with an important degree of agility and innovation, even in support services, and they do so with generally lower overhead structures. To strengthen and improve opportunities for small businesses in the acquisition of services, *I am directing the OSD Office of Small Business Programs to review acquisition plans for services acquisitions exceeding $1 billion, and to be members of the OSD peer reviews of services acquisitions. Additionally, when multiple award contracts are used for services acquisitions, specific tasks suitable for small businesses will be set aside and military departments and DoD components will seek opportunities to compete Multiple Award/IDIQ contracts among small businesses.*

REDUCE NON-PRODUCTIVE PROCESSES AND BUREAUCRACY

Unnecessary and low-value added processes and document requirements are a significant drag on acquisition productivity and must be aggressively identified and eliminated. We cannot achieve Should Cost goals solely by providing incentives to industry to reduce overhead and increase productivity; the government must also eliminate unnecessary and often counterproductive overhead. Some of this overhead is required by statute, and I will work with the Congress to reduce these requirements that neither add value nor improve operational performance. Some of it is imposed by OSD, and is the natural bureaucratic growth in oversight that staffs generate over time and which has to be trimmed back periodically to more effective and productive levels. Secretary Gates has emphasized that the Department's efficiency initiative does not just extend to the $400 billion of contracted work outside the Department's walls, but to the $300 billion spent on the people and facilities that comprise the Department itself. He has reached into his own OSD staff and to senior commands to require greater leanness. Within OSD , he has directed my office (AT&L) to conduct a much-needed bottom-up scrub of process and staffing. Secretary Gates' determination to increase the overall acquisition workforce remains steadfast; however he intends for those additional positions to be filled with specific skill sets in short supply near the point of program execution, not an across-the-board increase or an increase in oversight staff. We must use these, and all our resources, effectively. I am calling on all participants in the acquisition system and all those who affect its processes to work with me to remove non-productive processes and bureaucracy. The following are just some of the steps we can take to address this problem:

Reduce the number of OSD-level reviews to those necessary to support major investment decisions or to uncover and respond to significant program execution issues. The number and

frequency of OSD-level program reviews has increased significantly over the past several years. The year prior to August 2010 showed that over 240 major reviews and significant USD (AT&L)/staff reviews required more than 100,000 labor-hours to complete. This practice has tended to relieve the Senior Acquisition Executives (SAEs), PEOs, and PMs from responsibility and accountability for the programs they are executing. Insight at the AT&L level into program execution performance can generally be achieved through established status reporting mechanisms and informal staff contacts. While I expect a certain level of staff oversight, I expect the staff reviews to be focused primarily on major decision points for which I am responsible and on surfacing and solving execution problems. I also expect the OSD staff in AT&L and elsewhere to remain cognizant of our programs' progress and to identify problems quickly so that they can be dealt with as early as possible. There is a balance between this appropriate level of oversight and that which is excessive and tends to relieve the chain of command from management responsibility. I believe we have tipped the balance too far in favor of additional oversight and need to restore it to a more appropriate and effective level.

o *Realign OSD Acquisition Reviews to add more value.* It is important that we align AT&L resources to address the most significant investment decisions required at the Under Secretary level. Therefore, *I am directing ARA to review the current list of OSD reviews — DABs, Pre-DABs, OIPTs, PSRs, and TRLs etc., to recommend specific realignment of these reviews/meetings to ensure they focus their purpose on the major acquisition investment decisions made by the Department.*

o *Review DAB documentation requirements to eliminate non-relevant content.* Our DAB documents have become bloated and at the same time often fail to provide necessary and important content. A team has already been established to review DAB documents beginning with the Acquisition Strategy Report. *I am directing ARA to complete the review of all DAB documents by March 1, 2011 and to provide me with recommendations for streamlining and focusing these documents on needed content to support AT&L level decisions.*

o *Reform TRL reviews to focus on technology as opposed to engineering and integration risk.* The TRL review and certification process has grown well beyond the original intent and should be reoriented to an assessment of technology maturity and risk as opposed to engineering or integration risk. *I am directing the DDR&E to review this process and to make recommendations to refocus the TRL certification process to be consistent with its original intent.*

Eliminate low-value-added statutory processes. I recognize the importance of keeping programs within cost and schedule and agree on the need to reevaluate the viability of programs that incur large overruns or schedule slips. I fully support the spirit and the intention of the Nunn-McCurdy review process. However, I believe the process can be streamlined in a way that we can make sound decisions about the future of programs and provide Congress with the information and certifications they need without overly burdening programs and, in some cases, without reviewing programs that experience average unit cost growth because of decisions made by the Department, such as changed quantities resulting from requirements changes. As an example of overhead costs, my staff calculated the number of hours and attendant costs for Nunn-McCurdy evaluations that the Department undertook this year for the most recent six programs that breached the critical Nunn-McCurdy thresholds. The estimates for these six evaluations exceeded $10 million and 95,000 hours of overhead labor. Notwithstanding the legal

requirement, two of the six evaluations were for technical breaches since the breaches were the result of production quantity changes or acquisition strategy changes rather than a result of cost growth per se. The knowledge we gained by conducting full evaluations was not significantly greater than what we already knew at the outset and had no effect on the decision to continue the programs. To curb this, *I am targeting specific oversight processes, described below, to reduce or eliminate costs associated with what I believe are unnecessary overhead burdens that add marginal or questionable value to meeting the needs of our warfighters or expectations of the taxpayer. I am also directing the streamlining of some processes that are important to keep, but that require significant efficiency improvement to be effective. The Department will continue to comply with all statutory requirements, but where it makes sense we will tailor how we achieve compliance to be consistent with the circumstances, and we will work with Congress to modify statutory requirements where the intended goal is clearly not being achieved.*

o *Request Nunn-McCurdy Rules for Special Situations. I will work with Congress to eliminate the requirement for the full suite of Nunn-McCurdy assessments and reporting activities in special circumstances where quantity-induced or other external reasons cause critical breaches to occur.*

o *2366a and 2366b Certification Process Review. I will work with OSD staff and the Congress to reassess both the need for and the overall method of implementation we have imposed on ourselves to respond to the requirement for retroactive 2366a/b certifications to ensure objectives are met without burdensome and inefficient bureaucracy.*

o *Congressionally-mandated organizational changes within AT&L.* Congress has correctly identified and mandated some changes to the AT&L organization that are improving our ability to oversee acquisition programs and make better decisions about specific investments and about acquisition policy. It is important, however, that AT&L have the flexibility to balance the internal staff elements in order to effectively execute all the functions for which AT&L is responsible. *I intend to work with the Congress to ensure that all oversight functions are adequately staffed and performed without inserting inefficiencies and unnecessary overhead into the acquisition process at the same time.*

Reduce by half, the volume and cost of internal and congressional reports. The time and resources spent on one-time and recurring internal and congressional reports are costly to the Department and take the acquisition workforce away from executing programs. For internal reports, the Department must suppress its appetite for non-critical information and resist the temptation to become checkers of checkers. For congressional reports, in the past 10 years, the total number levied on the Department has grown from 514 to 719. During that same span, the number of reports assigned to my office (AT&L) grew from 102 to 156. Many of these reports, once they are introduced into legislative language, continue to be required year after year — long after the immediate relevancy and value of the information have passed. None of these reports are free. A conservative cost estimate of the resources consumed in producing the 719 congressional reports is $350 million annually. Consequently, *I am directing my staff to conduct a bottom-up review of all internally-generated reporting requirements and to work with ASD (Legislative Affairs) to conduct a bottom-up review of all congressionally mandated acquisition reports to assess the value of the reports with a goal to eliminate at least 50 percent of the reports and to substantially shorten the ones remaining. I am also tasking ARA to impose*

reasonable page count caps (given the information requested) when reports are assigned for production and to indicate the estimated cost to prepare each report on its cover.

Reduce non-value-added overhead imposed on industry. Industry has its own internal unproductive processes which add to project costs, but these are in some part a reflection of the requirements which the government imposes. A great number of the inputs I received from industry were directed at what was viewed as excessive overhead expenses based solely on non-value-added mandates and reporting requirements which may have been relevant at some point in time, but have little relevance in the world in which we now find ourselves. *In order to identify and reduce these costly requirements, I am directing the Director of Industrial Policy, with support from DPAP, to more fully survey our industrial base to identify, prioritize, and recommend a path forward to unwind duplicative and overly rigorous requirements that add to costs, but do not add to quality of product or timeliness of delivery. As we remove these requirements, I will expect a decline in the overhead charged to the Department by our industrial base that reflects these reduced costs.*

Align Defense Contract Management Agency (DCMA) and Defense Contract Audit Agency (DCAA) processes to ensure work is complementary. It is well known that during the last 20 years, due to budget constraints, DCMA and DCAA have progressively reduced staff and capability. As a result, critical functions they perform have become blurred and require clarification, and where necessary should be de-conflicted to avoid unnecessary overlap and redundancies. In this vein, industry has expressed concern regarding overlapping roles and missions between DCMA and DCAA, resulting in duplication of data requests submitted by contractors and inefficient application of Department resources. Over the past several months, at my direction, the Director of DPAP has been working with DCAA and DCMA to identify areas of potential overlapping responsibility, such as Accounting, Estimating, Purchasing, Financial Capability Reviews, Earned Value Management System (EVMS), MMAS, Property Management, and Forward Pricing, and propose methods to eliminate the duplication. *I am tasking the Director of DPAP to develop guidance that will clearly spell out the roles and responsibilities of each organization in those areas where duplication and overlap occur.*

Increase use of Forward Pricing Rate Recommendations (FPRRs) to reduce administrative costs. Contract negotiations can administratively benefit from the use of Forward Pricing Rate Agreements (FPRAs). Certainly a quality FPRA will result in reduced administrative costs associated with negotiating and managing acquisitions. However, it is also recognized that establishing FPRAs just for the sake of having FPRAs is not beneficial and has been costly to the taxpayer. For multiple reasons, including but not limited to complexity of contractor rate structures and audit process changes today, DCMA has only established 32 percent of expected FPRAs. It has, on the other hand, established 85 percent of the expected FPRRs. Clearly the opportunity exists to re-examine how best to ensure contracting officers obtain the support they need to negotiate rates. We will strive to have FPRAs, when possible, but we will not do so when FPRR's are available if we believe that there is not a legitimate and thoughtful basis for departing from them. *Accordingly, I am tasking DCMA to be responsible for the promulgation of all FPRRs. In those cases, where DCAA has completed an audit of a particular contractor's rates, DCMA shall adopt the DCAA recommended rates as the Department's position with regard to those rates.*

This letter is not the end of a process, but the beginning of vigorous implementation and further refinement. Today I have signed out directive memoranda to my key staff elements, DPAP, ARA, DDR&E, and the leaders of the OIPTs that coordinate the OSD-level oversight of major programs setting those offices on the course to begin implementing this guidance. I have provided the Component Acquisition Executives with a draft directive memorandum that I intend to sign within the next few days for their review and comments. Starting today but extending over the next several months we will be putting the actions I have described in this guidance into more formal direction and practice. Today, however, I am tasking all of you to absorb this guidance memo and begin acting on it within the scope of your existing authority. There is no time to lose.

Ashton B. Carter

Guidance Roadmap

Target Affordability and Control Cost Growth

- Mandate affordability as a requirement
  - At Milestone A set affordability target as a Key Performance Parameter
  - At Milestone B establish engineering trades showing how each key design feature affects the target cost
- Drive productivity growth through Will Cost/Should Cost management
- Eliminate redundancy within warfighter portfolios
- Make production rates economical and hold them stable
- Set shorter program timelines and manage to them

Incentivize Productivity & Innovation in Industry

- Reward contractors for successful supply chain and indirect expense management
- Increase the use of FPIF contract type where appropriate using a 50/50 share line and 120 percent ceiling as a point of departure
- Adjust progress payments to incentivize performance
- Extend the Navy's Preferred Supplier Program to a DoD-wide pilot
- Reinvigorate industry's independent research and development and protect the defense technology base

Promote Real Competition

- Present a competitive strategy at each program milestone
- Remove obstacles to competition
  - Allow reasonable time to bid
  - Require non-certified cost and pricing data on single offers
  - Require open system architectures and set rules for acquisition of technical data rights
- Increase dynamic small business role in defense marketplace competition

Improve Tradecraft in Services Acquisition

- Create a senior manager for acquisition of services in each component, following the Air Force's example
- Adopt uniform taxonomy for different types of services
- Address causes of poor tradecraft in services acquisition
  - Assist users of services to define requirements and prevent creep via requirements templates
  - Assist users of services to conduct market research to support competition and pricing
  - Enhance competition by requiring more frequent re-compete of knowledge-based services
  - Limit the use of time and materials and award fee contracts for services
  - Require that services contracts exceeding $1B contain cost efficiency objectives
- Increase small business participation in providing services

Reduce Non-Productive Processes and Bureaucracy

- Reduce the number of OSD-level reviews to those necessary to support major investment decisions or to uncover and respond to significant program execution issues
- Eliminate low-value-added statutory processes
- Reduce by half the volume and cost of internal and congressional reports
- Reduce non-value-added overhead imposed on industry
- Align DCMA and DCAA processes to ensure work is complementary
- Increase use of Forward Pricing Rate Recommendations (FPRRs) to reduce administrative costs

CONTRACT SERVICES

OPERATION AND MAINTENANCE
Including Defense Health Program
($ in Millions)

Line	By OP-32 Inflation Category Code	FY 2010 Actual [1]	Change	FY 2011 Request [2]	Change	FY 2012 Estimate
931	Contract Consultants	5	288	293	-277	16
932	Mgmt and Professional Support Services [3]	10,572	-7,599	2,973	-14	2,959
933	Studies, Analysis and Evaluations	614	-189	425	-121	304
934	Engineering and Technical Services	5,976	-3,871	2,106	108	2,213
	Total 25.1 - Advisory and Assistance Services	**17,168**	**-11,370**	**5,797**	**-304**	**5,493**
989	Other Contracts	19,522	-3,249	16,272	-3,937	12,336
926	Other Overseas Purchases	328	-185	143	-14	129
	Total 25.2 - Other Services	**19,850**	**-3,434**	**16,415**	**-3,951**	**12,464**
923	Facility Maintenance	23,703	-12,495	11,208	768	11,976
	Total 25.4 - Operation and Maintenance of Facilities	**23,703**	**-12,495**	**11,208**	**768**	**11,976**
985	Research and Development Contracts	1,451	-951	500	164	664
	Total 25.5 - Research and Development Contracts	**1,451**	**-951**	**500**	**164**	**664**
986	Medical Care	13,985	1,495	15,480	753	16,234
	Total 25.6 - Medical Care	**13,985**	**1,495**	**15,480**	**753**	**16,234**
922	Equipment Maintenance - Contract	15,700	-6,590	9,109	2,150	11,259
927	Air Defense Contracts	602	432	1,034	-3	1,031
928	Ship Maintenance by Contract	2,011	-880	1,130	131	1,262
929	Aircraft Rework by Contract	662	-76	586	19	605
930	Other Depot Maintenance (Non-Fund)	10,456	-3,400	7,056	614	7,670
990	IT Contract Support Services	802	76	879	860	1,739
	Total 25.7 - Operation and Maintenance of Equipment	**30,233**	**-10,438**	**19,795**	**3,771**	**23,566**
964	Subsistence Contracts	344	-205	139	21	160
	Total 25.8- Subsistance and Support of Persons	**344**	**-205**	**139**	**21**	**160**
	Total	**106,734**	**-37,399**	**69,335**	**1,222**	**70,556**

Source: Program Resources Collection Process as of 9 February 2011

Numbers may not add due to rounding

[1] FY 2010 includes Overseas Contingency Operations (OCO) funding.

[2] Reflects the FY 2011 President's Budget request (base only).

[3] The FY 2011 amount includes $733 million increase for Defense Intelligence Agency. This amount was included in Other Intra-Government Purchases in the FY 2011 President's Budget.

OPERATION AND MAINTENANCE
CONTRACTOR FULL-TIME EQUIVALENTS

CONTRACT SERVICES

OPERATION AND MAINTENANCE
CONTRACTOR FULL-TIME EQUIVALENTS

	FY 2010 Actual [1]	Change	FY 2011 Request [2]	Change	FY 2012 Estimate
By Service/Defense-Wide					
Army	97,614	-20,325	77,289	-142	77,147
Navy	69,271	-13,436	55,835	3,654	59,489
Marine Corps	22,018	-14,308	7,710	970	8,680
Air Force	112,426	-7,573	104,853	1,925	106,778
Defense-Wide	51,065	-5,821	45,244	-3,100	42,144
Total	**352,394**	**-61,463**	**290,931**	**3,307**	**294,238**

Source: Services/Agencies FY 2012 President's Budget Justification of Estimates

[1] FY 2010 includes Overseas Contingency Operations (OCO) funding.

[2] Reflects the FY 2011 President's Budget request (base only).

CONTRACT SERVICES
FAMILY HOUSING, MILTARY PERSONNEL, PROCUREMENT, REVOLVING AND MANAGEMENT FUNDS
($ in Millions)

Object Class	Object Class Title	FY 2010 Actual [1]	Change	FY 2011 Request [2]	Change	FY 2012 Estimate
25.1	Advisory and Assistance Services	2,200	-1,110	1,091	-83	1,008
25.2	Other Services	1,045	33	1,078	-98	980
25.4	Operation and Maintenance of Facilities	1,220	37	1,257	-3	1,254
25.5	Research and Development Contracts	1,737	-1,582	155	-2	153
25.7	Operation and Maintenance of Equipment	375	-69	306	117	423
25.8	Subsistance and Support of Persons	2	6	8	1	9
Total		**6,580**	**-2,685**	**3,896**	**-69**	**3,827**

Source: Comptroller Information System as of 9 February 2011

Numbers may not add due to rounding

[1] FY 2010 includes Overseas Contingency Operations (OCO) funding.

[2] Reflects the FY 2011 President's Budget request. Includes base and OCO.

CONTRACT SERVICES

CONTRACT SERVICES
RESEARCH, DEVELOPMENT, TEST AND EVALUATION
($ in Millions)

Object Class	Object Class Title	FY 2010 Actual [1]	Change	FY 2011 Request [2]	Change	FY 2012 Estimate
25.1	Advisory and Assistance Services	5,104	-337	4,767	-714	4,053
25.2	Other Services	1,900	-1,057	843	-135	708
25.4	Operation and Maintenance of Facilities	217	-67	150	-103	47
25.5	Research and Development Contracts	61,179	2,986	64,165	-7,383	56,782
25.6	Medical Care	39	48	87	-6	81
25.7	Operation and Maintenance of Equipment	198	75	273	33	306
25.8	Subsistance and Support of Persons	1	0	1	0	1
Total		**68,638**	**1,648**	**70,286**	**-8,308**	**61,978**

Source: Comptroller Information System as of 9 February 2011

Numbers may not add due to rounding

[1] FY 2010 includes Overseas Contingency Operations (OCO) funding.

[2] Reflects the FY 2011 President's Budget request. Includes base and OCO.

Description of Services Financed: In accordance with the Federal Acquisition Regulation 37.101, contract services are contracts that directly engage the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to furnish an end item of supply. Contract services are a viable source of labor for commercial work that is not inherently governmental or otherwise exempted from the private sector. In accordance with 10 U.S. Code 235 (as modified by the National Defense Authorization Act for Fiscal Year 2010, Section 803), this exhibit provides a summary of services contracted within all DoD appropriations except Military Construction.

Reporting Limitations: The Department of Defense will continue to work on processes and system improvements required to accurately and consistently report budget requests for contract services (to include funding and contractor FTEs). Modifications are required to the following systems and processes: budget and manpower systems, contracting procedures, the Federal Procurement Data System – Next Generation, and the Inventory of Contracts for Services.

CONTRACT SERVICES

Summary of Increases. Operation and Maintenance FY 2012 funding ($3.2 billion) and FTE (3,307) increases are due to increased contractor logistics support and depot maintenance requirement growth in the Navy and Air Force.

- **Navy**
  - **Ship Depot Maintenance** - The increased contract services is associated with Planned Maintenance Availabilities (PMA) due to the increased scope and complexity associated with two Landing Ship Dock (LSD) midlife Extended Docking PMAs.
  - **Contractor Logistics Support/Performance Based Logistics** – The increased contract services is associated with increase of Primary Authorized Aircraft (PAA) for KC-130J, MV-22, and Joint Strike Fighter.

CONTRACT SERVICES

(All appropriations except MILCON/Family Housing)

Brief overview of what is included under Contract Services …….

		($ in Millions)				
		FY 2010 Actual	Change	FY 2011 Estimate	Change	FY 2012 Estimate
Line	**By OP-32 Category**					
921	Printing and Reproduction					
922	Equipment Maintenance - Contract					
923	Facility Maintenance					
926	Other Overseas Purchases					
927	Air Defense Contracts					
928	Ship Maintenance by Contract					
929	Aircraft Rework by Contract					
930	Other Depot Maintenance (Non-Fund)					
932	Mgmt and Professional Support Services					
933	Studies, Analysis and Evaluations					
934	Engineering and Technical Services					
964	Subsistence Contracts					
985	Research and Development Contracts					
986	Medical Care					
989	Other Contracts					
990	IT Contract Support Services					
	Total					

CONTRACT SERVICES

(O&M)

	(Contractor Full-Time Equivalent)				
	FY 2010 Actual	Change	FY 2011 Estimate	Change	FY 2012 Estimate
By Service/Defense-Wide					
Army					
Navy					
Marine Corps					
Air Force					
Defense-Wide					
Total					

Printing and Reproduction:

Equipment Maintenance – Contract:

Facility Maintenance:

Other Overseas Purchases:

CONTRACT SERVICES

Air Defense Contracts:

Ship Maintenance by Contract:

Aircraft Rework by Contract:

Other Depot Maintenance (Non-Fund):

Management and Professional Support Services:

Studies, Analysis and Evaluations:

Engineering and Technical Services:

Subsistence Contracts:

CONTRACT SERVICES

Research and Development Contracts:

Medical Care:

Other Contracts:

IT Contract Support Services:

APPENDIX D

[Deleted.]

APPENDIX E

Mark R Warner

Written Testimony
Before The
SENATE COMMITTEE ON ARMED SERVICES

Regarding

"Defense Department Budget Initiatives"

September 28, 2010

Submitted by: Senator Mark R. Warner
(D-VA)

459A Russell Senate Office Building
Washington, DC 20510

Mister Chairman, I first want to thank the Committee for an opportunity to provide this testimony.

I would like to open my comments with a quote from General Jim Mattis, Commander of U.S. Central Command, in testimony before this very Committee just six months ago on the critical functions provided by U.S. Joint Forces Command:

> *"We are engaged in training and deploying forces, analyzing and applying lessons learned, and overseeing the development of joint capabilities in response to our warfighting Commanders' needs. These activities demand a sense of urgency."* **[Testimony of General James N. Mattis, Commander, United States Joint Forces Command before the Senate Armed Services Committee, March 9, 2010]**

Since Secretary Gates recently announced that JFCOM is, in his view, no longer needed, I would suggest that the Department of Defense has lacked its own sense of urgency in letting the Congress, the elected leadership in Virginia and our active military and their families know what rationale drove his decision.

We are all still guessing.

Lack of Transparency

Since the Secretary of Defense announced his recommendation to close Joint Forces Command In August as part of a series of initiatives designed to gain efficiencies in the Department of Defense, I have been troubled by the lack of transparency associated with these actions.

We have yet to receive a detailed analysis relating to the closure recommendation despite numerous requests for this information. While I commend DoD's efforts to reduce overhead and to apply savings to force structure and modernization, the failure to consult more fully with Congress in a transparent way works against the Department's ultimate goal of becoming more cost-conscious and efficient in providing for our nation's defense.

DoD will have excellent opportunities this week to begin to address our many concerns about the lack of transparency so far, and the unwillingness or inability to answer even the most basic questions. And I strongly encourage the Department to participate in this discussion in a more significant and meaningful manner than we have seen to date.

In the nearly seven weeks since the JFCOM announcement, the Virginia delegation has collectively sent multiple requests seeking answers to a variety of important questions, but our sustained efforts have been for naught. One can only conclude that there is no comprehensive analysis to support the recommendation to close JFCOM. The present lack of transparency and consultation stand in stark contrast to how decisions of this magnitude typically are made.

I recently met with General Stephane Abrial, Commander of NATO's Allied Command Transformation (ACT), and he disclosed that neither he nor his NATO leadership were consulted on this decision despite his Command's daily interactions with JFCOM and the U.S. military. Our Allies and partners deserve better.

Stonewalling Congress and the Commonwealth

I am especially concerned that the Department has yet to brief members of our congressional delegation, Governor McDonnell, or any local or community officials about the potential impacts that this closure decision, and the reduction in contract support, could have on the Commonwealth and our nation's military readiness as a whole. As a result, we have no information that would allow us to quantify the possible effects of this proposal, including its fiscal and local economic implications.

Throughout U.S. history, the Commonwealth and our Hampton Roads region have been strong supporters of the military and its families. Every day officials in our communities interact on a multitude of decisions to coordinate actions relating to military facilities and related contract work.

We are perplexed why the process guiding DoD's proposal to disestablish this major unified combatant command is being conducted in such complete contrast with DoD's traditional approach to such matters.

Impacting readiness

As a Senator, I also am concerned about the impact that JFCOM's disestablishment will have on the military's joint training, operations, concept development and experimentation. JFCOM serves as a forceful advocate for our warfighters' joint capabilities, a function of growing importance as our military operates in conjunction with coalition forces around the world.

JFCOM is the only command that focuses on emerging threats and capabilities, and works to solve interoperability problems. This is an area where we clearly have room to improve, and General Mattis agreed in his March testimony that the journey in not complete, "Presently, the joint force is not optimally trained and organized to advise and assist with building partnerships."

As we learned from painful experience during the 1980s and early 1990s, joint readiness and interoperability are perishable qualities. JFCOM's performance of joint force and coalition training over the past 10 years has led to significant improvements in the ability of all branches of our armed forces to deploy together more effectively for joint operations. General Mattis notes with pride that in the past year JFCOM, "responded to more than 390 rotational and emergent requests for forces from combatant commanders resulting in the sourcing of more than 398,000 personnel supporting numerous global missions."

Service "stovepipes" are not the answer

Beyond the negative impact JFCOM's closure would have on our ability to operate jointly during combat operations, its elimination will risk falling back into DoD's traditional "stovepipe" approach to force structure planning and acquisition. The acquisition process yearns for an independent voice and detailed, independent testing of front-line systems has always been essential. Who will do the unbiased, independent testing? Who will determine the interoperability standards? Who will fight for spending the extra money to make sure systems are ready for the joint battlefield?

Disestablishing JFCOM is the equivalent of abandoning a decades-long effort, initiated and supported by multiple Secretaries of Defense and chairmen of the Joint Chiefs of Staff, to ensure the maximum operational effectiveness of our armed forces. The ongoing turnover of personnel requires a continuous joint training program; the development of new systems and equipment requires continuous oversight to ensure joint interoperability; and emerging global challenges and threats require continuous development, testing, and implementation of new joint doctrine and tactics.

The vital nature of JFCOM's joint force training functions mandates that we preserve them even if an eventual decision is made to disestablish JFCOM. As such, I remain concerned about the relocation of these functions and the cost it will take to perform them elsewhere. How will this save money? The Department has

yet to provide any analytical data to document projected savings that would result from the transfer of this essential responsibility to another entity.

In addition, the Department has yet to explain how this decision will affect JFCOM's relationships with NATO's Allied Command Transformation (ACT) and the numerous agreements and commitments we have made to assist NATO partner nations in their ongoing efforts to transform their militaries. As General Mattis noted in March, "Joint Forces Command routinely collaborates bi-laterally with representatives from 48 nations. These relationships are critical to building the trust and interoperability necessary to build and sustain strong alliances and coalitions."

Show us the business case

I have also asked DoD for a cost-benefit analysis or other analytics that show what savings would be gained by closing JFCOM in its other principal mission areas, and how such estimated savings might outweigh the elimination of the missions that JFCOM currently performs and the capabilities it helps to develop.

What is the business case for this decision? Since DoD's August announcement, a fundamental question remains unanswered: Who will perform these vital roles and missions if JFCOM is disestablished? Specifically:

- Who in the unified command plan will oversee experimentation, and the future force?
- Who's thinking about the future? Technology starts today are the leading edge of the weapons systems that we will rely on in 15-20 years.
- What is the rationale to remove the one, independent voice from the acquisition process? Who will be the force to compel jointness?
- How will this decision save money—is this simply reshuffling the chess board?

A cooperative solution

During Secretary Gates' news conference in August, he said he would seek ideas, suggestions, and proposals from outside normal official channels. So far, that apparently has not happened, and I urge the Secretary to allow Congress the opportunity to review the Department's cost assessments, business case, and recommended courses of action prior to any decisions on JFCOM's fate or any

reductions in its service-support contracts. We have assembled a group of experts who are available to help the Pentagon conduct this analysis.

In conclusion, Mister Chairman, I remain committed to open and honest discussions with the Department of Defense concerning any of these important issues. I also want to reiterate that it is my sincere hope that the Department of Defense will give the Virginia delegation a chance to provide our input and recommendations as they develop proposed courses of action for the future of the command.

Thank you.

APPENDIX F

Written Testimony
Before The
SENATE COMMITTEE ON ARMED SERVICES

Regarding

"Defense Department Budget Initiatives"

September 28, 2010

Submitted by: Honorable Robert F. McDonnell
Governor of the Commonwealth of Virginia

Patrick Henry Building
1111 East Broad Street
Richmond, Virginia 23219
(804) 786-2211
TTY (800) 828-1120
www.governor.virginia.gov

Chairman Levin, Ranking Member McCain, Senator Webb, and other distinguished members of the Armed Services Committee, on behalf of the Commonwealth of Virginia, I thank you for inviting me to offer testimony today in this important hearing to consider the Efficiencies Initiative announced by the Secretary of Defense on August 9, 2010.

The Commonwealth of Virginia is proud to be the home of many elements of this Country's national defense establishment. The Pentagon - the headquarters and virtual epicenter of America's military is located in Arlington County, and the Central Intelligence Agency Headquarters – the headquarters and virtual epicenter of America's civilian foreign intelligence activities responsible for providing national security intelligence to senior U.S. policymakers – is located in Fairfax County. Virginia has a long and proud history of being a close and trusted partner with the United States military and national security agencies that goes back to 1608 when Captain John Smith recognized the importance of building a fort at Point Comfort in Hampton Roads, building Fort Algernourne with the mission of protecting the approaches to the colony at Jamestown. As a result of the War of 1812, Fort Monroe was built to protect the entrance to Hampton Roads and the several port cities that had access to its waters.

As the United States grew its presence of military and national security facilities in the Commonwealth, Virginia was embraced as a full participating partner in that growth. The Commonwealth and many of her local governments located in the Northern Virginia and Hampton Roads regions, partnered with the United States to develop and build the infrastructure required to support the growth of these facilities. This infrastructure included not only roads, curbing and guttering to provide access to the expanding facilities of the military and national defense establishments, it included building and manning fire facilities, rescue and first responder facilities, schools and neighborhoods necessary for its maintenance and growth. It was the Arlington County Virginia Fire Department that served as the lead agency in the

response to the attack on the Pentagon on September 11, 2001. On that fateful day, the Arlington County Fire Department employed 279 men and women. As a result of the attack on the Pentagon, however, additional career firefighters were hired, bringing the total to 305 in 2005. Minimum staffing on the county's engine companies was also increased to four firefighters from three in the months after the attack. The county trained CERT Teams – Community Emergency Response Teams – in cooperation with the federal Department of Homeland Security stepped up disaster preparedness programs. These additional components of local infrastructure were added as a full partner with the military to insure adequate first responder requirements to any future acts of terror against the Pentagon.

Virginia, and her localities and local governments, have been, and continue to be, a willing, responsive partner with the United States in providing for the general welfare of all of the citizens of the Commonwealth, including those citizens who serve our Nation in both the military and the national security agencies, as well as their families to insure the best possible quality of life for each and every Virginia citizen. That high quality of life includes excellent school systems to educate the children, the police, fire and rescue resources required to protect our citizens and communities, and the facilities used to exercise the right to vote on each election day for the leaders of this Country and the Commonwealth.

The Commonwealth has endured economic adversities as a result of the several rounds of the Base Realignment and Closure (BRAC). Throughout the BRAC process, however, the Commonwealth was, as usual, treated as a full participating partner in giving input in the decision-making process of removing many federal government agencies from commercial leased space in both the Northern Virginia and Hampton Roads regions. While business owners of the commercial leased space have suffered adverse economic impact from the loss of federal government agency tenants in buildings that were largely built to accommodate past growth and

additional requirements of the military and national security agencies, the BRAC process does provide the time and additional resources required to address those economic adversities.

The BRAC process in 2005 that removed federal agencies from commercial leased properties resulted in those agencies being moved to military and national security properties at Fort Belvoir, Quantico Marine Operating Base, Fort Eustis, Fort Lee and many other facilities within the Commonwealth. Tremendous growth has occurred at these federal properties necessitating additional infrastructure – streets and roads, curbing, guttering and the like – to accommodate the growth generated by the movement of these agencies to the federal properties in the Commonwealth. Again, however, the Commonwealth was treated as a full partner in the decision making processes such that Virginia could address the needs of its citizens.

On August 9, 2010, that cooperation, openness and partnership between the federal government and the Commonwealth was conspicuously absent with the announcement by the Secretary of Defense that it was his intent to close the U.S. Joint Forces Command (USJFCOM) and reduce the use of defense contracts by a total of 30% over the next three (3) years. The Secretary of Defense did not provide, and has not provided since that time, any material information in support of his decision. In fact, the Department of Defense has told staff that the decision was "philosophical" and now they are putting together a plan of action to justify and effectuate these decisions. He has directed several flag officers at USJFCOM to put together a plan to eliminate USJFCOM and provide to him an interim report by the middle of October, and a final report in December. Furthermore, he has directed that all personnel who participate in the formulation of a plan to support his decision must sign a nondisclosure statement – in essence, the

Secretary of Defense has imposed an embargo on all information that is needed by the Commonwealth to evaluate and respond to the August 9th announcement.

The Commonwealth, after over two hundred (200) plus years of partnership with the federal government in the development and growth of the military and national defense infrastructure, is not being treated as a partner with the federal government. The Commonwealth is no longer provided a seat at the table to be a part of the planning process for an announced closure of a major employer in the Hampton Roads and Northern Virginia regions. The Commonwealth has worked with a number of private sector employers that have announced plant closures affecting many Virginia citizens to minimize the adverse economic consequences of such closures – the most recent example being the 2008 Ford Motor Company closure of the F-150 truck assembly plant in Norfolk that employed 2,433 workers. That plant had a direct payroll of $160 million, and drew parts from 17 local suppliers that employ about 2,700 people.

After several letters requesting a meeting with the Secretary of Defense, followed up with repeated personal requests from the Virginia Congressional Delegation to members of the White House staff, as well as the President of the United States, the Department of Defense has responded with an offer to meet with the Governor and the Congressional Delegation. The meeting is with the Deputy Secretary of Defense and the Vice Chairman of the Joint Chiefs of Staff. The state is still waiting for an opportunity to meet with Secretary Gates.

The focus of the Secretary of Defense with reducing the overhead of his department, shrinking the number of military headquarters in the department and reducing the size of military headquarters staff is both a responsible and commendable goal given the current difficult economic and fiscal situation currently being experienced by our nation. It is important to achieve

savings through reductions in overhead expenses, but not the best course for to the security of the nation when achieved through the reduction of force structure or elimination of successful modernization programs – especially when this county is engaged in fighting determined and elusive adversaries that have chosen approaches to warfare that avoid our military's conventional strengths. As Virginia's Governor, I have undertaken a similar goal by appointing a Commission on Government Reform and Restructuring which I have challenged with putting forth bold and innovative ideas to ensure that duplicative, outdated, unnecessary and ineffective services and service delivery methods are eliminated, and that state revenues are dedicated to the core functions of government. These are good strategies.

There is, however, a significant difference in the methods chosen by me and the Secretary to pursue the goal of achieving efficiencies in government operations. The term "transparency" generally refers to public access to information held by the government, including information upon which government relies in making its decisions. I have chosen to pursue the goal of eliminating government waste and achieving operational efficiencies by means of a transparent process involving public hearings of the Reform Commission and receiving input and ideas from the public. DoD has chosen to accomplish the goal of eliminating government waste and achieving efficiencies without being transparent to the public. No Virginia leaders, Congressmen, Senators, private contractors or JFCOM leaders appear to have been part of the planning or decision making process.

During the last weeks of July, rumors began to circulate that the Defense Business Board, an advisory board of retired economic and business leaders, would recommend ways to reduce department costs. One such rumored recommendation was to eliminate the Joint Forces

Command in Norfolk. At his news briefing on August 9th, Secretary Gates announced, without any prior notice or warning, that he was recommending to the President the closure of the Joint Forces Command.

As Governor of Virginia, I was asked by the President to serve on the Council of Governors, a group of ten governors appointed for the purpose of providing State Governors a forum to exchange views, information, or advice with the Department of Defense. I was told that the appointment was to establish an open and continuous dialogue with the Secretary of Defense, and achieve transparency in the exchange of ideas. Close cooperation and communication between the federal government and the individual states is absolutely vital if the most effective use of state and federal resources is to be achieved on matters of national defense and homeland security. In support of establishing an open and continuous dialogue, I appointed an active duty Air Force general officer as a member of the Virginia National Guard so that he could command the Joint Task Force responsible for the National Boy Scout Jamboree. The appointment of a Title 10 general officer as a member of the title 32 Virginia National Guard was the first time such an appointment had been made in the history of this nation. The recommendation relating to the closure of the Joint Forces Command was not taken with a similar spirit of cooperation nor was it as a result of open dialogue and transparency in the decision making process by the Secretary.

I have twice asked DoD to provide answers to detailed questions pertaining to the reasons for the closure, its impact on national security and joint operations, and the implementation plan. Responses to date from Pentagon leadership have been wholly inadequate. In my letter of

September 24, 2010, I inquired into six major areas of concern. (copy attached) and I still await complete answers to this inquiry.

The U.S. Joint Forces Command (JFCOM), established in 1999 as the successor to the U.S. Atlantic Command, is uniquely organized and tasked for providing joint forces and developing joint training, joint concept development and experimentation, and the joint capabilities development needed to adjust to the demands of 21st-century military operations. It traces its origins to the shortcomings in joint operations revealed during the 1980s and Operation Desert Storm. Following the Gulf War, Gen. Colin L. Powell, the chairman of the Joint Chiefs of Staff, and others recognized that refining how each branch of the armed forces works together to train and deploy for joint operations was key to meeting future challenges. He felt that a single, U.S.-based unified command should be responsible for training forces from all services for joint operations. Today, JFCOM is a forceful advocate for "jointness." Retired Navy Admiral Hal Gehman, former Commander of the Joint Forces Command, had it right in his widely published article this past Sunday (September 26, 2010) when he disagreed with Secretary Gate's decision to close JFCOM. He said *"The core of work JFCOM does is essential to the future success of the United States military and, despite claims to the contrary, is not duplicated anywhere else in the department. History has proven this work certainly can not be accomplished inside the beltway".*

The 2005 Base Closure and Realignment process validated JFCOM's mission and contributions to joint warfighting. The DoD panel reviewing the command recommended that JFCOM purchase its leased spaces to support its permanent presence. Congress has responded through the authorization and appropriation of funding for military construction projects at the

command. In 2009, JFCOM opened a 49,000-square-foot Joint Deployment Center and Maritime Operations Center shared with the Navy's Fleet Forces Command.

Admiral Michael G. Mullen, the chairman of the Joint Chiefs of Staff, spoke to the importance of JFCOM's missions at a 2007 change command ceremony. Referring to the command's work to develop "lessons learned" from ongoing military operations to preserve the experience of U.S. service men and women, he said, "It is vital that we capture that for the future health of our armed forces." The *2010 Quadrennial Defense Review* echoed this view, stating, "Perhaps more than ever before, the United States requires joint military forces able to function and succeed across a wide geographic and operational spectrum. Moreover, military forces must be capable of working effectively with a range of civilian and international partners."

Recent projections indicate that complete closure of the JFCOM function would eliminate more than 10,000 direct and indirect jobs and a loss of annual salaries of more than $200 million in Virginia. The decision to close Joint Forces Command will also result in the loss of numerous contractor jobs in both the Hampton Roads area and the Northern Virginia area. The recommendation to the President is a significant base realignment and closure action that should be treated as such. The transparent process that must be used by the Secretary is established by the Base Realignment and Closure (BRAC) legislation that was enacted by the Congress to ensure sufficient time and opportunity is available for review of such proposals in an open and transparent manner. The BRAC process ensures that such critical base infrastructure closure and realignment decisions are made only after a complete review, without political interference, and within the national strategic framework. The Department of Defense has previously used BRAC in the Commonwealth to reorganize its base and force structure to more efficiently and effectively

support United States forces, increase operational readiness, and facilitate new ways of doing this nation's business.

The BRAC Commission is an independent body charged with the responsibility for reviewing the Secretary's recommendations for closures such as this recommendation involving the Joint Forces Command. BRAC specifies the selection process for the Commissioners, and the President is required to consult with congressional leadership on nominations to serve on the Commission. The Commission has the authority to change the Department's recommendations if it determines that the Secretary deviated substantially from the force structure plan and/or selection criteria. The Commission holds meetings to solicit public input prior to making its recommendations.

I recognize the integral part the military and national security operations and facilities play in the economic vitality of our citizens. I intend on being proactive in identifying the appropriate strategies to both retain existing military operations and facilities that are so very vital to the security of this nation, and to identify and attract operations and facilities that should be located within Virginia. Therefore, last month I ordered the creation of a Commission on Military and National Security Facilities in the Commonwealth. The Commission consists of my Secretary of Commerce and Trade and my Assistant to the Governor for Commonwealth Preparedness and distinguished members of the business community, including the defense contracting community, and retired senior military officers.

I have charged the Commission with the following responsibilities:

- Identify appropriate opportunities for relocating additional military commands and missions to the Commonwealth.
- Identify appropriate opportunities for relocating additional federal facilities to the Commonwealth.
- Recommend, as appropriate, the best business practices for the Commonwealth to retain its existing military installations and commands.
- Recommend, as appropriate, the best business practices for the Commonwealth to retain its existing non-military federal facilities.
- Support and foster collaboration among local and regional entities in identifying appropriate opportunities for placement of additional federal facilities in the Commonwealth.
- Determine the best and most efficient manner to foster and promote business, technology, transportation, education, economic development and other efforts to support, attract and retain existing military installations and commands in the Commonwealth.
- Determine the best and most efficient manner to foster and promote business, technology, transportation, education, economic development and other efforts to support and retain existing non-military federal facilities in the Commonwealth.
- Identify and track all federal government facilities located in the Commonwealth and their building plans.
- Determine the best industrial and economic development for the localities included in or adjacent to military installations and commands in the Commonwealth.
- Determine the best industrial and economic development for the localities included in or adjacent to federal facilities in the Commonwealth.
- Inform the Governor on a regular basis on all pertinent findings and recommendations.

I have asked Commission members to consider that this great Nation is in parlous times and under severe economic and fiscal stress. History records that hard times often force the policy makers in this Country into making ill considered decisions. It is my intent that the efforts of Commission members will result in better planning, more transparency in deliberations and recommendations that do not place our national security in jeopardy.

Growing groups of business, senior retired military and political leaders are opposed to this decision, and are frustrated with the lack of available information to support it. The use of an independent commission and public meetings make the process as transparent, open and fair as possible. The last BRAC process in 2005 did not recommend closure of the Joint Forces Command. Decisions regarding the future of the Joint Forces Command and the use of defense contractors located in the Commonwealth should be made in the context of the existing transparent, open and public process that is represented by BRAC.

Thank you for your consideration of these important issues, and for doing what is best for the military and our nation.

Attachment, Areas of Concern:

1. BUSINESS CASE ANALYSIS OF ACTIVITIES TO BE ELIMINATED

- Numerous documents and statements from DoD have indicated that a plan for disestablishment of JFCOM, including a determination of the functions that should continue to exist, should be eliminated, or should be moved, is being developed over the next several weeks. How does DoD justify making a decision to close JFCOM before first carrying out such an assessment?
- What studies on cost savings has DoD conducted concerning the JFCOM closure and contractor reduction? Please provide details.
- What studies on workload impacts has DoD conducted (e.g., what are impacts on JCS of force provider function shift)? Provide details.

- Has DoD contacted contractors and civilians to determine their intent to move locations if their functions are moved? What impact on moving functions, and the service members who receive JFCOM training and operations support, could result from the loss of these personnel from the workforce?
- What process was used to identify JFCOM for closure and what factors were considered in proposing the JFCOM closure? Why was it not done within the QDR completed this spring, or as part of a BRAC realignment?
- What specific legal authority exists for such strategic closures outside of BRAC?
- Jointness and joint interoperability give the U.S. military a great strategic advantage. How will such important characteristics of the modern military be met if JFCOM closes?
- The modeling and simulation work done at JFCOM is a critical low cost test and evaluation function. How can it be done if JFCOM closes?

2. WILL THE PROCESS TO REDUCE/ELIMNATE JFCOM AND DEFENSE CONTRACTOR SUPPORT EVER BECOME TRANSPARENT TO THE PUBLIC

- Did OSD review the process and decision made by the OSD Headquarters and Support Activities Joint Cross Service Group during the 2005 BRAC process that resulted in the recommendation that JFCOM continue to exist and should in fact purchase its leased facilities? How does DoD reconcile the recommendation to close JFCOM with the 2005 BRAC recommendation?
- Various personnel at JFCOM have been directed to sign non-disclosure agreements relating to the review and closure process. Why does the Department not take a transparent review and decision-making process in this action?

- The Secretary indicated that he authorized the services to consider additional closures, and Mr. Hale recently indicated that no "more" closures would be announced until at least February. Is DoD currently considering additional base or function closures or realignments that would affect Virginia? If so, what are the metrics and process being used in that review?
- If the Secretary and the military departments are considering additional closures and realignments, does DoD believe that another round of the BRAC process is necessary?

3. IMPACT OF INFRASTRUCTURE IN PLACE WITHIN LOCAL COMMUNITIES

- Have specific locations outside of Hampton Roads been identified to host any JFCOM mission that will remain intact after the proposed disestablishment of JFCOM?
- Has DoD considered moving a new mission to backfill the sudden loss of this Command in the Hampton Roads region? For example, has DoD considered moving AFRICOM or other functions to the region? Which locations are being considered to host AFRICOM?
- What specific JFCOM functions will remain in Suffolk and Norfolk? What are the estimated civilian, uniformed, and contract job positions at each location? Are these personnel assigned to specific billets at each location?
- What is the DoD plan for use of leased space in Suffolk? Will the leases be terminated and what are the termination fees?

4. WHAT JFCOM FUNCTIONS ARE BEING RELOCATED OR LEFT IN PLACE?

- If similar functions to JFCOM exist within the Joint Chiefs of Staff and other organizations, did DoD consider consolidation of those functions to JFCOM, rather than

disestablishment? Should alternatives, such as expanding or strengthening the JFCOM function, have been considered instead of selecting the JFCOM closure option?

- For those activities that DoD determines should continue to exist, what process will DoD use to determine whether they should remain in place or move elsewhere?
- Was there consideration given to simply reducing the number of contractors and eliminating the duplication of missions versus eliminating the entire command?

5. ECONOMIC IMPACT

- Has DoD calculated the extreme economic costs to Virginia of the contractor reduction; and what is the estimate? Where are the displaced contractor functions going to be performed?
- Will the JFCOM closure make the region eligible for base closure assistance, including OEA grants, from the federal government?
- Will the JFCOM closure result in an increase of personnel in the National Capital Region?

6. REDUCTION IN THE USE OF DEFENSE CONTRACTORS

- What costs, and savings, are associated with the use of defense contractor personnel at JFCOM? What costs, and savings, are associated with the use of defense contractor personnel in the National Capital Region? How will DoD decide which defense contractors and contracts to cut or eliminate in order to achieve the announced reduction?
- What studies has DoD conducted on both the short and long term real cost savings by reducing the use of defense contractors? Please include any existing examples where reducing the use of defense contractors – either by using uniformed personnel or by in-sourcing – has actually reduced costs to DoD.

- If the Department is looking for efficiencies, why was the decision made to cut the government contracting services sector rather than finding efficiencies through the streamlining of administrative operations?
- Upon what basis or analysis was the decision made to reduce the use of defense contractors by a total of 30% over the next three (3) years? Please provide a copy of any analysis conducted by DoD that forms the basis of this action.
- What universe of service will the reduction affect? Will it be an across the board? If not, which categories of service will be targeted?
- Will the reduction in the use of defense contractors be spread equally throughout the country or will any such reduction be confined to a specific region, such as the National Capital Region of Northern Virginia, which appears to be hit extremely hard by this decision.

APPENDIX G

OFFICE OF
THE MAYOR AND CITY COUNCIL

CITY OF SUFFOLK

P.O. BOX 1858, SUFFOLK, VIRGINIA 23439-1858 PHONE (757) 514-4018 FAX: (757) 538-1527

September 24, 2010

The Honorable Carl Levin
Chairman
Senate Committee on Armed Services
Washington, D.C. 20510

Dear Chairman Levin,

In response to the Secretary of Defense's announcement to "disestablish" U.S. Joint Forces Command (USJFCOM), the City of Suffolk, Virginia has joined with the Virginia delegation, the defense contracting community, as well as local, regional and state stakeholders to evaluate the impact of this announcement on the surrounding community. We have performed an analysis on the Hampton Roads and Suffolk, Virginia defense contracting community which provides a significant advantage in supporting joint operations for our nation's national security and the training of our military personnel.

I am attaching these documents for your information and reference during the United States Senate Armed Services Committee Hearing reviewing the efficiency recommendations by Defense Secretary Gates on Tuesday, September 28, 2010.

I will be in attendance at this meeting and look forward to seeing the USJFCOM "disestablishment" announcement fully addressed by the Secretary of Defense's office.

Sincerely,

Linda T. Johnson

Linda T. Johnson
Mayor

Attachments

pc: The Honorable Jim Webb

KEY CONTRACTOR CAPABILITIES

To execute its diverse mission, especially its transformation and integration role, JFCOM has developed and improved a rented complex in Suffolk. This facility contains extensive computer support infrastructure, as well as demonstration rooms, laboratories, collaboration infrastructure and connections to a wide range of classified and unclassified communication networks. This facility is unique and tailored to support the examination and testing of hardware as well as the development of prototype hardware and new military business rules for command and control. This facility has also been used for specialized training that has leveraged emerging capabilities in modeling and simulation.

To support JFCOMmission execution, the DoD and support contractor base have invested in significant high end infrastructure in multiple facilities throughout Northern Suffolk. As is the case with JFCOM itself, within these facilities are extensive networks of laboratories, computer support systems, and demonstration rooms. This unique infrastructure is absolutely essential to the multitude of functions related to JFCOM's transformation and integration role.

Notwithstanding the vast amount of infrastructure that is in place in and around the JFCOM campus in Northern Suffolk, the even more significant, unique, capability associated with JFCOM is the human capital. Many of the JFCOM missions require specialized skills. By design JFCOM has relied on contractors to provide these specialized skills and services. Until recently, civil service positions did not exist to provide these skills, nor have there been identified military billets (positions) that have these skills. The workforce in Hampton Roads has evolved over time to fill this shortfall and has, for the defense industry, become a national asset. Assembled over many years of recruitment from the region's diverse military population, contractors supporting JFCOM have attracted and retained highly skilled individuals from every facet of the military. Their real-life experience, combined with the depth of science and technology provided by the industry's scientists and engineers, has evolved into highly skilled teams which think and act from a joint perspective. JFCOM is the only major command which requires this unique skill mix; one that is unlikely to be found elsewhere. These skills include (but are not limited to):

Communications Engineering	Electrical Engineering
Computer Science	Operations Research
Process Modeling	Process Re-engineering
Software Development	Configuration Management
Systems Engineering	Enterprise Engineering

Command and Control	Intelligence
Military Theory	Tactics
Training	Logistic Theory
Surveillance	Reconnaissance
Experimentation Theory	Experimentation Management
Non-Governmental Operations	Law Enforcement
Encryption	Web Design
Network Design	Database Design
Human Factors Engineering	Requirements Engineering
Integration Engineering	Modeling and Simulation
Information Assurance	Security Engineering
Spatial Analyses	Facilitation
Project Management	Test and Evaluation

The Hampton Roads metropolitan area features the highest concentration of military facilities in the United States and as such is home to an impressive amount of military capabilities.Key military facilities include:

Air Force

Joint Base Langley – Eustis

Army

Fort Monroe
Corps of Engineers Norfolk District headquarters

Coast Guard

Coast Guard Training Center Yorktown
Coast Guard Atlantic Area/Fifth District Headquarters
Base Support Unit Portsmouth
Shore Infrastructure Support Center

Joint

Joint Forces Staff College
Joint Counter-IED Operational Integration Center
Joint Warfighting Center/Joint Futures Laboratory

NATO

Allied Command Transformation headquarters

Navy

Naval Station Norfolk
Joint Expeditionary Base Little Creek – Fort Story
Naval Air Station Oceana
Norfolk Naval Shipyard
Naval Medical Center Portsmouth
Naval Weapons Station Yorktown
Naval Support Activity Norfolk
Naval Support Activity – Northwest Annex

Key operational or service wide enterprise military commands include:

Air Force
Air Combat Command
1st Fighter Wing

Army
Training and Doctrine Command

Coast Guard
Atlantic Area Command
Fifth District Command

Marine Corps
Marine Forces Command

NATO
Supreme Commander – Allied Command Transformation

Navy
Fleet Forces Command
Navy Region Mid-Atlantic Command
Navy Expeditionary Combat Command
Network Warfare Command

The strategic and significant presence of these bases and organizations present a unique opportunity and expertise in joint capabilities for training and operations. The presence of personnel working at these facilities in Hampton Roads also provides a renewable workforce. It is estimated that approximately 15,000 military personnel retire/exit annually from these installations. This statistic is evident after speaking with JFCOM contractors. Contractors' have disclosed that as much as 80% of their workforce is composed of military veterans with unique training and experience in all five military services: Army, Navy, Air Force, Marines, and Coast Guard. Collectively, this workforce has virtually every military skill needed to support the advancement of our nation's defense: aviation, infantry, naval surface and sub surface warfare, communications, intelligence, special operations, logistics, cyber warfare, information technology, amphibious operations, search and rescue, and on through any military skill set that needs to be applied in the joint environment. Many of JFCOM contractor employees have extensive experience working with allied forces, including current support to NATO Allied Command Transformation. Over 70% of the JFCOM contractor workforce has a BA/BS, and close to half hold advanced degrees. Those individuals without college degrees bring extensive talent in specialized skills such as special operations, communications and network engineering. Many of these employees are from military families with spouses or children serving in the military throughout the world – which increases their focus and sense of mission accomplishment. On the more specific asset of Joint capabilities, JFCOM contractors shared the following regarding the skills that exist in Hampton Roads:

- Joint training, ranging from large global exercises, to individual training for key military leaders
- Joint operational support to assist in the rapid world-wide deployment and standup of joint task force headquarters.
- Modeling and simulation skills to develop and manage models which support joint experimentation, training, operations, and concept development.
- Joint concept development and experimentation to project and evaluate future joint military concepts in fields ranging across the entire spectrum of military requirements. Examples span from operations with non government agencies - to control of weapons of mass destruction - to future logistics and sustainment operations.

- Technology assessment and capability integration skills to determine what new technologies are suited for joint military applications, focusing on the integration of government and commercial off-the-shelf technologies
- Evaluating the joint interoperability of systems, focusing on command and control, intelligence, and logistics, in an operationally realistic context.
- Network and communications engineering to establish and operate laboratories and multiple networks to support joint experimentation, training, operations, and capability integration

An additional unique attribute that has evolved in Suffolk and Hampton Roads as the modeling and simulation industry has grown, has been the development of the next generation's workforce. Suffolk Public Schools and the Pruden Center for Industry and Technology have both partnered with private industry to develop groundbreaking courses to encourage and educate those who will be future leaders in M&S. Tidewater Community College and Old Dominion University have also expanded their offerings to provide degrees based on the industry. Students in Hampton Roads are now able to pursue Associates, Bachelors, Masters and Doctoral degrees in Modeling and Simulation.

HAMPTON ROADS MODELING & SIMULATION CONTRACTORS*

Accenture
Adayana
Alelo
Alion Science & Technology Corp
Applied Research Associates, Inc.
A-T Solutions
Atmospheric & Environmental Research
BAE Systems
BI Simulation
Biomx Corporation

Boeing
Booz Allen Hamilton, Inc.

L-3 Communications
Laser Shot, Inc.
Lockheed Martin
Loyola Enterprises, Inc.
MAK Technologies, Inc.
MASA Group
McLane Advanced Technologies
Mitre Corporation
Bihrle Applied Research Inc MPRI
MYMIC
Northrop Grumman Corp
Novonics Corporation
ODU Research Foundation

Breakaway
C2 Technologies, Inc.
CACI Newco Incorporated
CAE USA
CACI, Inc.
Calytrix
Carpe Occasio Technology Systems
Command Post Technologies, Inc.
Computer Sciences Corp
Cougar Software
Craig Technologies
Cubic Defense Applications
Dataline, Inc
DDL Omni Engineering, LLC
Dynamic Animation Systems
Dynamics Research Corp
Dynamis
Echostorm Worldwide
Engineering & Computer Simulations, Inc.

Enterprise Management Systems
Evidence Based Research, Inc.
FGM
Forterra Federal Systems
General Dynamics
Ii Corps Consultants, Inc.
ITA International
Intelligent Decision Systems, Inc.
Intergraph Corp
Intervise ITT Corporation
JF Taylor
JL Marshall

Raydon Corporation
Raytheon
Reger
Science Applications Intl Corp
Scientific Research Corporation
Simis
Simventions
Spectrum Comm Inc
SRA Int'l Inc.
SRI
Systems Studies & Simulations
Tapestry
Tecmasters Inc.
Teksystems
The Aegis Technologies Group, Inc.
The Harrington Group, Inc.
Trideum
Trinet Acquisition Corp
Enterprise Information Services, Inc.
Unisys Corporation
Universal Systems & Technology, Inc.
URS Federal Technical Services
Veraxx Engineering Corporation
Vertex Solutions, Inc.
Visense
Visual Awareness Tech. & Consulting
VMASC
VMD Systems Integrators, Inc.
Werner Anderson
Whitney, Bradley & Brown Inc.
Wyle Labs
Xdin
Zel Technologies, LLC

* Contractor listing provided by the Hampton Roads Partnership

6

[Whereupon, at 12:58 p.m., the committee adjourned.]

○