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ON

NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2019

AND

OVERSIGHT OF PREVIOUSLY AUTHORIZED PROGRAMS

BEFORE THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTEENTH CONGRESS

SECOND SESSION

FULL COMMITTEE HEARING

ON

OVERSIGHT AND REFORM OF THE DEPARTMENT OF DEFENSE "4TH ESTATE"

HEARING HELD
APRIL 18, 2018



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OVERSIGHT AND REFORM OF THE DEPARTMENT OF DEFENSE "4TH ESTATE"

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
Washington, DC, Wednesday, April 18, 2018.

The committee met, pursuant to call, at 10:02 a.m., in room 2118, Rayburn House Office Building, Hon. William M. "Mac" Thornberry (chairman of the committee) presiding.

OPENING STATEMENT OF HON. WILLIAM M. "MAC" THORNBERRY, A REPRESENTATIVE FROM TEXAS, CHAIRMAN, COMMITTEE ON ARMED SERVICES

The CHAIRMAN. The committee will come to order.

Over the years, Congress has focused most of our attention on the military services and on weapons and equipment, personnel, and policy issues. We have paid relatively little attention to the rest of DOD [Department of Defense] that makes up the 4th Estate; in fact, one expert has said the 4th Estate is untouched by human hands.

Yet, this portion of the Department of Defense spends about 20 percent of the budget, includes about 25 percent of the civilian workforce, and hires about 600,000 contractors. As we are working to get more value for the taxpayer dollar, to get more resources into the hands of the warfighter faster, and to make the Department more agile and innovative in the face of the wide array of security challenges before us, we cannot neglect to examine this large portion of DOD.

Yesterday, I offered a proposal to make reforms to a portion of the 4th Estate. I look forward to receiving reactions to that legislative text. But beyond the specific proposals, I believe it is essential that we work across the entire Department, leaving no stone unturned, to ensure that the warfighters have the best that this country can provide, and that this enormous organization of DOD is ready and able to defend the Nation.

I yield to the ranking member.

[The prepared statement of Mr. Thornberry can be found in the Appendix on page 43.]

STATEMENT OF HON. ADAM SMITH, A REPRESENTATIVE FROM WASHINGTON, RANKING MEMBER, COMMITTEE ON ARMED SERVICES

Mr. SMITH. Thank you, Mr. Chairman. And I agree; this is an important hearing that we are having today on a substantial portion of the budget that does not get as much attention as it deserves.

I wouldn't go so far as to say it is untouched by human hands. I think that there are others that have come before us that have taken a swing at this, both in the Department and in Congress, to try to look at the portion of the budget that is not directly related to the warfighter.

And there is without a doubt, and I don't think anyone would argue, there is savings that can be found there, and I think we should look and try and do that. And I think the chairman's bill that he introduced yesterday or, I guess, the portion of our markup he introduced yesterday to attempt to do that is a good starting point.

I would say, however, what these people do is not irrelevant. There are a number of portions in the so-called 4th Estate that are essential to assisting the warfighter and making sure that they are ready for the fight.

So what we have to do in this committee is figure out how can we find savings without doing damage. And, as I said, others have come before us and tried to do that. The Pentagon is a very difficult bureaucracy to get at. I certainly admit that.

And I will just close by saying, I certainly applaud the chairman's efforts to take that run. I look forward to working with him to figure out the best way to do that, to make sure we cut in a sensible way that saves money, and at the same time, makes sure that we can continue to provide the services that our warfighters need so we can fight as efficiently as possible.

I will stop there because the two gentlemen who are testifying today know a lot more about this than I do, so it will be better to hear from them and get to our questions and answers.

Thank you, Mr. Chairman. I yield back.

[The prepared statement of Mr. Smith can be found in the Appendix on page 44.]

The CHAIRMAN. Thank you. I certainly agree with the gentleman on all of that, including the fact that our witnesses have a lot of expertise to bring to the table.

We welcome Mr. Peter Levine, senior research fellow at the Institute for Defense Analyses, but who has also been Deputy Chief Management Officer at the Department of Defense. And what I won't mention is some of his associations across the capital.

We also have Mr. Preston Dunlap, who is the National Security Analysis Mission Area Executive at Johns Hopkins Applied Physics Laboratory, but he too has experience in the Pentagon including serving in CAPE [Cost Assessment and Program Evaluation] and in other positions.

Thank you both for being here. Without objection, your full written statements will be made part of the record. And we look forward to any oral comments you would like to make.

Mr. Levine.

STATEMENT OF PETER LEVINE, SENIOR RESEARCH FELLOW, INSTITUTE FOR DEFENSE ANALYSES

Mr. LEVINE. Thank you, Mr. Chairman, Congressman Smith, members of the committee.

First, it is good to see you all again. I thank you for inviting me here to address defense management and the DOD's 4th Estate. I

think it is a tremendously important issue which is well worth your attention, and I believe that there are significant savings that are possible in this area.

When I served as the Department's Deputy Chief Management Officer I was responsible for a program to carry out about $7 billion worth of savings over the course of the FYDP [Future Years Defense Program], and most of that we were looking to the 4th Estate to achieve.

I think it is important though not to have unreasonable expectations as we look at the 4th Estate. As I point out in my prepared statement, a huge part of the 4th Estate budget goes to the Defense Intelligence Agencies, the Missile Defense Agency, and the U.S. Special Operations Command. By some definitions, the combatant commands are also part of the 4th Estate, so there is a huge warfighting function that is in the 4th Estate.

Within the balance, we pay for the Defense Health Program which provides health care to our service members and their families, as well as the DOD schools and commissaries, which Members of Congress have generally considered to be off limits for large cuts.

The 4th Estate also includes DARPA [Defense Advanced Research Projects Agency], SCO [Strategic Capabilities Office], and DIUx [Defense Innovation Unit Experimental], all of which perform cutting-edge research needed to maintain our technological edge. If all those entities are considered to be essentially off the table for budget reductions, and I don't mean to imply that there are no efficiencies possible, but the large budget reductions, if we are looking at the rest of it, we have about a quarter of the 4th Estate left to look at. So you can't achieve 25 percent reduction in the 4th Estate by looking at only a quarter of the budget.

Unfortunately, the everything else also performs essential functions. I think these are functions that can be performed more efficiently and that deserve close attention from the committee, but they are important functions, nonetheless.

This includes a number of small defense agencies that perform specialized functions, like DPAA [Defense POW/MIA Accounting Agency], DSCA [Defense Security Cooperation Agency], DTRA [Defense Threat Reduction Agency], DTIC [Defense Technical Information Center], DTSA [Defense Technology Security Administration], DTRMC [Department of Defense Test Resource Management Center]. We can go through any of those that you want, but my point on that would be the overall cost of those small agencies is relatively small. Their functions have to be performed somewhere. So there are savings. I believe that the small agencies can be made more efficient, but you are not looking for big dollars there.

If you are looking for big dollars, you are probably looking where others have looked, which is to the big business-type defense agencies, like DLA [Defense Logistics Agency], DFAS [Defense Finance and Accounting Services], and DISA [Defense Information Systems Agency]. That is sort of everybody's favorite target for budget cuts in the 4th Estate.

Before those agencies were established, the Department ran parallel activities in each of the services, multiplying the overhead and the number of people needed to perform the work. DLA and DFAS, the two agencies that get most of the complaints because of their

size, had almost 100,000 employees between them when they absorbed functions from the services in the 1990s.

Today they perform the same work better with 34,000 employees. That is about a $6 billion a year annual savings from the personnel reduction that they were able to accomplish by bringing in tasks from the services and consolidating them.

I have been following DLA for almost 30 years now, and I have watched it evolve as a business, reaping savings by instituting best practices from the private sector like direct vendor delivery, prime vendor contracts, electronic contracting, electronic tracking, asset visibility programs, and business systems that actually work, unlike most of those in the Department of Defense.

Over the last 5 years, DLA has executed a cost reduction program that targeted contracting, personnel, acquisition of assets, travel, transportation, supplies and equipment, rent and maintenance. This program was expected to achieve about $5 billion of savings over the FYDP.

As a result of these efforts, I think DLA is one of the best run businesses in the Department. That doesn't mean that further savings aren't possible—they are and the committee should pursue them—I think we just need to understand what has gone before as we look at those.

DFAS is also a relatively efficient organization and outperforms what the services did 25 years ago, but I see a difference here. Both DFAS and the services have evolved considerably and have new capability since DFAS was formed 25 years ago.

Given the new ERPs [enterprise resource programs] in the services, and the new capabilities that they have, I think it is long past time for a complete re-examination of the role that DFAS and the services play. And there should be streamlining that's possible. There may be functions that can be transferred from DFAS to the services, but a real considered approach to that and figuring out how those functions work is necessary.

I am less familiar with DISA, but I know that it runs data centers that are sometimes considered to be underutilized and overstaffed. It is tough cutting these kinds of things in the Department without a BRAC [base realignment and closure] though, so you might—you know, if you are willing to take that issue on, not a BRAC issue but the issue of data centers and whether they are efficiently utilized, more power to you.

Finally, I would like to say just a few words about two agencies, two defense agencies that reported directly to me when I was in the Department. Everybody in the Pentagon loves to criticize Washington Headquarters Services [WHS]. It can be maddeningly unresponsive at times, but it performs essential functions without which the Pentagon could not operate.

It runs the power plant and utilities, maintains the building, allocates office space, contracts for food, handles the budget, runs personnel system, controls ID [identification] cards and parking permits, among other functions.

It would be nice to think that we could save money by eliminating WHS, but somebody has to provide these services. Similarly, with the Defense Human Resources Activity [DHRA], which re-

ported to me when I was Acting Under Secretary for Personnel and Readiness, that is a notoriously inefficient agency.

And there have to be savings that are possible, but recognize that it performs a bunch of activities that cannot—that we really cannot avoid and many of which are mandated by Congress. It runs the Department's education and training programs and its manpower data systems.

It staffs the JAMRS [Joint Advertising, Market Research and Studies] program, the Suicide Prevention Office, the SAPRO [Sexual Assault Prevention and Response] office, and the Defense Travel System. It is responsible for the accommodation program for disabled employees, the veterans transition program, employer support for the Guard and Reserve. The elimination of DHRA makes no sense unless those programs are also going to be eliminated.

So, Mr. Chairman, in conclusion, I appreciate the committee's ambition in looking at this issue. I think it is tremendously important. I think you can find efficiency. I think you can find significant savings, and any savings that you achieve will be a tremendous victory for the Department and the taxpayers.

I look forward to your questions.

[The prepared statement of Mr. Levine can be found in the Appendix on page 45.]

The CHAIRMAN. Thank you.

Mr. Dunlap.

STATEMENT OF PRESTON C. DUNLAP, NATIONAL SECURITY ANALYSIS MISSION AREA EXECUTIVE, JOHNS HOPKINS UNIVERSITY APPLIED PHYSICS LABORATORY

Mr. DUNLAP. Chairman Thornberry, Ranking Member Smith, distinguished members of the committee, it is an honor to appear before you today to discuss the oversight and reform of the 4th Estate and defense agencies and field activities in particular.

It is also excellent to be joined by my colleague, Peter Levine, here today.

Though, as the chairman said, I currently work at Johns Hopkins Applied Physics Lab, I am here today in a personal capacity. In 2013, I led a review on this topic for Secretary of Defense Chuck Hagel as part of the Strategic Choices and Management Review when I was the Director of Program Analysis and Chief of Staff in the Office of Cost Assessment and Program Evaluation in OSD [Office of the Secretary of Defense].

While I readily admit that my experience is slightly dated, the principles that were true then and what we found in reviews past, I think, remain relevant and true today. To that end, I am going to walk through six false assumptions that plagued our review and other reviews that we looked at, and I hope that we might be able to progress here more quickly past them.

And I do thank the chairman for throwing out the first pitch and getting the ball rolling on this, so thank you.

Assumption number one: Defense agencies and field activities are homogenous back offices. Each of the current 27 agencies and activities was initially created by statute to achieve greater effectiveness, spanning multiple military departments. These missions vary

widely, as you know, from groceries to geospatial analysis, to educating kids, to engineering, and so on.

Though each organization does indeed have a back office or overhead, and a few do function as consolidated back offices, like the Washington Headquarters Services, the majority conduct a variety of what many consider valuable direct missions to the Department of Defense.

Assumption number two: The appropriated budget is the total budget. We are using publicly available data, unclassified data—so setting aside things like the intelligence agencies—the agencies get appropriated, as the chairman alluded to, roughly $65 billion, but some also receive additional funding via defense working capital funds from other DOD agencies, military departments, and even individuals that pay them for services.

Working capital funds allow consumers, in some sense, some choice as to where to buy their services from as well as flexibility and agility to respond to pressing needs. That included, all told, they execute roughly 16 percent of the DOD budget or over $116 billion, but as I mentioned before, each in a different way.

And when you think about 25 percent to the right target, thinking about both the appropriated as well as revenues and other appropriated budgets that get sent to these agencies for execution should be considered.

Assumption number three: The agencies can take cuts and still perform the same level of mission. And I appreciate the chairman's comments that—and when you look at this you should think about not only cuts but also dropping missions that might not be important or relevant in today's time.

In a bureaucracy it is often harder to cut a mission than it is simply to cut funding, but, of course, they are related. It is appropriate to take hard looks at doing the same mission or even more for less, but if savings are an objective then tough decisions may have to be made about actually doing less for less.

For example, one that is often cited is DOD's grocery stores or commissaries or DOD schools, which, of course, provide a valued service to military families that can be difficult to find in some areas overseas or remote areas in the U.S.

That said, roughly 85 percent of commissaries are located within a 15-minute drive of a grocery store or a big-box store with full grocery selections. Options to save here or these type of agencies would include a careful review of the business case for each particular location, store, school, and so on.

Assumption number four: Peanut butter spread cuts are helpful. When faced with tough decisions past reviews often defaulted to a peanut butter spread approach to efficiencies, such as multiple years of 10 percent cuts in a generic fashion.

A better approach, I think, as the Congress recognizes, is to focus on what the Nation most needs from these organizations to emphasize those missions for the warfighter and take efficiencies in lower priority areas or obsolete missions.

Assumption number five: Reorganization is the answer. Is it wise for the same person to oversee an intelligence agency, a grocery store, and the Missile Defense Agency? Well, maybe. So our study in 2013 examined the implications of consolidating all those agen-

cies under one leader versus grouping them by missions, similar to the way they are today. And we found it helpful to consider both the personal expertise of the leader as well as dividing the missions across the Department in the 4th Estate.

Assumption number six: It is all about metrics and reporting. The agencies and activities have been required to provide a biannual report to Congress and in the past also produced metrics that were tracked by organizations like CAPE, my old organization, and at the time the Deputy Chief Management Officer.

However, ultimately, there is no substitute for strong leadership. In our experience, the vision and experience of a leader who understands the mission of the particular defense agency or field activity they oversee and the need for greater efficiencies can, together with oversight and action from Congress, I think, achieve the greatest steps.

So going forward, any reform efforts might consider these and other lessons learned to give a sense of the magnitude of the issue, along with the 25 percent sort of target that is on the table. If all seven agencies—we will say six of those mentioned are eliminated, that is roughly a 2 percent budget cut in total. So there is a long way to go between 2 and 25 percent if you set aside DISA and the transfer.

So how do we think about that? There is four categories that could find further efforts to be able to get from that level of percentage up to 25 or whatever the right percent is. First, large agencies that have not recently been reviewed, like the Defense Logistics Agency or the Defense Information Systems Agency, which is put on the table already; second, missions that may be partially accomplished outside the government like Defense Commissary Agency or Education Activity on a location basis; third, missions that are split between the 4th Estate and the services still, like intelligence agencies, satellite development organizations, and these cases, of course, in coordination with the Director of National Intelligence; and fourth, those currently decentralized missions that may require increased leadership focus, given advances in both threat and technological opportunities like artificial intelligence and hypersonics, which could either be accomplished with existing structures like the Missile Defense Agency and Defense Advanced Research Project Agency or with their own organizations.

Ultimately, for any reform to be successful it must be true both, as was said here, to the taxpayer as well as to the talented men and women in uniform who put themselves in harm's way each and every day around the globe.

And I thank you for the opportunity to testify before you today on this important topic, and I look forward to your questions. Thank you.

[The prepared statement of Mr. Dunlap can be found in the Appendix on page 53.]

The CHAIRMAN. Thank you. Thank you both.

Mr. Levine, you have got a magic wand and you can wave it and do one or two things when it comes to the 4th Estate reform. What would you do?

Mr. LEVINE. The first thing I would do is to take a close look at the working capital funds. My colleague, Mr. Dunlap, referred to

the fact that a significant amount of the funding going into the 4th Estate comes from the services through the working capital funds.

My concern about the working capital funds is they do what they are supposed to with regard to the buyer. The services have a pressure to become more efficient because they see the cost of what they are buying.

But they don't have the desired effect in terms of efficiency with a seller, because the way the rates are set, they are set to make sure that the fund breaks even. So no matter how high your expenses are, you will always know you are going to recover them.

My belief is we need a mechanism that will give the customers the services, visibility into essentially how the defense agencies are spending their money, how DLA, DISA, and DFAS are spending their money so they can see the overhead and push back at excess expenses.

I think that kind of mechanism would create sort of a cop on the beat to look at those expenses on a day-to-day basis, and nobody has more incentive to save money than the person who is actually paying the bills. So I think we need to build that kind of mechanism into the Department.

Second, there are a number of specific areas I would look at. The first one is healthcare management. I know that the committee just went through a major exercise of passing legislation on that. It is very significant legislation. The Department has a long way to go to execute it.

But I can't help but say the overhead in the healthcare area is extraordinary when we are maintaining three separate surgeon generals and the Defense Health Agency. I don't think that is an area where we are efficient.

And you and the Department are going to have to keep a very close eye on the implementation of this to make sure that it is actually implemented in a way that brings down the overhead and doesn't just add new organizations to an inefficient system.

The third area that I would look at—and there are others we can talk about. The third area I would look at is finance and accounting. And I really think it is important to relook the whole relationship between DFAS and the services. When I was the DCMO [Deputy Chief Management Officer], some of the service comptrollers would come to me and say, look, there are things that DFAS is doing for me that I can now do myself because I have an ERP, an enterprise resource program.

It has the capability built into it, but I am required to ship this stuff over to DFAS and have them do it. And the consequence is then it is in two systems and then I have to hire—DFAS has to hire more people. They have to go through a reconciliation process because it is in two systems. If I just did it myself I could not only do it within the system I already have but I could do it cheaper without the manpower to do the reconciliation.

That is a substantial task to do that re-examination. But as I said in my prepared statement, there has been a lot of evolution and capability on both the DFAS side and the service side, and I think that whole relationship of who does what finance and accounting tasks deserves a comprehensive relook.

The CHAIRMAN. Okay. Mr. Dunlap, magic wand, what would you do?

Mr. DUNLAP. Thank you.

I appreciate the comments of my colleague here. I think working capital funds are both a bit of a mystery as well as a gem. Why do I say that? It is hard to track where everything goes and the pricing, as my colleague pointed out.

A gem because I think the Congress is also interested in agility and flexibility in the agencies to respond appropriately, and that is certainly pointed to as a mechanism to allow that flexibility and some choice where the choice is available for the different organizations to choose one organization or another.

So there is both pros and cons to the approach. But it is, you know, roughly half of the sort of total appropriations that the defense agencies oversee, so it is appropriate to take a careful look at that.

I think the biggest thing here would be to splice out those functions across all the organizations that truly are a more overhead and back office functions with an assessment that they be done more efficiently or effectively. I think a careful, hard look needs to be done.

We did that in our review by bringing in each of the defense agency and activities heads, so I personally met with each of them, went through the org [organizational] chart, the missions, what they were doing, and why they were doing them. To be able to get at that, it takes something like that pressurizing leadership in the Department to go have a careful, intricate look to support that.

On the reform in terms of making them more effective and capable for the service members, they also provide a variety of capabilities that I think, you know, the Congress thinks are important, intelligence information in light of foreign adversaries' capabilities, missile defense capabilities, and so we want to make sure that we emphasize those.

And to that end, there remains, as I mentioned in the opening remarks, elements of those structures that remain both divested amongst the services and other organizations as well as in the 4th Estate.

I don't have a position on whether it is better to be in the 4th Estate or to be divested back to the services, but I think there are several missions still in defense agencies where we could look at that as part of this review and where things could be done better or worse.

To get to that target of 25 percent or whatever the right amount is, we are going to have to take—the Congress is going to have to take a careful look at what to cut and what to stop doing.

So I appreciate the seven agencies mentioned, one of which is more of a transfer. But as I said, that only gets to about 2 percent of the budget if they were all eliminated, 2 percent of the 25 percent, I should say.

And so I think the Congress will have to take a careful look at whether they are open to issues like Mr. Levine mentioned with what has typically been off the table with BRACs, or education, or commissaries, because you have to get agencies that are large to be able to achieve that kind of savings.

So I just put that out there for consideration. Thank you.

The CHAIRMAN. Okay. I have got several things I want to pursue, but first, I will turn to other members. Ranking Member.

Mr. SMITH. Thank you, Mr. Chairman.

You mentioned the word "BRAC" in that last little sentence there, and it is the first thing I want to ask you about. Of all the savings, how important would it be to give the Department of Defense greater flexibility in closing bases and moving personnel?

Because we all know, I mean, BRAC is the big bite that people are reluctant to take in terms of actually closing bases and realigning them. But they are—even within simply moving equipment around within DOD or if you wanted to close an office in one place and open it up someplace else, you have always got this massive fight with, well, us, whatever district it is that you are closing down.

So there is two questions in there. Number one, are there things that we could do to make it easier for DOD to shut things down, to move personnel, to sort of resist the political pressures that inevitably come from the district in question?

And I am talking about something as simple as if they wanted to move four C–130s from one base to another. There will always be a fight, and it will always take longer than it should. So there is that smaller stuff. And then on the larger point, how important would be having a BRAC round to getting at some of the efficiencies that is we are talking about here?

Mr. LEVINE. Mr. Smith, I am not going to take on the political question of how you could possibly get a BRAC passed in the Congress. I——

Mr. SMITH. I didn't actually ask you that question. I am allowing you to live in your perfect nonpolitical world there, so——

Mr. LEVINE. I did manage to go through that once, and it was a remarkable experience.

But in terms of the importance of BRAC, you may remember a few years ago there was this Defense Business Board study that said we could save $125 billion in all these different areas. And about half of the savings were—that they projected, if I remember right, were in logistics and real property management.

And so when I became Deputy Chief Management Officer, which was several, you know, a little while after that Defense Business Board study, I tasked the Defense Business Board, the Deputy Secretary tasked them, but at my suggestion he tasked the Defense Business Board to go and look at logistics and real property management.

Here you said that there is $50 billion of savings here. Tell us what we would do in order to achieve those savings. The one overwhelming recommendation the Defense Business Board came back with was, you need a BRAC.

So I don't know that they thought when they looked specifically at logistics and real property management that they believed that there was really $50 billion of savings there or that they had recommendations. But they said, if you want significant savings in these areas, what you need to have is a BRAC. So that is sort of one marker anyway.

Mr. SMITH. Okay. Mr. Dunlap, do you have anything to add to that?

Mr. DUNLAP. I can't answer how much of the defense agency reform, you know, would require BRAC or not BRAC. Just a general comment is that on average we sort of see a 10-year or so return on investment there, so there would have to be a recognition of upfront cost to be able to move out.

There are some examples in the agencies not requiring BRAC where they are able to achieve efficiencies. I think Defense Finance and Accounting Services is a good organization to look to for that where they consolidate a bunch of their offices across the country.

I don't believe they required any BRAC authority to go do that, but they were able, on their own volition, to take efficiencies there.

Mr. SMITH. Thanks.

A related question, and just, if you want to comment on it, you may. You mentioned the commissaries. You mentioned some of the stuff locally. I mean, frankly, most of this stuff that we are looking at, when you say, you know, we want to reform it, BRAC is a very good example of what we run into.

We asked the question, you know, why don't we reform it. And at the end of the day, it is because of, you know, politics in a lot of cases. People don't want jobs lost in their district. They don't want things moved.

So, I mean, if we are going to do this, we are all going to have to figure out some process for saying we are going to bite the bullet, allow the DOD to have greater efficiency despite how it may impact our individual districts. Yes, I understand the fantasy of that comment, but I think it is important, because everything we are doing here is going to run into that brick wall.

Even if we could all agree that there is one particular agency that, you know, has 5,000 people working at it, it is a total waste of money, we ought to do it elsewhere, it is going to be the mother of all fights, because those 5,000 people are somewhere, and some group of people are going to fight for them.

But on the commissary issue, and there are a number of issues like this, that are basically things that the men and women who serve and their families, it is a convenience. It is something they like. It is something that they are used to. It is something that improves the quality of their lives in their belief system.

Do you really think there are areas within that, like commissaries and elsewhere, that we could get to? And if so, how do we get to it in a way that convinces the service members and their families that this is okay, that we have a better option that is not going to negatively impact your life while we save money?

Mr. LEVINE. You may remember that a few years ago the Department proposed to eliminate the commissary subsidy and Congress said no.

Mr. SMITH. I do.

Mr. LEVINE. After that we were able to work out with you and with your approval and with legislation an alternative course, which we hope, if it is successfully implemented, will reduce the subsidy without reducing the benefit to service members.

So that, to me, is an example of the kind of reform that you can do being cognizant of the benefits that you are providing without removing those benefits but still to provide them more efficiently.

Just to take just a minute on the defense schools, my recollection is that the defense schools in the United States, we spend about $300 or $400 million a year, something in that range is my memory. For that price, we get extraordinarily good schools.

The DOD schools match up very well against the better school districts in the country in terms of performance, and they are doing it with a sensitivity to the needs of service members and their children, who move frequently.

And so just the fact that they are defense schools means that they are more understanding of what kids are going through with their parents' absence and with their parents in combat situations. They provide a tremendously valuable service.

When we looked at that, the general consensus was, if we got rid of the defense schools, we were going to have to provide an almost equivalent subsidy to local school districts around the country. So the savings would not be $300 or $400 million a year; it would be maybe some fraction of that, maybe a quarter of that or something.

But for that $100 million, say, a year of savings, you were going to lose all the special capabilities provided for the defense school. So it is not just a matter of politics. I mean, there is a real value to some of these things, and a real value to the benefits that we provide to our service members and what they do for us in terms of recruiting, retention, quality of life for service members.

So it is easy to say, you know, if it weren't for the politics, we would get rid of it, but you have got to remember that there is a real value that we are providing as well.

Mr. SMITH. Thank you for making that point. That is really all you need, and that is exactly—what you just said is what I will say about that. A lot of times the savings looks big upfront, but then you have got to factor in everything that you just said. And I can't say it any better, so I won't repeat it.

But I think you are right. The commissary model is the model that we are going to have to go through, and this is how can we do it in a way—forgetting the politics for a moment, like you said—there is a real service that is being provided.

So we are going to have to work very, very closely with the communities and with the service members to figure out, you know, how can we balance this out in a way that is going to make sure that the benefits are the same and the savings actually is realized.

With that, I yield back. Thanks.

The CHAIRMAN. Mr. Wilson.

Mr. WILSON. Thank you, Mr. Chairman.

And thank you, Chairman Mac Thornberry, for addressing this important matter of the 4th Estate which manages a significant portion of the defense budget and represents oversight responsibilities of a large number of civilian and contractor workforces with roughly an annual budget of $100 billion.

And, Mr. Levine and Mr. Dunlap, thank you both for being here today.

And even before I begin, Mr. Levine, I appreciate you commending the DOD schools and the sensitivity to military families. I feel

the same is being done with commissaries with a sensitivity and support of military families and giving opportunities for not just having the conveniences of home worldwide but also providing for military family members, spouses, to have employment understanding that they could be rotated out. And so we are really fortunate to have systems in place that are so positive and meaningful for morale and welfare.

And for both of you, what is your assessment of the successes or failures of the past efforts to reform or render more efficient the 4th Estate of the Department of Defense? And especially I would like for you to begin with the description of the 4th Estate for the benefit of observers of this hearing.

Mr. LEVINE. So the 4th Estate includes the Office of the Secretary of Defense, the defense agencies and field activities. Most people would also include the Joint Staff and the combatant commands. So that is sort of what you are talking about when you try to get your arms around the 4th Estate.

That oversimplifies it though, because, as Mr. Dunlap and I have been describing, those defense agencies are incredibly diverse and perform a wide range of missions. I can't say all of them are essential to the Department but many of which are essential to the Department, many of which are directly related to warfighting.

I think there have been repeated efforts to get at the management of the 4th Estate. Most every administration takes that on at some point because most every administration is under budget pressure. I mean, we have gone through sequestration. We know what budget pressure is around here, but it is not new to the Department of Defense.

My view is that each of those reform efforts has made a contribution. I look at DLA as an example. DLA today is a completely different entity from what it was when I first visited DLA in the 1990s, and it was this huge, unruly mass that was barely managed.

I think that improvements have been made over the years, but I believe that management reform is a continuous responsibility. It is something you can never leave, and every new leadership cadre needs to focus on it because it is not something that takes care of itself or that you are ever done with.

Mr. DUNLAP. Great description of the 4th Estate. I completely agree. Just the one large thing that results in one of the frustrations, which is if you do reduce a mission and you end up not seeing the efficiencies or the savings, it can be quite frustrating, both for the Department and Congress.

So, you know, sometimes you can do these and to make a decision to reduce an agency. And the Department has done this in the past as well, and it is kind of like squeezing a balloon. You move it over here; it just reorgs and shows up somewhere else. So keeping track on when you decide to cut an organization, reduce or eliminate, making sure that that, in fact, happens holistically.

And in past efforts it sort of stops there without being able to track the ultimate completion of those actions and direction. So it is an effort that isn't an instantaneous result. It is going to take time and oversight.

Mr. WILSON. And in line with your balloon analogy, how frequently does the Department assess the roles, functions, and rel-

ative value of the defense agencies and field activities that comprise such a significant element of the 4th Estate? Each of you.

Mr. LEVINE. I think the Department is always looking for cuts in 4th Estate and efficiencies in the 4th Estate. I am not sure that it does a bottoms-up review of is this mission still needed in the way you are describing as often as it should, and I think it is something that can always be used.

Mr. DUNLAP. I think, you know, legislatively I think 2 years, sort of biannual type of report and assessment is required. That said, every year for the President's budget and program and budget review they are part of that process and evaluation.

In terms of a holistic review, the closest and nearest one that I am aware of was the 2013 review that Secretary Hagel oversaw. And I am not sure about years prior.

Mr. WILSON. And really quickly, the GAO, Government Accountability Office, has assessed many of the cross-enterprise business operations of DOD, Department of Defense, as high risk due to waste, fraud, and abuse. Is that what you believe has occurred? Each of you.

Mr. LEVINE. The GAO has assessed all of DOD as high risk due to waste, fraud, and abuse. I am not sure that the defense agencies are any different from the rest of the Department in that regard.

Mr. WILSON. And thank you very much. My time is up.

Thank you, Mr. Chairman.

The CHAIRMAN. Mrs. Davis.

Mrs. DAVIS. Thank you. And thank you, Mr. Chairman.

I certainly appreciate your efforts here in attempting to reform the defense agencies. Tough thing to do, and I think you all are speaking to that. Of course, we don't have the advantage of having that draft and neither do you, but I think trying to look ahead now and see where are those instances in which you have seen some successes in doing this and those areas in which you think that perhaps the intent was a good one, but in the end it wasn't able to achieve the required results.

So I look forward to getting into this and seeing how we can do it in the most inclusive way. What have you seen in terms of models, perhaps that is BRAC in some ways or other reorganization attempts, that you think we should be looking to to try and really reflect here in our discussions?

Mr. LEVINE. BRAC goes to facilities. Facilities aren't the only things we pay for.

Mrs. DAVIS. Right.

Mr. LEVINE. We have a couple of other things that we need to look at. Basically the other category, you buy things, you buy—you have facilities, and you have manpower. If you are not focusing on things—because we are not talking about the acquisition system. That is a whole different issue.

Mrs. DAVIS. Yeah. I think——

Mr. LEVINE. You are really focusing on manpower and how can you save manpower. That is military, civilian, and contractor. You have to look at the total force.

Mrs. DAVIS. Yeah.

Mr. LEVINE. So there are issues you can look at about the balance of the total force. Military tends to be much more expensive

because we have to train and retain and so that we have a lifetime investment in military. If we are using military for functions that could be performed by civilians or contractors, that is probably not a good idea. There is analysis that can go into that.

Mrs. DAVIS. Mr. Levine, if I may, is there an organization or really a process that you think has been a good model? And I am thinking of making sure that people who are on the ground, who know this stuff and work with it everyday, are included as well as those who have fresh eyes on the prize, essentially.

Mr. LEVINE. So a model I would offer you is what we use for looking at service contracts, which is an important area to look at. We had throughout the Department something called Service Requirement Review Boards, SRRBs—they are sometimes called contractor courts—where the leadership of an agency or an entity, service, systematically reviews its own service contracts and requires a bottoms-up justification for what they are spending on service contracts.

And so the people who were responsible for those contracts have to come in and present, this is what I am spending and why I am spending it. That SRRB process started in the services. When I was DCMO we expanded to the defense agencies to make sure that they were under that same kind of review. But that model of the contractor court, the SRRB, is something that can be applied, I think, to other areas of the Department as well.

Mrs. DAVIS. Uh-huh. Mr. Dunlap, would you agree with that? And do you get people that are willing to say, you know, listen, we don't need this?

Mr. DUNLAP. So I think the important thing—and I think you might be alluding to this—is talking particularly to the people both that run the organizations and the beneficiaries of the organizations and outside perspectives as well.

That was extremely valuable in the review that I was involved in. And I found, depending on the particular leader at the time, some actually quite open to talking about where they could see their organization being more efficient and effective yet were limited, for a variety of reasons that have been mentioned here, outside and inside the Department.

And so I think that has been excellent. I think there are good examples, like DARPA, with technologies that are a great idea of what the defense agencies are about.

Mrs. DAVIS. If I could stop you because I have so little time, how do you see doing this within healthcare management? I mean, I know this is a really difficult one in terms of hierarchies within the different services. Is that a good model? Is that something—how would you do it to really get to where we want to go?

Mr. LEVINE. I am not always convinced that Congress is the best mechanism for defense management reform because you need to have hands on within the Department to get it right and to do the details. And so I am a skeptic sometimes of defense management reform.

But the healthcare area is actually one where I would urge the committee to keep hands on. I think that the Department is going to be unable to come to grips with this by itself without direct pressure and direct oversight from Congress. I just think that the orga-

nization is big enough and dysfunctional enough that it is going to be hard for the Department to overcome that.

Mrs. DAVIS. And one other question. Yesterday we had a hearing really looking at the culture of innovation, and one of the concerns is all the requirements, processes, and the many layers of people who really want to express their opinion. So how do we help and reform the 4th Estate knowing that that is going to be an issue?

Mr. DUNLAP. I will just offer, you know, I used the example of DARPA, Defense Advanced Research Project Agency, and organizations like that, that have the flexibility. They exist in the 4th Estate as the defense agency, and yet, due to leadership, passion, vision that they have, and risk-taking, they are able to cut through a lot of that. Strategic Capabilities Office is another one. So supporting organizations like that doing the mission that the Nation needs is useful for the committee.

Mrs. DAVIS. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Turner.

Mr. TURNER. Thank you, Mr. Chairman.

Mr. Levine, I appreciate your description. As you were giving a list of all the things that we are going to be executing in the Department of Defense with civilians that are not what people consider bureaucracy, I basically heard you describing many of the functions that are at Wright-Patterson Air Force Base, which is in my district.

And I too believe we need significant overhaul of processes in the Department of Defense and areas to find savings. I served as mayor of my community and had to do that in my own bureaucracy and organization.

But you made a pretty important distinction, which is how do you preserve—this is just not just a civilian workforce issue versus a uniform workforce issue. It is a function. How do you preserve from a legislative perspective what is coming from Congress in trying to address issues of civilian personnel and not hurt those functions?

Because we all know what a bureaucrat is, right. A bureaucrat is not an accountant. It is not an engineer. It is not a scientist. It is these functions that you have that are being executed. There is a product. I am not quite certain how you would carve that out.

Let me give you some examples. Air Force Institute of Technology is at Wright-Patterson Air Force Base, all the graduate programs for the Air Force. There are programs that no other college or university has, many of which are classified programs.

Air Force Research Labs are based at Wright-Patterson Air Force Base, scientists, engineers. In addition to being a civilian workforce that manages materials, sensors, UAVs [unmanned aerial vehicles], they also oversee the university research portfolio of the Air Force.

Life Cycle Management Center, which oversees a portion of depot maintenance and looks to contractor oversight, has to have engineers, scientists to oversee contractors. And, of course, the bidding process is they also have the foreign military sales aspect and have the interface with those—with our military counterparts.

Human Performance Wing, scientists, engineers, how we marry our men and women in uniform to technology and also issues of,

you know, physiological episodes that we are having. We send it to those engineers and scientists.

So how do we take those things—you know, NASIC, National Air and Space Intelligence Center, 3,000 people, largely civilians that are specialists in missiles and what our counterparts are doing, how do we look at trying to streamline and pare bureaucracy but make certain that we don't impact those functions that are actually being executed as missions of Department of Defense, or in this case the Air Force, that are inherently going to be civilian functions?

Mr. LEVINE. Thank you for that question.

In response to the last question or one of the last questions, I was saying that I thought the Department needed to be hands-on with health care but you can be too hands-on in the management area. At the end of the day, management is going to be a leadership task within the Department of Defense. You can't manage the Department of Defense from here.

So what I think that the committee can do and constructively is to set goals, make sure those goals are reasonable, and that enough time is provided to be realistic that you may implement it. If you have unreasonable savings expectations, you are going to have irrational action. But if you have reasonable goals, reasonable timelines that will keep the pressure on the Department. And you can have the senior officials at the Department come over, you know, establish plans, come over and brief you on that.

Mr. Dunlap did that in his time. I did that in my time. I think you need to keep the pressure on that and keep the oversight of that. But the management, the hands-on management at the end of the day needs to be done within the Department, and there is no substitute for leadership.

What they have got to do is they have got to get into the nitty-gritty of how processes work, what organizations look like, and where there are inefficiencies or where there are unnecessary tasks. And that is just not something that you can do in legislation. You have to do it really with a hands-on management style.

Mr. TURNER. Thank you. I yield back.

The CHAIRMAN. Mr. Langevin.

Mr. LANGEVIN. Thank you, Mr. Chairman.

I want to thank our witnesses for being here today. And let me start with Mr. Dunlap. In your statement you provide four categories by which to think about agencies and potential reforms. So I am particularly interested in the last two categories, agencies with missions split between the 4th Estate and the services and those with decentralized missions.

So responsibilities for artificial intelligence [AI] and hypersonics, I believe, fall into both these categories. Can you elaborate further on how you would think about reforming the agencies currently responsible for AI and hypersonics so that we achieve and sustain world leadership in each of these areas?

Mr. DUNLAP. Thank you for the question.

I think, you know, those are a couple areas, hypersonics, artificial intelligence, that this Congress recognizes is important both to today and in the future. The reason why I mention it is that what can often happen is that each entity is trying to do the right thing

in and of themselves, but, as Mr. Levine mentioned, leadership focus can be important to drive innovation and change throughout a large organization like the Department of Defense.

And so I offer those not as thoughts for increasing bureaucracy and overhead but instead to maintain both vision, passion, excitement, and energy, and resources on those capabilities. And so those can take place both in the 4th Estate as well as in the services.

I mentioned intelligence agencies, satellite developers, things that in the past defense agencies were created to be able to do good things to achieve efficiencies, gain greater effectiveness by working together. And so I think that is an important tenet. Whether or not organizational change is a part of that is a separate question.

Mr. LANGEVIN. Thank you.

So yesterday in this same room we held a hearing on innovation, and both witnesses detailed how we essentially have good people working within a tricky system, and that ultimately we should place more of our focus on outcome rather than resources—I am sorry, rather than processes.

Do you agree, or do you feel that there are elements within the defense field activities and combat support agencies that require existing processes to achieve the desired outcome?

Mr. LEVINE. My view on defense innovation is that a huge part of the issue that is too often overlooked is money, resources. Are we putting our resources in the right places to promote innovation.

If you want to do what the Department says they want to do now, which is to try lots of things and be willing to fail, you don't want to be doing that in your acquisition programs. I don't think any of us want to see a major acquisition program where we are investing $50 billion fail. That is not where you try something and fail. You need to try and fail before you get there.

The problem that I see in the way our acquisition system works is that the way you get defense development dollars in large quantities is you start a program. Until you have a program, you have nickels and dimes and try this and try that. But if you want the big money for development, it is going to be in a program. Well, once you put it in a program you can't afford to fail.

What we need to do, to figure out a way to do, is to have big dollars out there, substantial investment that we make that is separate from weapons programs so that we can be running prototypes and tests and experiments where we can try lots of different things and be willing to fail, that is not a part of programs where we can't afford to fail.

Mr. LANGEVIN. Good observation. Thank you.

Mr. Dunlap, do you have anything to add on that point?

Mr. DUNLAP. I will just add, I think one of the most interesting comments that I heard, you know, yesterday was, you know, that we don't reward people for failing. We shouldn't for wrongful failing, but when you are failing for taking risks, failing early and fast to be able to achieve the greatest effectiveness, we ought to be rewarding those people in the bureaucracy.

Mr. LANGEVIN. Yeah. I completely agree.

So support agencies to the Department of Defense play critical roles in addressing the needs of the Pentagon here at home and around the world. And while I support looking holistically at our

reform efforts in saving money through efficiencies like headquarters reductions, new technologies, and business practice efficiencies, I also believe that we must tread lightly before rapidly cutting these programs.

Where is the sweet spot between preserving these entities and making tough cuts so that we can maximize efficiencies and streamline our efforts?

Mr. DUNLAP. I am not sure there is a sweet spot that is known, which is why it should be done carefully, understanding both the pros and cons and impacts of each choices, which is why, you know, I would recommend, you know, a conversation with the Department and the agency heads about what we can—what can be done, what can't be done, and how to move forward so that that sort of illuminated through those conversations. And, of course, you can't ever quantify enough the value of strong leadership of those organizations, too.

Mr. LANGEVIN. Thank you both.

The CHAIRMAN. Dr. Wenstrup.

Dr. WENSTRUP. Thank you, Mr. Chairman.

Thank you, gentlemen, for being here.

One quick question: Is the 4th Estate, I assume, it is part of the DOD audit that is taking place?

Mr. LEVINE. Yes, sir.

Dr. WENSTRUP. Okay. So, Mr. Levine, I want to get into a process perhaps. You said many times that we can find savings. You said that, I think, two or three times at least. And I would certainly agree with you. So what percent of the budget do you think—do you estimate could be saved?

Mr. LEVINE. It depends on what you are willing to give up. I will give you an example since you just mentioned audit. If I were the master of the universe, I would give up the audit; $5 billion over 5 years, I would say it is not worth it.

Dr. WENSTRUP. Well, that may be for the 4th Estate, but I don't know if that is the same throughout the DOD. This is the first audit in the history of America of the DOD, so I am hoping that we see some benefits from that.

Mr. LEVINE. If we had a chance of being successful, I suppose I might agree with you. But I would say that we already know the problems that—the deficiencies we have in our financial systems. We know what we—we know we have a long laundry list of things that need to be fixed. And until we fix them, we are going to continue to fail audits. So to spend $5 billion over 5 years auditing when you already know what the results can be, to me, is not a useful expenditure of public funds.

Dr. WENSTRUP. Well, I can't say that I know what the results are going to be, but bravo to you for knowing what the results will be. But it is hard for us here to really decide what could be cut without the advice from experts, those that are in the trenches.

Mr. LEVINE. I am sorry. I shouldn't have been so flip. I just put that out as an example of something that people don't want to cut but there is a lot of money there. And that tends to be the kind of thing that we see if we really want to save big money.

We have to make a tough decision, say we are just not going to do something that we would like to do, but it is too much money.

And so that kind of judgment about what is it we are willing to give up is something that I think that members of this committee have to reach for themselves. No expert is going to tell you what you are willing to give up.

Dr. WENSTRUP. Well, so audit aside, let's go back to process of what we are trying to do today. Mr. Dunlap, you talked about peanut butter spread type of cuts, you know, just making it 10 percent or whatever it may be across the board.

But what if agency leaders were tasked with the notion that if you had to cut 10 percent, what would that look like and where would it be, what would it be, why would it be, and then confer with Congress and appropriators, et cetera, on where we may need to go with that? Would that be an appropriate process to put into place?

Mr. DUNLAP. So the Department, as I understand it and certainly when I was there, looked at things like that. And I think it is always good to pressurize the system to come up with solutions and choices.

You might get a suboptimal solution there in the end because with that approach you are also looking only within the individual organizations themselves. And to have a large impact in terms of savings or efficiencies, I think you want to think about sort of holistically across the missions.

And you may not want to give a 10 percent cut to agencies that are, you know, optimal, efficient, and highly effective. And so I would just suggest some flexibility in that to be able to pressurize the Department as a whole to find out not only where they are going to take those efficiencies but perhaps even an opportunity to apply those resources in a more effective manner so there is a——

Dr. WENSTRUP. Well, but that is my point too, to what you just said. I am just asking you to say, if you had to, what would that look like. Then we would decide does it need to be done or can it be done and still produce the results that we want to produce. Do you see what I am saying?

So why not have a process where we challenge people to say, well, if I was forced to do it, this is what I would do? And then we take a look at it and say, well, is that realistic? Should it happen? Or maybe somebody comes back and says, I can cut more than 10 and still function well. But challenge ourselves to that process so that we begin, because what is the optimal way then, you know? If either one of you want to answer.

Mr. LEVINE. I think you are right that you need to set objectives, and I think that is where Congress can play a role. And there is no science that is going to tell you what the sweet spot is, but you have got to use your best judgment and decide what it is.

I think that you have to watch out for if you are going to tell everybody, tell me what you would cut and come back and I will decide. You get what they used to call gold watching. Somebody will come back and tell you their most valuable programs. This is what I have to cut. And obviously you can't do that so you don't do anything. You need to watch out for that.

But I think that in terms of setting goals, my personal view, 25 percent is way more than you are going to get. But you have got to have some goal or the Department—because the Department can

justify everything it does. There is no activity that takes place in the Department where somebody can't explain to you that there is a good reason for it.

So if you want to get cuts, you are going to have to set some kind of goal that will get you some pressure to identify what the low-hanging fruit is.

Dr. WENSTRUP. Thank you. I yield back.

The CHAIRMAN. Ms. Shea-Porter.

Ms. SHEA-PORTER. Thank you. And thank you both for being here.

I was a military spouse, and my husband actually grew up in the military, so I am always very sensitive when I start to hear the word "cuts" or looking at any programs that military communities benefit from.

And I have to say, Mr. Dunlap, that reading the testimony when you talked about the big-box stores are a 15-minute drive away, I started to think about the people that I knew in the military who didn't have a car, so that 15 minutes might as well have been an hour because it was not accessible.

So that just brings it right down to the ground level of what we are talking about when we are looking at these budgets and how they actually have impact. And so I just wanted to throw that out there and say that there is a community there that needs to be heard.

We are sitting here—and I am so grateful for both of you and what you have done in the way you have outlined this and the testimony is excellent, but it still has an impact. And those kinds of stories might not be told if there isn't somebody sitting here who actually has been in the military or been in a family that can say, yeah, but we don't have a car. Or yes, but it may only be a half of 1 percent savings when you go to a commissary but still that.

And the other thing I wanted to say, and I recognize that we have responsibilities and fiscal responsibilities here, but it does seem like it is a small fraction of the overall budget, and I am looking at the personnel and the impact.

My husband talks often with others about what that was like to grow up on different military bases. And that is why I appreciate your comment, Mr. Levine, about the schools, that they had to move to places they had never been, but they always had one kid that they had come across somewhere. So for all of the moves, and back then they were frequent, I think more frequent moves for many families, there was somebody that they could identify with.

My mother-in-law taught in the DOD schools and they were excellent. They were a source of pride. So what I am talking about here is community, that when we look at the dollars we also have to talk about what constitutes a community.

We know in our own communities when we choose neighborhoods to live in, we say, well, you know, where are the stores, where are the access points for our children, what is their comfort level in schools, et cetera.

So I would just urge us, as we take out our pens to do budgets, that we remember, again, that these are people who get moved frequently, who leave family, who leave their support systems. And I know you know this, but I want to state it again.

And that it is so important for them, wherever they land, that they have a sense that they are in a special community and that we don't inadvertently chip away from that sense of belonging to a community and being part of that.

So, Mr. Levine, I want to ask you something about that. You know, the strength of our militaries obviously are people, and it is predicated on the recruitment, the retention of the men and the women. And they need to know that their families are always in good care and safe.

These spouses and children who form the backbone of every member's career depend on those services by these 4th Estate agencies, such as DOD Education Activity and the DeCA [Defense Commissary Agency]. We know that that is pretty critical to them.

So are there any analysis of the impact on recruitment and retention and any impact on family finances and stability as we are looking at this? I heard you say earlier that we haven't really had any recent studies on just simply the cost. What about the cost on these families and our ability to recruit and retain?

Mr. LEVINE. There are studies of impact of compensation changes on recruitment and retention. There are models that some of the think tanks have, that IDA [Institute for Defense Analyses] has, that RAND has, that will predict what the impact on recruitment and retention is of a change in compensation.

Those don't tell you what the impact is on an individual family from some of these benefits. You know, the one family—or the family that doesn't have a car and needs to walk to the commissary and can't shop otherwise. So it doesn't tell you about personal impacts. It tells you about aggregate impacts. But we do have studies that tell you that, that provide that kind of information.

Ms. SHEA-PORTER. And is it your belief that if we go after these programs or we in some way find, you know, small reductions or large reductions, that it will have that impact on, not just quality of life—obviously, we are talking about the quality of life—but also on actually retaining.

Mr. LEVINE. So I believe we need to be very sensitive to changes that impact the quality of life.

Having said that, I think that there are very few things that we do in the Department that we can't do better and more efficiently. So I don't see any reason to put something off the table just because it deals with quality of life. We can still be more efficient. We can still do things better.

I mentioned in my opening statement the Defense Human Resources Activity, which used to report to me as Acting Under Secretary for Personnel and Readiness, it is a notoriously inefficient entity. It provides vital services. So you have to deal with both of those things. You don't want to cut off the services and programs that it runs, but you want to have it run better.

I was privileged to be able to name a new Director for DHRA, who is taking management reforms seriously and I believe will reorient it and make it run better. That should eventually result in savings, but it is a hard job, because if you want to produce savings without eliminating activities, you need to look into the details of how your organization is set up, how your processes work.

Those are hands-on management activities that can only be done by a manager within the Department. You can't do that from Congress. You can only set the goal.

Ms. SHEA-PORTER. Right. And I appreciate that.

Mr. Dunlap, would you like to comment on that.

Mr. DUNLAP. I would just like to say that I appreciate your underscoring the truth, I think, in general about these agencies, which is that it is really hard to get a free lunch. There is always an impact to get real savings out of any of these organizations. So thank you.

Ms. SHEA-PORTER. Okay. Thank you. And, again, I thank you for the work that you have done because it is critical, and we understand our debt is pretty out of control and that we need to do something. I just want to make sure we target, you know, the right budget and the right places, instead of inadvertent impacts on military families and communities.

Thank you, again.

The CHAIRMAN. Mr. Gallagher.

Mr. GALLAGHER. Thank you, Mr. Chairman.

Gentlemen, thank you both for being here today. I appreciate it. And I know you sort of talked about this broadly in your testimony, but I think it is worth sort of reviewing a little bit and foot stomping, or at least for me it would be useful.

Obviously, we have had various efforts in the past at streamlining the 4th Estate, and you have been involved in a variety of them. And I just, you know, we have talked about the "More Disciplined Use of Resources" review in 2012, the Core Business Process Review of 2014, the delayering initiative 2015, on and on.

Could you distill for me what you think we have learned from these collective efforts on how to embark on successful reform efforts? What was the source of failure? What was the source of success? If you could just kind of distill it down into the bottom line for me, that would be very helpful.

Mr. LEVINE. I will give you one thought, which is, in my view, in management reform, you get what you pay for, not only in terms of dollars but in terms of time.

Top management has to be willing to devote a lot of time and stick with an issue in order to make it work.

Mr. Dunlap, when he did the SCMR [Strategic Choices and Management Review], he had to spend, I am, sure vast amounts of time. When I was DCMO and I had my savings initiative, the delayering initiative that you mentioned, among others, that was something that was a solid commitment of a big chunk of my time every day over the course of a year.

Mr. GALLAGHER. Sure.

Mr. LEVINE. And it had to continue after I left. I hope it continued after I left, but you can't take your hands off the wheel and expect it to happen. And you can't expect savings to magically appear. Frankly, you don't expect much savings in the first year.

Mr. Dunlap mentioned with BRAC that there is the 10-year payback period. With most management types of savings, you are investing upfront. And maybe it is just the time and effort of management that you are investing upfront, but you have to invest upfront in order to get payback in the long run.

Mr. GALLAGHER. Sure.

Mr. DUNLAP. If I could just augment that. I appreciate that. Three things: Number one, strong leadership, which my colleague just mentioned, vital through the duration. Second, watch the balloon. I talked about squeezing in one area——

Mr. GALLAGHER. Sure.

Mr. DUNLAP [continuing]. And it moving to another. And, third, and perhaps the most difficult for both Congress and the Department, which is the tough decisions to cut or reduce or completely eliminate missions. And that often is the difference between sort of marginal savings and significant savings but, of course, more difficult choice.

Mr. GALLAGHER. And I commend your testimony for drawing out sort of how difficult it is to cut mission relative to cost but how the two are related.

Another thing that seems to come up is a lot of these reform efforts are baked into the FYDP, so we expect savings redistributed out to support other priorities in the out-years. So can you just kind of, again to foot stomp this, how has DOD planning been impacted by these kind of phantom savings that are projected in future years but sometimes do not appear?

Mr. LEVINE. If you put a wedge in the DOD budget of savings that are anticipated and then they don't appear, what happens is you have to cut something else. And what you usually cut something else ends up being operations and maintenance. And operations and maintenance can impact every phase of your activity and your ability to perform the mission. So, if you put in savings and they are not achieved, at the end of the day, you are going to impact mission.

Mr. DUNLAP. I will just add that it is tough for any company to run if you don't have realistic projections of what you are going to do and what you are not going to do. So you want to be realistic in your planning and budgeting.

Mr. GALLAGHER. And then, if we just kind of look at, even if you adjust for inflation I believe, and you compare what we are spending today versus the 1980s, we were spending less during the Reagan building in the 1980s and getting more in terms of quantity.

Now, you could say that, just as my iPhone cost more than whatever people were using back in 1980s, I don't know, I was like 5 years old, you are paying more for a more sophisticated piece of equipment, but I do think what we are talking about today is the way in which other priorities have crowded out a lot of the things that we want to spend money on, which is to buy lethality and sort of support the direct mission of the Department of Defense.

Among those many things, it seems health care, just like it is affecting the rest of society and crowding out other priorities, is affecting DOD. As you look at the many problems we face, does health care stand out among the rest of them as an area where cost continues to outpace inflation and it is crowding out other priorities?

Mr. LEVINE. Health care is a big block, which makes it attractive to look at when you are looking at trying to be more efficient. To

me, the place you will look for a lot of savings is not big blocks but little chunks.

An example I would give you is something the Department is undertaking right now, which is just to look at all the training programs, mandatory training that they require the troops to put through. Just an extraordinary expenditure of time, which is not going to military training but is going to awareness training of this, readiness, you know, prep training for that. Sort of every program that everybody has ever thought of, it is great to think that you are going to train people, but when you have 15 different requirements and you have to go through this training and that training and the other training, you are distracting from the mission. So that is one example.

Another example I would give you is when I was the DCMO, I looked at the hiring process for the Office of the Secretary of Defense. Everybody knew it was dysfunctional, but they just lived with it because it was what the hiring process was.

One of the things I discovered was it was, one of the reasons it was dysfunctional was because, at some point, the personnel authority had been removed from the individual offices, centralized, which is great, except then what the individual offices did, each of the Under Secretaries then put their own personnel people in because they didn't trust the central function.

And what happened was they spent all their time negotiating with each other. So it would take months and months and months just to get a position description because the guy who was working for the Under Secretary for X would put together a position description, and then he would have to negotiate with the personnel people over in WHS [Washington Headquarters Services] about whether he was allowed to say that. And they'd go back and forth and back and forth over a period of months before they'd even get a simple position description written.

So you have to think about consequences of your actions. Sometimes you centralize; sometimes maybe centralizing isn't such a great idea. And you have to get into the nitty-gritty of processes like that. And I had an approach that I was taking to untie that knot, but you can't do that without analyzing the actual process and digging in.

You don't expect great savings, but if you never look at processes like that, then everybody does what they did with the hiring system, "Well, it is just something I have to look at, something I have to live with." If nobody looks at it and nobody takes it on, that will stay that way forever.

Mr. GALLAGHER. Thank you.

Mr. DUNLAP. I will just offer to you the Defense Health Agency, somewhere around $34 billion, it is 25 percent or so of the 4th Estate defense agency cost. You know, the Congress has done a lot to work on that and reform that, you know, in recent years as well.

I agree with your assessment that personnel costs have increased dramatically recently, and that could be, you know, that could be good if we have good people. That may make sense. But health care is certainly one of those areas that has increased at a rapid rate.

Mr. GALLAGHER. Thank you both.

The CHAIRMAN. Mr. Veasey.

Mr. VEASEY. Thank you, Mr. Chairman.

I want to ask both of you about your assessment on the role of civilians and military personnel and contractors in performing the work of the 4th Estate. And do you think that we have the right proportion of each of them to do the work of defense agencies and field agencies?

Mr. LEVINE. Military, civilian, and contractors are all vital parts of the DOD workforce.

We rely on all of them, and we need all of them. They perform different functions, and we don't always have it right. There are some functions that we put military people in which could really be performed by civilians and contractors and would be much less expensive.

There are also functions that we have contractors performing where we really need to have organic capability and we cannot and should not be relying on contractors. And you need to have that ability in-house.

Your civilian workforce tends to be your institutional knowledge, and if you divest too much of your civilian workforce and lose that institutional knowledge, you may lose the ability to do the job.

So it is not that any one of those parts, components of the workforce is more important than the other. They all have their roles, and we need to keep a balance. And, no, I can't tell you that we have it right. I think that that is an area which is ripe for re-examination, not only now but at all times. We need to constantly be on top of that to try to make sure we are perfecting that balance.

Mr. VEASEY. I wanted to specifically ask you about what you think the appropriate relationship of the newly created Chief Management Officer to the defense agencies and field activities should be, especially as it relates to the Department's cross-enterprise business functions, like civilian resource management, or service contracting?

Mr. LEVINE. I believe that the CMO, the Chief Management Officer, can play an important role in providing common services and ensuring that common services are provided in an efficient manner.

I am much less convinced that the CMO should be in the direct management chain for the defense agencies, for a couple of reasons. One is, that, to me, one of the big advantages I had when I was DCMO, the predecessor to the position, over other senior officials in the Department, was that my day job was less burdensome. The routine tasks of the office didn't fill up my inbox. So I had time and ability to get into a management improvement program, to take on the issue of hiring in the Pentagon, to take on a $7 billion savings program, because my inbox wasn't always full.

Most senior officials in the Department, the inbox is so pressing that they have maybe 5 percent of their time is discretionary that they can spend on their own initiatives.

My concern with the CMO being in direct line of authority over defense agencies is that that could overwhelm the office, that it could overwhelm the individual, and then, all of a sudden, that time that the CMO has to develop management initiatives that cut across the Department, you no longer have that time and ability.

The second concern I have is that I am not sure that the CMO right now has the institutional capability, that that office has the

institutional capability to do that. There about 100 people in the CMO office and most of them have relatively routine jobs. They are not the people you would want to have if you were managing all the defense agencies.

So, if you are going to give the CMO that task, the first thing the CMO is going to want to do is to build up new capabilities. Essentially, you will be building a new office and a new bureaucracy. I am just not sure that that is the direction that you want the CMO to go. I won't tell you it is the wrong thing to do. There are other factors that weigh in the other direction, but those are my concerns with putting the CMO in the direct line of authority.

Mr. VEASEY. Thank you very much. That is very good to know. Thank you, Mr. Chairman. I yield back my time.

The CHAIRMAN. Mr. Jones.

Mr. JONES. Mr. Chairman, thank you very much. And thank you, gentlemen, for your research, your hard work, and being here today to give us, hopefully, some ideas to make DOD more efficient.

You know, recently in Stars and Stripes, there was an article written that DOD could not locate 95,000 vehicles in Afghanistan. That equaled out to about $3.1 billion lost.

Okay. One other story, and then I have a question. Years ago, John Sopko testified in front of the Senate that DOD spent $6 million to buy nine goats. Well, it is almost the end of it. Nobody ever picks up to say: Well, how are we going to recover the money? How are we going to recover the vehicles? It just is endless.

My question to you, because you are an expert in the areas that you are talking about today, why do we in Congress keep increasing the budget? I am all for the warfighter. He or she deserves whatever we can give them. But the system itself continues to spend and spend in a way that there is no accountability.

What would be wrong with putting the responsibility in the Office of the Secretary of Defense—it wouldn't happen overnight, but in a period of time—and saying to the Secretary of Defense: You have the responsibility for accountability. If you cannot account for 95,000 vehicles in Afghanistan, then we are going to take $3.1 billion out of your budget.

How does Congress—and I have heard some your comments, I was late getting here, sorry, but some of your comments—how do we put the responsibility? It can't be on Congress, because we will always continue to fund the military because of the families and the warfighting. That, I understand. I am in favor of that. But somewhere along the way, somebody has got to be accountable.

And I don't think it is going to be Congress, to be honest with you. I think we have done a great job under Democrat leadership and Republican leadership of trying. But until you put one Department or one person overseeing the problem, and that person knows if we can't account for moneys that we have lost, then we are going to lose money from Congress the next year.

How can we, as the American people, not Congress, how can we get a control of the waste, fraud, and abuse if sombody is not held responsible?

Mr. LEVINE. Congressman, I suppose that, in a way, we are all responsible. Before I went to the Department of Defense, I spent better than a quarter century working for Senator Levin and help-

ing write legislation and addressing defense management, so I suppose that makes me responsible and accountable.

I don't know, I don't know how you do it, other than to say that the idea that you do it by cutting the defense budget, to me, doesn't work. If you are unhappy with performance, you have got to go after that performance, but to say you are going to take away $3 billion, well, that is going to come right out of the mission and undermine the mission.

So I don't know what the right answer is, but I am pretty sure that is not it.

Mr. DUNLAP. I will just offer, and I think you alluded to some of this, which is a theme that we had been talking about, which is strong, you know, leadership, both at the top and throughout and accountability.

So I certainly underscore the need to have people that oversee this in a way that care about the mission, care about accountability and waste and abuse and fraud and so on, and that action should be taken. I can't speak to the specific examples that you are referring to, but in general and in principle, I think the Department of Defense certainly wants to be accountable and not have those types of activities happen. I can't point to a specific reform the defense agencies that would affect that, but appreciate that we certainly don't want those kinds of things to happen.

Mr. LEVINE. Having said that I was accountable, I want to clarify: I never bought any goats.

Mr. JONES. Well, I am going to close in 1 second.

It is almost like you are saying there is nothing we can do about it. And that is sad for the taxpayers because we are headed for a financial collapse as a country. Then we won't have any money to pay the troops. Anyway, thank you.

Mr. LEVINE. If I could offer a ray of hope there, I think you can do something and it is what you are doing right now.

You can hold hearings. You can shine spotlight. You can identify problems. And the primary tool that Congress has to hold senior DOD officials accountable is to bring them in here and make them explain what they have done and why. And believe me: It has an impact on the way senior officials at the Department manage. They know the power that you have, and they know, if they screw up, they are going to have to come in here and report to you on it.

Mr. JONES. Thank you very much.

The CHAIRMAN. Mr. Norcross.

Mr. NORCROSS. Thank you, Chairman, and thank you for having this hearing. Although it feels like déjà vu all over again, especially to you who spent so much time.

Over the past month, I have spent a considerable amount of my time going through a couple of programs that we are running. The *Columbia* class, and certainly our warfighters in terms of dealings with ships. And chart after chart is talking about the workload of the workforce building those ships—there is going to be a downplay; we are going to have to lay off people and then rehire them; and how tough it is to keep that quality workforce—which I have to agree with. But it doesn't seem that we have that same conversation when we are talking about eliminating or downsizing

parts that affect the quality of life of our warfighters, whether it is schools, the commissary.

People by their nature are inefficient at times. They get sick. They are humans. And this seems that those who don't have the paid lobbyists tend to get hit the worst. What sort of analysis do you do in terms of the human side, how it affects our warfighters and their families when they go home? Gee, the commissary was closed; we have to drive down the street. That quality of life that affects the decision making whether or not they want to remain in the Armed Forces.

How do you go through that side of analysis, because you have extensive analysis when it comes to the efficiency of building something. How about building the human side of the quality of life for our warfighters? How do you handle that?

Mr. LEVINE. Congressman, that is the responsibility at the OSD level of the Under Secretary of Defense for Personnel and Readiness, has an entire office that looks at those functions and tries to protect them.

Within each of the military services, we have an Assistant Secretary for Manpower and Reserve Affairs who has that responsibility.

On each of the service staffs, we have a Deputy Chief of Staff for Personnel, the one who is responsible for that. At the base level, we have base commanders who are responsible for that.

We have people throughout the military system who are responsible for the well-being of people, of the men and women in uniform.

Mr. NORCROSS. We fully understand, but how does it come to you.

Mr. LEVINE. It is and has been and will be a major priority for the Department of Defense. I don't think it is a responsibility the Department takes lightly.

Mr. NORCROSS. But I don't hear you discussing that today until—whether it was, Ms. Shea-Porter, that side of the equation. How do you deal with that? Just, oh, we can save 10 percent; that is a nice goal to go for.

Mr. LEVINE. I believe that my colleague and I have tried to emphasize that, as you look at potential cuts, you have to think about the programs that are going to be cut and you have to make choices and understand the impacts of your action.

I still believe, even so, that there are things that we can do more efficiently, that we can run our business more efficiently, we can run our business more efficiently even in the personnel area, even when it comes to quality of life.

I am not convinced that the Human Resources management of the Department is efficiently run. I believe, without having done a detailed study—but I believe that we have an extraordinary number of human resource officials in the Department at every layer of the organization. And there may be so many of them that that is an overhead factor that could be looked at.

So I don't want to say, that deals with quality of life, that is off the table. We need people who care about that. We need people who work on it. We need to maintain quality of life. We need to

pay attention to that, but it doesn't mean we can't do it more efficiently.

Mr. NORCROSS. Nobody has argued with that. So let me ask you a very direct question.

Do you think that warfighters and their families, say, are happier in their service to their country than they were 10, 20 years ago? Do you any quality-of-life measurements across the entire organization?

Mr. LEVINE. There are quality-of-life surveys that take place regularly in the Armed Forces. I can't tell you what——

Mr. NORCROSS. Do you know if they are more satisfied with what they are doing today than they were 5 years ago?

Mr. LEVINE. I can't tell you offhand what the trend is over the recent period. I don't know. But I know that those surveys are taken and that information is——

Mr. NORCROSS. You certainly could tell us the inefficiencies of many of the other programs.

Here is one of the most important—I am not digging just on you. I am trying to suggest that is as important as sometimes some of the classes of submarines we buy or ships we buy, whether or not those people who call the military their home or their community is just as important.

Mr. LEVINE. Congressman, I am going to agree with you. It is not only as important; it is more important. Our most important asset is our people.

Mr. NORCROSS. Thank you. Mr. Dunlap, do you have anything to add?

Mr. DUNLAP. I will just underscore Mr. Levine's last point, which is, I think the Department's people are its most effective capability, and that should always be held in mind. It is hard to analyze sort of the hearts and minds and perspectives of people sort of in a quantitative, analytical fashion. And so——

Mr. NORCROSS. And by the way, it is not hard to measure. It is measured every day. It is called the retail outlets. They know exactly what people want. And I think we can know that information also.

I yield back the balance of my time.

The CHAIRMAN. Mr. Russell.

Mr. RUSSELL. Thank you, Mr. Chairman. And thank you, gentlemen, for being here. There is an old adage that says that which is not inspected is not done.

I would find that to be true. And I think, in many cases, when we look at the Department of Defense on the personnel side, you have got people actually that are involved with units, that are involved with programs, and they generally will try to clean up their individual agencies, much like you did when you were working in the five-sided building.

But I have to say that there is a solution here. And when you look at the Department of Defense: $700 billion annually is the norm now for its budget; $2.4 trillion in assets; 3 million Americans both in and out of uniform committed to defending our Republic, and yet only 1,700 Department of IG [inspector general] staff oversee all of that.

Well, there is part of your solution: that which is not inspected is not done. When I was a commander, both on battlefields or in peacetime, if I didn't go down and inspect my equipment or do layouts or look at motor pools or have uniform inspections or do any of those things, I guarantee you that all of those things, like plates spinning on a pole, they will wobble and they will break.

And I have to totally agree with my colleagues, Mr. Norcross and Ms. Shea-Porter. We are not going to see reform in saving or realize anything close to that by eliminating Mrs. Russell's ability to go buy a can of beans in the commissary. I think that is absurd. We have to take care of our people.

But the big ticket things, you know, why wouldn't we increase and authorize instead of 1,700 Department of IG staff or Department of Defense, why not make that 3,400. That would cost a lot less than your audit concerns.

Really? Eliminate the audit? Do you realize that the Department of Defense is the only agency ever in the United States Government that has never been audited, held to absolutely no account? I am a retired warrior. I still got a little fight left in me. But we need an audit. That which is not inspected is not done.

Here are a few things: Payment to grantee verification. Yeah, we grant all kinds of stuff. Department of Defense improper payments, just last year in 2017 accounted for $1 billion of improper payments. I wouldn't call it low-hanging fruit because we like to eat fruit, but there is some weeds that we could pull right there.

Department of Defense improper payments. Procurement management. Here is from a recent Department IG CIGIE [Council of the Inspectors General on Integrity and Efficiency] report, quote: Many DOD programs fall short of costs, schedule, and performance expectations. As a result the Department of Defense regularly pays more than anticipated, buys less than expected, and delivers less capability than its contracts require.

And we have been doing it since we have been wearing tricorn hats.

So how do we stop it? That which is not inspected is not done. And so, you know, while I appreciate your comments here, and I have great admiration for IDA and so many other great organizations that do so much to promote proper defense of our Republic, we have to have accountability.

We are not going to realize it off of, you know, Ms. Shea-Porter's dependents or, you know, Mrs. Russell being able to buy beans at the commissary. We are not going to do it that way. We are going to do it by going after these bigger programs.

And you had made mention, and I agree with your comments, Mr. Levine, about the big dollars that get sucked into these programs, and then they are locked in, and it creates enormous inefficiency. And I would suggest to you that, as a Congress, we owe ourselves to bolster programs that DIUx, SOFWERX, Skunk Works, things like that where the innovation comes out where you have something actually developed, and then it ends up going from, "Wow, this works, can we immediately get it fielded," and then we just fund it. Those things work.

Big primes provide big things, and there are lot of implements for the things that we come to rely on, but they also buy up innovation and squash it.

And so I would hope, Mr. Chairman, as we look at the problems in the future on the 4th Estate stuff, we could bolster those innovative programs to prevent some of that waste.

We are all frustrated with it. I even found myself associated with Mr. Jones' comments on Afghanistan today. That is a rare thing, being an Afghanistan veteran as well. But he is right. Our overseas contingency dollar programs, three biggies right now, where is the oversight and accountability?

Mr. Chairman, I don't really have any questions, but I would suggest that we ought to do everything we can to increase the Department of IG numbers, even double them, and we will get to billions right away.

Thank you. I yield back.

The CHAIRMAN. Do you all have any comment?

Mr. LEVINE. Mr. Chairman, I think those were helpful comments. And, frankly, I agree with the point that, if it is not inspected, it often doesn't get done.

I think that you saw some examples of that with previous management reform efforts at times. And one I would point to is, in the 1990s, we cut back quality inspection on our major acquisition programs. And what we discovered is, when we cut back the DOD inspectors, the contractors responded by cutting back their own inspectors, too. And so we had quality problems.

More recently than that, the reason that the DOD Test Resource Management Center, the DTRMC, was created because the Air Force was neglecting its major test facilities. It was allowing really valuable assets to atrophy. It wasn't putting money into them. We created an oversight entity.

So it is not just IGs who look at things. Other people have that responsibility for the inspections and oversight and can bring attention to these kinds of problems and make sure that important issues don't get neglected.

The CHAIRMAN. Let me just pick up on that for a second. Because it seems to me one of the ways we got to where we are, is, okay—and I will just take this example: Air Force is neglecting its key testings. What do we do? We create another office that is supposed to oversee them to make sure that they take care of their test resources rather than hold the Air Force accountable for doing what they should have done to begin with.

And isn't it true that, over time, that layer after layer, and we are as much responsible—"we," Congress—is as much responsible as anybody of reacting to a problem by creating a new process or a new bureaucracy.

Do you think I am wrong?

Mr. LEVINE. I think you are right, Mr. Chairman. I would say that, in the case of the Test Resource Management, that the number of people who actually review the budget—to me, budget review is a plus.

The number of people who actually review the DOD budget for the MRTFB [Major Range and Test Facility Base] is relatively small. I think that most of the budget of that entity is for invest-

ment in test capabilities—science and technology, investment in test capabilities, the National Cyber Range Complex. They maintain important capabilities.

There is a handful of people who review the service budgets. And, frankly, that is at the core of what OSD's job is, is to review the service budgets to make sure they are spending their money wisely.

The CHAIRMAN. But there is also a separate DOD entity responsible for independent testing.

Mr. LEVINE. There is, but it doesn't have the responsibility for the test base, for the investment in facilities, which is what TRMC does.

The CHAIRMAN. Okay. Let me, if I can, just go back to the beginning for just a second.

My sense is, as one looks out, not only at business but at nonprofit and essentially every sort of organization outside government, the trend in recent years has been flatter organizational structure, savings in the back office. The supporting functions of the key missions have been reduced or at least squeezed to gain greater efficiency so that more resources can go to the core mission.

And, yet, the Department of Defense, anyway, has not kept up, at least to the extent that all the rest of the world has, in that regard.

Now, do you all agree or disagree with that premise?

Mr. LEVINE. I would say that I believe that is a constant focus of defense management. I believe that was Mr. Dunlap's focus when he was doing the SCMR. That was my focus when I was working in DCMO.

Nonetheless, you are absolutely right. More needs to be done. More always needs to be done on this. I would point to the Air Force, when the Army was working on its delayering activity, the report that came back was that there would be times when the Army's Chief of Staff would issue an order to a subordinate, and it would have to go down through 13 different people. And a couple of months later, somebody would do the job and then would have to report back up to 13 different people. And by the time you played that game of telephone, the job that was done was completely different from what the Chief Staff had asked for.

So, of course, you have to look at that, and you always have to look at that because it builds up over time, and it will continue to build up over time. If you don't keep fighting, you are never going to get there.

Mr. DUNLAP. Sir, thank you. I certainly agree with the trend that I see in industry. And I think that I completely agree with you in flattening the organization can make it more effective.

I think there is a natural tension between that, as I tried to allude to earlier in my opening statement, where there is a good chunk of those agencies in the 4th Estate that are more direct mission than they are overhead function.

And so looking at sort of the overall budget of the defense agencies and activities as a whole and putting a specific target on that and thinking that that can be achieved purely through efficiencies and delayering might be optimistic because I think you really have

to cut into mission, which I commend you for thinking about that, in sort of your opening volley that you put out this week.

So I would just offer that I completely agree with you, but I also think to achieve the savings to be able to put towards the warfighter that you are talking about, you know, cuts in missions are going to have to be made.

The CHAIRMAN. Well, let me just pick up on that for just a second. Because even—and I will use Defense Health Agency as an example. Even if you say they are doing their mission, you know, perfectly, which I take your point that they are not, but even if you say they are, there are certain supporting functions within that organization, their business practices, their real estate management, their logistics, their contracting, their personnel management, and those things can be improved across-the-board.

I mean, we tend to think of it as all our charts do like this, but there are some commonalities here across the 4th Estate where greater savings and efficiency, as well as compatibility, could be achieved.

That is my premise. Tell me what you think.

Mr. LEVINE. I agree with you.

Mr. DUNLAP. I agree. We tried to get to that in 2013 as well to dissect overhead versus mission functions. And any new reform going forward ought to consider that. So I agree.

The CHAIRMAN. And to me—I don't know if it is going to be 25 percent, but that is a lot of where some of this can come from, is in some of that back office.

Mr. LEVINE. Mr. Chairman, you have two tasks, though. One is to separate the overhead from the mission and then to figure out how much you can cut the mission. And I think that looking at the defense agencies, it is important to recognize that is not the overhead. There is a lot of mission in there.

The CHAIRMAN. Yeah, no, I understand your point.

Mr. Levine, I want to just ask you once again, because you talked at the beginning about the Defense Finance and Accounting Service.

One of my suggestions in my proposal is to look at—I know them by acronyms, I have got look at exactly, the Defense Contract Audit Agency [DCAA] and DCMA—whatever that is.

Mr. LEVINE. DCMA, and Defense Contract Management Agency.

The CHAIRMAN. Defense Contract Management Agency, yeah. So we have three separate entities that are essentially dealing with finance and accounting, which, as I have tried to drill down, the difference in responsibilities is not always as clear as maybe I thought it was.

Can you comment? Because you talked a lot about DFAS, but talk about DFAS in connection with DCMA and DCAA, and I guess to some extent the comptroller's office, in how all that financial management——

Mr. LEVINE. DFAS works for the comptroller and is essentially the finance and accounting, the authoritative finance and accounting entity for the Department of Defense. So they are the ones who are responsible for DOD's books. They have to work with others to do that, but they have the accountability.

DCMA and DCAA deal with acquisition. They don't deal with finance and accounting, so DCMA is an acquisition support agency. They support program managers and contracting officers by doing onsite inspection and onsite management of contracting facilities.

DCAA is a contract audit agency. That is different from what DFAS does because what they are doing is auditing contractors. They are not doing DOD's finances. They are looking at contractor finances.

So three separate functions. Three separate agencies.

The CHAIRMAN. And I guess the essence of my question is you believe there needs to continue to be three separate agencies to do each of these discrete—or each of these responsibilities?

Mr. LEVINE. I do because I believe they are discrete responsibilities. This is an area where I think you can achieve efficiencies within any one of those, but I don't think that they can appropriately be combined.

My particular concern with combining DCMA and DCAA, for example, is DCMA is an acquisition support activity. It is part of the acquisition community, working for them. DCAA is an auditor. They have to maintain audit independence. If you combine them, then you lose the audit independence. GAO is going to say that none of their audits are valid. So you have a problem.

The CHAIRMAN. Yeah. Do you have any opinion on this, Mr. Dunlap?

Mr. DUNLAP. I think we have actually had, at least in my experience, some successes. So I mentioned DFAS consolidating, on their own, some headquarters functions, which is good for efficiency.

DCMA, you know, is often out there with the contractors, and so they will catch things in support of the contractors early, you know. DCAA kind of comes in on the back side with the audit. And they can actually report out, as they did for me, particular metrics on the cost savings that they have been able to find.

Now, that is retroactively. You know, you would like to get ahead of that in the process as well, but, you know, each have their own function.

The CHAIRMAN. Okay. Let me just ask about one other area right quick, and that is DLA. And, Mr. Levine, you talked about how you believe that DLA has made great strides in improving its management and so forth.

I am probably like a number of members, and I remember, I don't know, 2 or 3 years ago, a number of news articles about vast warehouses, they didn't know what they had, throwing things away, and a number of items that at least called into question their ability to manage their inventory and to get items where they needed to be on a timely basis.

I mean, I want you to elaborate a little. Do you think they have overcome those problems? But then, secondly, I am also looking at commercial companies that I can click on and have something delivered to my front door that day or the next day. The just-in-time sort of approach that business is using.

And so I would appreciate from each of you an evaluation of DLA's ability to meet the military's needs in the context of the way that business has also moved. Understanding, you know, DLA will never be exactly like Walmart or some business, you know. I think

we can all agree to that. But have they kept up at least with those trends?

Mr. LEVINE. So, when I first looked at DLA in the early 1990s, they were a mess. They didn't know where anything was. They couldn't track what they had. They lost things. There were reports that things would fall off of trucks, and the truck would arrive and they didn't even know something had fallen off because they had no idea what was coming.

They have made tremendous progress in their own system. They have asset visibility systems which allow them to know what they have in much greater detail than ever before, pretty much comparable to what is available in the private sector.

Not only that, they have come to rely on the private sector. So, where, in the 1990s, they used to stock things like medical supplies and hardware, they figured out 15, 20 years ago, they didn't need to stock those because they could buy them from the commercial sector. And not only could they buy them, they could rely on commercial distribution networks so that they could have hospital, medical supplies, for example, delivered directly to the hospitals, never touched by anybody at DLA. So they are dramatically more efficient today.

I won't tell you that that means that they don't have problems. They still do have problems. The one that always comes back up is the unneeded inventory that they have on hand, the excess inventory. What I would say is there is more work that can be done on that, but that is largely a consequence of demand signals that they get from the services: I think I am going to need this, and by the way, these are critical spare parts, so I have got to have delivery within 30 days when I need it. And they are a unique build, so, in a 9-month advance time, you are going to have to have them on hand or airplanes aren't going to fly.

So you have a lot of stuff that you have to have on hand. And then, sometimes, the product is discontinued; you don't need it anymore, and we are stuck with that on hand. But it is a consequence of a need to be responsive, which DLA has, because it is servicing military hardware in a way that the private sector doesn't necessarily have.

It is not just a matter of avoiding the error in terms of not buying too much; it is at least as important to avoid the error in terms of not having a critical part on hand when it is needed.

Mr. DUNLAP. DLA is an interesting case, not only because it is the second largest agency in terms of revenue that it oversees, but also sort of historically. So it, at least to my understanding and reading, it had not done well, and then it sort of turned its game around and started being much more successful in terms of logistics, delivery. It split off DCMA actually from DLA in the nineties to focus on logistics, delivery. It gained sort of more efficient, effective notoriety in the Department, and then became, perhaps recently, more of a victim of its own success where it began to be asked to take on more and more responsibility sort of outside the core logistics and fuel delivery. It provides nearly 100 percent of the fuel for the warfighters, for example.

Mr. LEVINE. And if I could, DLA now provides personnel support services. It now buys IT [information technology] systems. It does

things for other parts of the Department of Defense because they have been good at it. And so this is where they get additional assignments that can become a problem.

Mr. DUNLAP. Yeah, so I think sometimes it is hard when you take your eye off the target and forget what your core mission is and get diluted. And it, you know, might be time to think about those additional missions that were added that could possibly be done elsewhere.

In that sense, I think it might be a victim of its own success. You know, that said, I think where it can look to adopt commercial practices or use commercial vendors directly is an excellent idea, won't always work getting fuel to your ship in the middle of the ocean, but in other cases, it could be the right choice.

The CHAIRMAN. Well, just two things right quick on that. Number one, I am hopeful that our e-commerce provision, which is on the way to being implemented, can assist for basic off-the-shelf commercial items. And that can include some medical equipment which can provide that delivery.

Secondly, we are hearing recently about advances in artificial intelligence that can improve predictive maintenance so that you don't have, you know, 10 things on the shelf, just in case. But you have a database of evidence that can give you very much higher probability of when you are going to need what to repair.

And my hope is that cannot only make DLA more efficient but also, as we move towards additive manufacturing, may also play a role.

Mr. LEVINE. Mr. Chairman, I think you have correctly identified the next frontier for DLA. Better algorithms, to predict use and identifying, you know, the just-in-time manufacturing with 3D can get you out of having to stock parts in some cases.

So identifying those kinds of uses of new technology is probably the direction they need to go. But I still say, for what they are doing, they are so much more efficient now than they ever were before, and so much more efficient than a lot of other parts of the Department of Defense that they really ought to be given credit for that.

Mrs. DAVIS. Mr. Chairman, I was just going to say, I think it has been, you know, you have been excellent in trying to help us see where some of the pitfalls are in moving forward and, at the same time, that we need to move forward. And I just want to thank you for that.

I think we want to move in that way very thoughtfully, not rhetorically. You know, I think people are always concerned that you can make cuts that may sound good, but a lot of people could get hurt along the way. And I think that the discussion today has been helpful in understanding that there is a lot more to this. It is not as easy as it looks, and, yet, at the same time, it is an important thing for us to be doing. So thank you very much.

The CHAIRMAN. I appreciate it. Actually, that is what I was about to say to wind up. I think it is important to acknowledge the efforts and the progress that has been made. Both of you-all have had part of that. And the folks who work at the Pentagon now are looking to take the next steps.

We, I believe, have a key role in also pushing that along. But the purpose of all this is not just to make cuts; it is to have more resources in the hands of the warfighter faster. And as everybody on both sides of the aisle keeps reminding me, we don't have unlimited resources around here, and the world is not getting any safer.

And if we are going to meet our obligations when facing sophisticated adversaries as well as terrorism as well as the other threats around the world, we are going to have to make some of these reforms in order to meet those obligations.

Thank you both for being here.

I would just alert members that, in approximately 15 minutes, we will reconvene upstairs in 2216 for a briefing on some of the management initiatives underway at the Department.

The hearing now stands adjourned.

[Whereupon, at 11:52 a.m., the committee was adjourned.]

A P P E N D I X

APRIL 18, 2018

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

APRIL 18, 2018

House Armed Services Committee Chairman William "Mac" Thornberry
Opening Statement
Full Committee Hearing on:
Oversight and Reform of the Department of Defense '4th Estate'
April 18, 2018

Over the years, Congress has focused most of its attention on the military services and on weapons and equipment, personnel, and policy issues. We have paid relatively little attention to the rest of DOD that make up the "Fourth Estate." In fact, one expert has said, "the Fourth Estate is untouched by human hands." Yet, this portion of the Department of Defense spends about 20 percent of the budget, includes about 25 percent of the civilian workforce, and hires about 600,000 contractors.

As we are working to get more value for the taxpayer dollar, to get more resources into the hands of the warfighter faster, and to make the Department more agile and innovative in facing the wide array of security challenges before us, we cannot neglect to examine this large portion of DOD.

Yesterday, I offered a proposal to make reforms in a portion of the Fourth Estate. I look forward to receiving reactions to that legislative text.

But beyond the specific proposals, I believe that it is essential that we work across the entire Department, leaving no stone unturned, to ensure that the warfighters have the best that this country can provide and that this enormous organization is ready and able to defend our nation.

House Armed Services Committee Ranking Member Adam Smith Opening Statement
Full Committee Hearing on:
Oversight and Reform of the Department of Defense '4th Estate'
April 18, 2018

Thank you, Mr. Chairman. I wish to welcome our witnesses and to thank them for appearing today. Their expertise will undoubtedly assist us in assessing the status of the disparate collection of offices, organizations, agencies, and field activities that make up the portion of the Department of Defense that is separate from the military services—the so-called Fourth Estate.

We have a duty to manage our country's resources responsibly in fielding an effective military force. I have said many times that we must invest wisely in national security and that we must be realistic in managing limited resources. We will need to find new ways to realize savings within the defense budget, and, in doing so, we will need to scrutinize tradeoffs within the defense enterprise and make tough budgetary choices. To an extent, the new National Defense Strategy recognizes this need, as it identifies "reforming the Department's business practices for greater performance and affordability" as a primary line of effort.

The idea of searching for savings within the Fourth Estate isn't new, however. Since 2010, the Department has engaged in numerous organizational, managerial, and business practice reform efforts to establish greater efficiencies and to achieve overhead cost reductions. Although these efforts predicted material savings, it remains unclear how much money was actually recaptured. It is clear that meaningful reform requires long-term commitment.

Yesterday, the Chairman proposed legislation that would cut the Fourth Estate's funding levels by at least twenty-five percent by the end of fiscal year 2020, while exempting the military services. The Chairman's proposal would also target seven entities within the Fourth Estate for elimination, including the Defense Technical Information Center, the Office of Economic Adjustment, the Test Resource Management Center, the Washington Headquarters Services, the Defense Information Systems Agency, the Defense Technology Security Administration, and the Defense Human Resources Activity, and it would require plans for combining the functions of the Defense Contract Audit Agency and the Defense Contract Management Agency and for streamlining the Defense Finance and Accounting Services. These would be major changes.

I commend the Chairman's dedication to departmental reform, and I appreciate that his legislative proposal is intended to spark substantive public discussion. It raises many significant questions. I am concerned that, in its current form, the proposal could deprive several critical defense functions of resources and sufficient institutional capacity. I look forward to evaluating the Chairman's proposal in further detail, and I will work with him to address concerns and to improve the Department's mission performance.

Thank you, Mr. Chairman. I look forward to our witnesses' testimony.

Statement of Peter Levine
Former Deputy Chief Management Officer, Department of Defense
House Armed Services Committee Hearing
On DoD Management and the "Fourth Estate"

April 18, 2018

Mr. Chairman, Members of the Committee, thank you for inviting me here today to address defense management and DoD's "Fourth Estate" – the Office of the Secretary of Defense (OSD) and the Defense Agencies and Field Activities (DAFAs). The views I express are entirely my own, and should not be interpreted as reflecting any position of my employer, the Institute for Defense Analyses (IDA). IDA is a Federally Funded Research and Development Center (FFRDC), which means that it is considered to be a government contractor. However, I am testifying in my individual capacity as a former Deputy Chief Management Officer (DCMO) of the Department of Defense, and as such, I do not have any federal contracts or grants, or any contracts or payments from a foreign government, to report.

I understand that the current DoD management team, headed by CAPE Director Bob Daigle and Chief Management Officer Jay Gibson, has established the ambitious goal of saving tens of billions of dollars through internal reforms and efficiencies over the course of the Future Years Defense Program (FYDP). It is a worthy objective, but it won't be easy. Getting savings planned and programmed is just the first step; the hard work comes with driving through implementation and ensuring that meaningful changes are really made. Otherwise, the effort will just create a "wedge" in the budget, leaving essential work unfunded and unperformed.

When I served as DCMO, we established a more modest goal of saving $7 billion over the FYDP. We were able to achieve the goal through headquarters reductions, service contractor cuts, information technology (IT) efficiencies, and a new business model for the defense commissaries. We focused our efforts on the Fourth Estate, for the simple reason that the Services had their own DCMOs and already had their own efficiencies initiatives underway, attacking many of the same areas that we were looking at. For example, the contractor courts that we established for the defense agencies were modeled on service contract requirements review processes that were already under way in the Services.

There is still plenty of waste and inefficiency to go after, but it is hard work to attack it – especially after a decade of cuts that have brought "efficiencies fatigue" to many of the Department's senior civil servants. As former Secretary of Defense Robert Gates explained a few years ago, it is tempting to try to achieve savings through arbitrary, across-the-board cuts, but that isn't real reform. "True reform," he said, "requires making trades and choices and tough decisions, recognizing that some activities are more important than others. It is hard to do, but essential if you are to re-shape any organization into a more effective and efficient enterprise."

If you want to make DoD more efficient, you have to understand how the Department's organizations and processes work, so that you can figure out how things can be done better. For example, I tried to rationalize the OSD hiring process, expedite the system for approving congressional reports and correspondence, and eliminate bottlenecks in the approval of conference attendance for scientists and engineers. I brought in new managers for the Defense Human Resources Activity (DHRA) and the Defense Manpower Data Center (DMDC) to streamline their organizational structure and bring order to their chaotic information systems. Those kind of changes take time to bear fruit, but if successful, result in more lasting improvement than arbitrary cuts.

A couple of years ago, Secretary of the Navy Ray Mabus complained that the Fourth Estate had grown like a weed, to the point where it was consuming almost 20 percent of the defense budget. "Pure overhead," he called it. In fact, DoD spent about $120 billion for the Fourth Estate in FY 2017 – roughly 17 percent of the defense budget. These numbers can be misleading, however. One-third of the Fourth Estate budget goes to the Defense Health Program. More than a third goes to the defense intelligence agencies, the Missile Defense Agency, and U.S. Special Operations Command – hardly what we usually think of as "pure overhead." The $30 billion a year that is left is still a lot of money, but it's less than 5 percent of the total defense budget.

Large defense agencies like the Defense Logistics Agency (DLA), the Defense Finance and Accounting Service (DFAS), the Defense Contract Audit Agency (DCAA), and the Defense Contract Management Agency (DCMA) perform functions that are needed by all of the military Services. Before these agencies were established, the Department ran parallel activities in each of the

Services, multiplying the overhead and the number of people needed to perform the work. The consolidated agencies have the advantage that they are essentially businesses, so their leadership is able to focus full attention on management activities. The Secretaries of the military departments and the Service Chiefs care about efficiency, but they have to worry about a hundred other priorities, covering everything from the well-being of the troops to the vision for a future force.

DLA and DFAS – the two agencies that get the most complaints because of their size – are among the most efficient entities in the Department. DFAS took over more than 300 separate finance and accounting systems and 27,000 employees from the Services when it was established in the early 1990s. It now runs a much-improved finance and accounting operation with a handful of business systems and just 11,000 people. DLA absorbed functions from the Services over a longer period of time, but managed to go from 64,000 employees in 1992 to 23,000 in 2014, while dramatically reducing warehouse space and other overhead. That's an annual savings of about $6 billion a year in manpower reductions alone from the consolidation of the two agencies.

Unfortunately, not all DAFAs are run as well as DFAS and DLA. Three of the DAFAs that reported to me as Acting Under Secretary of Defense for Personnel and Readiness – the Defense Health Agency (DHA), the Defense Commissary Agency (DeCA), and the Defense Human Resources Activity (DHRA) – are probably more typical of the average defense agency. I found them to be heavy on bureaucracy and not good enough on performance. They are underfunded for what they do, but what they do is not efficient. DHA and DeCA have embraced congressionally-mandated reforms, while DHRA has a new leader who has initiated significant reforms himself. They're on the right track, but they still have a long way to go.

Other defense agencies were established to perform specific tasks that do not fall naturally into the purview of the military services. These include the Defense POW/MIA Accounting Agency (DPAA), the Defense Security Cooperation Agency (DSCA), the Defense Threat Reduction Agency (DTRA), the Joint Improvised-Threat Defeat Agency (JIDA), the Defense Technical Information Center (DTIC), the Defense Technology Security Administration (DTSA), and the Defense Test Resource Management Center (DTRMC). These are not business entities, so their leaders and the political appointees to whom they report in the Pentagon tend to be more interested in policy than management. I have no doubt

that these agencies could benefit from close management oversight and review, but their budgets are small, so the potential savings are also small.

So, is it possible to wring significant additional savings out of the Fourth Estate? Absolutely, but significant savings are likely to require some radical thinking. I would suggest two possible directions for the Committee and the Department to consider.

First, the Department may be able to achieve significant savings by increasing the transparency of its working capital funds. You all know the principle behind the working capital funds: a working capital-funded activity purchases supplies or performs work on behalf of operational customers, who then reimburse it for the cost out of appropriated funds. The idea is that the reimbursement process makes operational entities – the "buyers" – more aware of costs, so that they make better business decisions. Unfortunately, if prices do not appropriately reflect costs, they can incentivize bad business decisions instead of good ones. For example, it may appear less expensive for an operational command to use "free" military labor rather than paying the fees of a working capital fund, but the cost to the Department is likely to be much greater.

The DoD Comptroller establishes overhead rates for the working capital funds with one overriding objective in mind: to make sure that the working capital funds break even. As important as it is that the working capital funds do not overcharge or undercharge their customers, this system has not done enough encourage efficient operations, because the defense agency – the "seller" – is guaranteed to recover its overhead and stay in business whether or not its prices are reasonable. As a result, DoD customers often believe that they are paying too much. This problem could be addressed by establishing customer oversight councils which would require the working capital funded entities to justify their expenses to their customers and act like public utility commissions to balance customer cost concerns against long-term investment needs. Nobody has a greater incentive to eliminate wasteful spending than the person who is paying the bills.

Second, the Department may be able to achieve additional savings by increasing the responsibilities of the Defense business agencies and the working capital funds in a few key areas. If DFAS and DLA were able to save the Department billions of dollars a year through consolidation, we should be looking for other opportunities for similar economies. I would suggest a few areas for consideration.

First, administrative services. Washington Headquarters Services (WHS) was created to handle building and facilities, contracting and procurement, financial, human resources, and other support functions for the Pentagon – but even in the Pentagon, the military Services continue to perform many of these functions on their own. The Defense Media Activity has underutilized website hosting, television and audio studios, and other media support capabilities – yet the Services maintain their own media facilities and capabilities. Considerable efficiencies could be achieved by consolidating these activities in a single defense agency, which would be responsible for property management, building maintenance, purchasing and stocking of supplies, and other support activities – not only for the Pentagon, but for all defense installations.

Second, health care management. This Committee enacted important legislation a year ago to restructure the military health care system. You rightly recognized that a system developed to serve two incompatible goals – supporting the readiness of the military medical force and providing routine peacetime care to service members and their families – ends up doing neither one well. The DoD leadership is working hard to implement that legislation. However, it is hard to see how the military medical system can really be efficient as long as it has to support a 12,000-person headquarters in four separate medical hierarchies – one each for the Army, Navy and Air Force, plus one more in the Defense Health Agency. I believe that the Department should be as aggressive as possible in consolidating organizations and paring back bureaucracy as it implements the FY 2017 legislation.

Third, information technology and cyber activities. The DoD CIO is supposed to be in charge of the entire DoD information enterprise, including cybersecurity, communications, and information systems. However, most of the Department's communications and information systems are actually owned and operated by the individual components. As a result, the Services have continued to go their own way despite efforts by the CIO to institute defense-wide policies to achieve efficiencies through data center consolidation, enterprise licensing, and consolidated cloud contracts. The Department saved tens of millions of dollars by establishing the Joint Service Provider (JSP) as the single source of IT services to defense facilities throughout the National Capitol area. The savings from a nation-wide consolidation could be many times greater.

Finally, finance and accounting. DFAS was established 25 years ago to consolidate finance and accounting functions previously performed by the military services, and it has certainly made the functions that it performs far more efficient. However, the roles and capabilities on both sides have evolved considerably over the last quarter of a century. As a result, it may no longer make sense for the Services to ship transaction data to DFAS, so that DFAS can compile financial statements, to which the Services then have to certify. The Services now have modern Enterprise Resource Programs (ERPs), which they believe could perform some of the work currently provided by DFAS at no additional cost. I believe that a comprehensive reexamination of the relationship between DFAS and the military services could result in significant streamlining and improved finance and accounting operations.

I understand that the DoD leadership team has established a series of cross-functional teams to look at these and other areas. This is an important first step toward management reform and infrastructure savings, but only a first step. Intense leadership guidance and engagement is essential for a cross-functional team to produce useful results. I have no doubt that the mid-level military and civilian officials who make up these teams are incredibly hardworking public servants. Even so, they cannot be expected to sign off on disruptive changes that threaten to restructure organizations, unsettle existing relationships and reduce resources without strong and consistent encouragement and engagement from the Department's leadership.

Even if the cross-functional teams come up with solid recommendations for management reforms, it will be a huge challenge to implement them. In the absence of an all-out effort, a reform that looks good on paper may amount to nothing at all. In my time at the Department, it took me far more time to ensure that an initiative was actually implemented than it did to get the approval of the Secretary or the Deputy Secretary. Penciling in future budget cuts was not good enough: we had to work with the components and insist that they document what actions were taken, what contracts were cut, what positions were eliminated, and when.

Mr. Chairman, the new management team at the Pentagon has set incredibly ambitious objectives for themselves. If they can achieve even a small part of the

efficiencies that they are after, it will be a tremendous victory for the Department and for the taxpayers. I look forward to the Committee's questions.

PETER LEVINE

Work Experience:

2017 – Present: *Senior Fellow, Institute for Defense Analyses*

2016 – 2017: *Acting Under Secretary of Defense for Personnel and Readiness*

2015 – 2016: *Deputy Chief Management Officer, Department of Defense*

2013 – 2015: *Staff Director, Senate Armed Services Committee*

2001 – 2003, 2007 – 2013: *General Counsel, Senate Armed Services Committee*

1996 – 2001, 2003 – 2007: *Minority Counsel, Senate Armed Services Committee*

1995 – 1996: *Counsel, Office of Senator Carl Levin (D-MI)*

1987 – 1995: *Counsel, Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs*

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PREPARED SATEMENT

OF

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JOHNS HOPKINS UNIVERSITY APPLIED PHYSICS LABORATORY

BEFORE THE

HOUSE ARMED SERVICES COMMITTEE

115th CONGRESS

April 18, 2018

Preston C. Dunlap

Oversight and Reform of the Department of Defense 4th Estate

House Armed Services Committee

April 18, 2018

Introduction

Chairman Thornberry, Ranking Member Smith, and distinguished members of the Committee, it is an honor to appear before you today to discuss oversight and reform of the Department of Defense 4th Estate and in particular Defense Agencies and Field Activities. Though I currently work at the Johns Hopkins University Applied Physics Lab, I am here today in a personal capacity. In 2013, I led a review on this topic for Secretary of Defense Chuck Hagel as part of the Strategic Choices and Management Review when I was working as the Director of Program Analysis and Chief of Staff in the Office of the Secretary of Defense Cost Assessment and Program Evaluation office. While I will readily admit that my experience is now slightly dated, the principles that were true then, as well as the years prior, are still relevant today. To that end, I will walk through 6 false assumptions that plagued the efforts that I was involved in and reviewed, in the hope that you might progress more quickly past them in this effort.

Assumption #1: Defense Agencies and Field Activities (DAFA) are homogenous back offices

Each of the current 27 agencies and activities was initially created to achieve greater effectiveness for missions spanning multiple military departments. These missions vary widely: from groceries to geospatial analysis, from cutting edge research to contract auditing, from

educating children to engineering, and so on. Though each organization does indeed have a "back office," and a few do function as consolidated back offices like Washington Headquarters Service, the majority conduct a variety of valuable direct missions for the Department of Defense (DoD).

Assumption #2: The appropriated budget is their total budget

Using publically available unclassified data, the agencies and activities receive roughly 10% of the DoD budget (about $65 billion). Some also receive revenue via Working Capital Funds from other DoD agencies, military departments, and individuals that pay them for services. Working Capital Funds allow consumers some choice as to where they buy services as well as flexibility and agility to respond to pressing needs. All told, they execute roughly 16% of the DoD budget, or over $116 billion, but as I mentioned in Assumption #1 each in a different way.

Assumption #3: DAFAs can take cuts and still perform the same level of mission

In a bureaucracy, it is often harder to cut a mission than it is to cut funding, but of course they are related. It is appropriate to take hard looks at doing the same mission or even more for less, but if savings are an objective, then tough decisions may have to be made about actually doing less for less. For example, commissaries (DoD's grocery stores) and DoD schools provide valued services to our military families that can be difficult to find in some overseas areas or remote parts of the U.S. That said, in the U.S., roughly 85% of commissaries are within a 15 minute drive of a grocery store or "big box" store with full grocery selections. Options for savings here might include a careful review of the business case for each domestic store or school.

Assumption #4: Peanut butter spread cuts are helpful

When faced with tough decisions, past reviews often defaulted to a peanut butter spread approach to efficiencies, such as multiple years of generic 10% cuts. A better approach is to focus on what the nation and DoD need from these organizations and enhance efforts that support that vision and take efficiencies in lower priority or obsolete missions.

Assumption #5: Reorganization is the answer

Is it wise for the same person to oversee an Intelligence agency, a grocery store, and the Missile Defense Agency? Maybe. Our study examined the implications of complete consolidation of all agencies under one leader versus grouping them by mission similar to the way they are today, and we found it helpful to consider both the personal expertise of the senior leader – could they be knowledgeable about all the missions in their portfolio – as well as the benefits and drawbacks of remaining aligned by related missions to each 4th Estate principal.

Assumption #6: It's all about metrics and reporting requirements

The agencies and activities have been required to provide a biannual report to Congress and in the past also produced metrics that were tracked by organizations like CAPE and the, at the time, Deputy Chief Management Officer. However, ultimately there is no substitute for strong leadership. In our experience, the vision and experience of a leader who understands the missions of the particular DAFA or DAFAs they oversee, and the need for greater efficiency can, together with oversight and support of Congress, drive the greatest reforms.

Potential next steps

Going forward, any reform efforts might consider these and other lessons learned. Though there are many DAFAs to focus on, considering them in 4 categories could help guide efforts:

- First, the largest agencies that have not recently been reviewed (Defense Logistics Agency and the Defense Information Systems Agency),
- Second, missions that might be partially accomplished outside the government (Defense Commissary Agency and DoD Education Activity at least domestically),
- Third, missions that are still split between the 4th Estate and the Services (Intelligence Agencies and satellite development organizations – in these cases in coordination with the Director of National Intelligence), and
- Fourth, those currently decentralized missions that may require increased leadership focus given advances in both threat and technological opportunities, such as artificial intelligence and hypersonics, which could be accomplished either within existing structures like the Defense Advanced Research Projects Agency and Missile Defense Agency or with a new office.

Conclusion

Ultimately, for any reform to be successful it must be true both to the taxpayer and to the talented men and women in uniform who put themselves in harm's way to defend our nation around the globe. Thank you again for the opportunity to testify before you today on this important topic and I look forward to your questions.

Preston C. Dunlap
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Mr. Preston C. Dunlap is the National Security Analysis Mission Area Executive of the Johns Hopkins University Applied Physics Laboratory. In this role, Mr. Dunlap oversees national security analysis, policy development, and innovative technology research and development at all levels of classification. His leadership directly impacts the direction and investments of the broader national security enterprise and increases the effectiveness of national security operations and missions. As the National Security Mission Area Executive of the nation's largest University Affiliated Research Center, Mr. Dunlap serves as a trusted agent for the Department of Defense, the Intelligence Community, the Department of Homeland Security, and other federal agencies. He shapes senior leadership decision-making through initiatives such as leading the White House Senior Decision Making Game on assured space operations. He builds partnerships within the Laboratory and across government to further national security technology development, rapid prototyping, commercial technology integration, exercises, and operational planning to address the challenges of both today and the future.

Before joining the Laboratory in 2014, Mr. Dunlap was a career member of the Senior Executive Service within the Office of the Secretary of Defense, where he held the roles of Director of Program Analysis, Chief of Staff to the Director of Cost Assessment and Program Evaluation, Deputy Director of the Simulation and Analysis Center, and Senior Analyst for Intelligence, Surveillance, Reconnaissance and Space Programs. He shaped the Department of Defense Research and Development, Procurement, and Operations and Maintenance five-year budget plans as well as associated national security budget plans in the Intelligence Community and the National Nuclear Security Administration. He led Strategic Portfolio Reviews of major cross-cutting issues and current operations analysis of direct interest to the Secretary and Deputy Secretary of Defense. Mr. Dunlap served in a lead role formulating Secretary Hagel's Strategic Choices and Management Review (SCMR) and the 2006, 2010, and 2014 Quadrennial Defense Reviews. Mr. Dunlap also oversaw cross-portfolio issue teams for Program and Budget Review, shaping billions of dollars of decisions by the Deputy Secretary of Defense and codifying them in the President's five-year budget plan.

As the Chief of Staff for Cost Assessment and Program Evaluation, Mr. Dunlap helped shape senior leader decision-making through the Deputy Secretary of Defense Management Action Groups (DMAG), served on the Secretary of Defense's team that prepared the defense budget rollout to the White House, Congress, and the public, and co-authored the President's Budget Defense Budget Priorities and Choices white paper. He is also known for his leadership of the Long Range Strike Front End Assessment for Secretary of Defense Robert Gates that resulted in development of a future long-range strike bomber, weapons, intelligence, electronic warfare, and communications capabilities.

Mr. Dunlap earned a Master of Science degree with honors in Operations Research and Management Science from George Mason University and a Bachelor of Arts degree in both Computer Science and Political Science from Duke University. Mr. Dunlap is a graduate of the Federal Executive Institute and the Harvard University National Security Senior Executive program, and served on the Board of the Massachusetts Institute of Technology Seminar XXI. Mr. Dunlap's awards include the Secretary of Defense Medal for Meritorious Civilian Service and multiple citations of both the Secretary of Defense Medal for Exceptional Civilian Service and Secretary of Defense Award for Excellence.

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