

Stenographic Transcript
Before the

COMMITTEE ON
ARMED SERVICES

UNITED STATES SENATE

HEARING TO RECEIVE TESTIMONY ON THE FINAL REPORT
OF THE PLANNING, PROGRAMMING, BUDGETING, AND
EXECUTION REFORM COMMISSION

Wednesday, March 20, 2024

Washington, D.C.

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6
7 U.S. Senate

8 Committee on Armed Services

9 Washington, D.C.

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11 The committee met, pursuant to notice, at 9:30 a.m. in
12 Room SH-216, Hart Senate Office Building, Hon. Jack Reed,
13 chairman of the committee, presiding.

14 Committee Members Present: Senators Reed [presiding],
15 Shaheen, Blumenthal, Hirono, Kaine, King, Warren, Peters,
16 Manchin, Rosen, Wicker, Fischer, Cotton, Ernst, Sullivan,
17 Scott, Tuberville, Budd, and Schmitt.

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

3 Chairman Reed: Good morning. The Committee meets
4 today to discuss the Planning, Programming, Budgeting, and
5 Execution, or PPBE, Reform Commission's final report. The
6 PPBE Reform Commission was established in fiscal year 2022
7 National Defense Authorization Act, and was tasked with
8 assessing the effectiveness of the PPBE process in
9 developing policy recommendations that will enable the
10 Defense Department to more rapidly field the operational
11 capabilities. The Commission was led by The Honorable
12 Robert Hale, who was here previously, as Comptroller and
13 Chief Financial Officer at the Department of Defense, and
14 The Honorable Ellen Lord, who served previously as Under
15 Secretary of Defense for Acquisition and Sustainment. The
16 Commission's Executive Director was Ms. Laura Sayer, who
17 served previously as Comptroller for Navy Installations
18 Command, Navy Facilities Engineering Systems Command, and
19 Office of Naval Research. I am pleased to welcome each of
20 these witnesses today, and would like to express my
21 appreciation for the Commission's expert bipartisan work.
22 Thank you.

23 Much of the discussion around the 2022 National Defense
24 Strategy focuses on long-term strategic competition with
25 China and Russia, particularly the capabilities we need to

1 develop for any potential high-end fight and the key role of
2 our alliances and partnerships. But the NDS stresses
3 another less-glamorous, albeit it equally important,
4 transformation that must occur if we are to succeed in
5 strategic competition, that is the need to reform the
6 acquisition and financial performance of the Department of
7 Defense.

8 The Department's PPBE process has long been the core of
9 how defense programs are developed, how they are resourced,
10 and how those resources are executed. However, the PPBE
11 process has remained largely unchanged for more than 60
12 years, since Secretary Robert McNamara put it in place in
13 1961, when it was a cutting edge planning tool. Today it is
14 much too slow and cumbersome to keep pace with the
15 Department's requirement to develop new technologies in a
16 rapid, agile manner, and to make decisions in a more dynamic
17 environment.

18 Recognizing this, the Committee has made reforming the
19 PPBE process a priority for several years. Our first step
20 was to create and direct an independent commission to review
21 and make recommendations for PPBE reform. In addition, the
22 Committee has worked to provide the Department with more
23 flexibility while maintaining transparency and
24 accountability.

25 With that in mind, I am encouraged by the thoroughness

1 and practicality of the PPBE Reform Commission's final
2 report. The report includes 28 recommendations, largely
3 intended for the Defense Department to make changes
4 internally. Notably, the report's first recommendation is
5 to replace the PPBE process altogether with a new defense-
6 resourcing system. As the report states, one of the most
7 consistent concerns the Commission heard over the past 2
8 years is the current PPBE process lacks agility, limiting
9 the Department's ability to respond quickly and effectively
10 to evolving threats, unanticipated events, and emerging
11 technological opportunities. I understand that a new
12 defense resourcing system would build on the PPBE's
13 strengths while addressing such weaknesses. Before we
14 consider the variety of forms that have been suggested it is
15 important to first understand the context of the
16 Commission's work and the analysis that produced these
17 recommendations.

18 For my colleagues' awareness, instead of the usual 5-
19 minute witness opening statements we have asked Mr. Hale and
20 Ms. Lord to provide a presentation of the work of the
21 Commission and its recommendations. We will then turn to
22 our usual round of questioning.

23 I would like to again thank all of the members and
24 staff of the Commission, and I look forward to your
25 testimony. Now let me recognize the Ranking Member, Senator

1 Wicker.

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1 STATEMENT OF HON. ROGER WICKER, U.S. SENATOR FROM
2 MISSOURI

3 Senator Wicker: Thank you, Mr. Chairman, for convening
4 this hearing, and thank you, sir, for sponsoring the
5 Planning, Programming, Budgeting, and Executing Commission 2
6 years ago. While the acronym PPBE may sound strange to
7 most, the subject is timely. This system governs the
8 process that the Pentagon uses to choose what to buy.

9 For over six decades, the Department of Defense has
10 operated a byzantine budgeting system with virtually no
11 modifications or improvements. This system was built for a
12 past era, an age in which software did not exist, and the
13 United States government, not the commercial sector, was the
14 largest research and development spender. This system was
15 predicated on the Pentagon's ability to predict the future
16 with near certainty 2 or 3 years out. That task is
17 impossible because today's threat environment evolves too
18 quickly.

19 There is undoubtedly some merit to parts of our
20 existing budget system, but a crucial point is that for too
21 many years it has failed to deliver key weaponry at relevant
22 speed and scale. It has also failed to connect strategic
23 choices to budgets, and it has stifled trust between
24 Congress and the Pentagon. In other words, it is long past
25 time for an update to the Department's budgeting system.

1 I applaud the Commission for its thorough, timely, and
2 realistic work in three main areas. First, the Commission
3 recommends that DoD improve its ability to ensure that
4 budget is based on strategy. Today it seems that the
5 National Defense Strategy is little more than a suggestion
6 to those in the trenches, building the defense budget. This
7 is why we still see such a significant disconnect between
8 the strategy's focus on China and the relative lack of
9 investment in key capabilities and infrastructure that we
10 need to face China in the Pacific.

11 Our current budgeting system does not foster, let alone
12 require, cooperation between our military services, even
13 though that is how they will have to fight. A move toward
14 capability-based portfolios and mission-based budgeting
15 would alleviate part of this problem. Why have 27 projects
16 based on disparate requirements when we could simply create
17 programs based on missions, like air defense, and budget for
18 it that way?

19 Fixing these two problems will require senior
20 leadership, attention, and commitment, combined with hard
21 work by our Budget Office.

22 Secondly, the Committee recommends significantly
23 changing parts of the budgeting process. It should be a
24 process that fosters innovative technologies and activities.
25 This might mean adjusting reprogramming restrictions to

1 allow the military to adapt, in weeks, not months, including
2 under continuing resolutions. It may also require
3 thoughtful consolidation of related activities across the
4 budget by department.

5 Last, but certainly not least, is the subpar
6 relationship between Congress and the DoD. Today the
7 transmission of budget data is episodic, manually input, and
8 often ineffective. It is 2024, and we should have the
9 ability to share information in real time, digitally,
10 between the executive branch and Congress. This is not
11 difficult from a technological standpoint. It just requires
12 a culture change.

13 To achieve all this we will need a more modern budget
14 workforce. It is clear to me that the comptroller workforce
15 cannot execute this antiquated budget process and reform at
16 the same time, nor should we expect them to. This will
17 require significant up-front investment and new hiring
18 authorities, but it will save us tens of billions of dollars
19 in the decades to come.

20 So I look forward to the different format today, Mr.
21 Chairman. We have got our work cut out for us, to listen to
22 the experts here, to reform the Pentagon's budgeting system,
23 and this Commission has given us a great starting place. I
24 look forward to the witnesses' testimony and to hearing
25 their ideas for our consideration.

1 Thank you, sir.

2 Chairman Reed: Thank you, Senator Wicker.

3 As I indicated, Secretary Hale, Secretary Lord, Ms.

4 Sayer, you have 20 to 30 minutes to give us an overview, and
5 then we will begin our questioning.

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1 STATEMENT OF THE HON. ROBERT F. HALE, CHAIR; THE HON.
2 ELLEN M. LORD, VICE CHAIR; AND LAURA C. SAYER, EXECUTIVE
3 DIRECTOR

4 Mr. Hale: Thank you, Chairman Reed, Ranking Member
5 Wicker, all the members of the Committee. We are pleased to
6 be here today to give you an overview of the final report of
7 the PPBE Reform Commission. We will do that with a
8 briefing. I think you have hard copies in front of you, and
9 then we will answer your questions. Ellen and I will do the
10 briefing and then ask Lara to join us as we answer
11 questions. Ellen will deliver the first part of the
12 briefing and I will finish it up. So Ellen, over to you.

13 Ms. Lord: Thank you, Bob. Chairman Reed, Ranking
14 Member Wicker, members of the Committee, on behalf of the 14
15 commissioners we are very appreciative that you are taking
16 time out of your schedules to meet with us here today.

17 We speak after 24 months of work, over 400 meetings,
18 speaking with over 1,100 individuals. We are very pleased,
19 as a commission, to have over 200 years of experience on our
20 staff. We initially hired Lara to be our Executive
21 Director, and she, in turn, brought along other
22 practitioners. So we did not have people looking things up.
23 We had people with experiential learning, who had been
24 through the PPBE process and know where its strengths are
25 and where its weaknesses are.

1 Our Commission believes we are here at a critical
2 junction in history. We have emerging technology, whether
3 it be software, hardware, services, we have new business
4 models, all rapidly evolving. And we also have rapidly
5 evolving geopolitical threats. This is putting us in a
6 position where we have to be able to leverage American
7 ingenuity and reduce it to warfighting capability to be
8 quickly fielded. We believe that although today's PPBE
9 process has many strengths in terms of engaging a variety of
10 stakeholders and very comprehensively looking at the
11 Department's strategy, we need to make improvements because
12 we have a need for speed, and right now we do not have that.

13 So I am on page 2 here of the handout, and just want to
14 make the point that our geopolitical threats range from the
15 space domain to underwater. We have information warfare.
16 We have cybersecurity threats. We need to weave all of our
17 capability together to be able to fill the gaps our
18 warfighters have today.

19 So if we go to Slide 3, what I would like to do is talk
20 about the fact that our process takes 2 years, best case,
21 from defining a need, a requirement, to budgeting and
22 getting money ready to be obligated and go through the DoD
23 process. This does not meet the needs we have today, and I
24 think Ukraine has very clearly shown us how we can take
25 commercial technology, quickly put it in warfighters' hands,

1 be adaptive, and be very, very lethal. We need to learn
2 from Ukraine and other events around the world and make sure
3 that we are pushing down decision-making to the program
4 executive officers and the program managers. We need to
5 make sure we do not unduly constrain them with very discrete
6 budget line items, that we do not get hung up with colors of
7 money when moving from RDT&E to procurement to O&M.

8 There is opportunity here, and that is really what all
9 of our recommendations are about, the opportunity to make a
10 change. Change needs to happen both in the Department, at
11 DoD. It also needs help from Congress. And you will see in
12 the back of our report we have actually drafted some
13 legislative language to help support some of these
14 recommendations.

15 If you go to Slide 3, what we did there was talk about
16 the long time frame of our budgeting process, and we have
17 pointed out in the report that there is precedent with other
18 government agencies who have more flexibilities than we do,
19 whether it be NASA, NNSA, or the VA. They are sometimes not
20 colors of money. Sometimes there is no-year money, and
21 there is the ability to carry over money. So there is
22 precedent.

23 If we go to Slide 4 we can talk about how we organized
24 our work. It is in five different areas.

25 First, as Senator Reed mentioned, improving alignment

1 of budgets to strategy. Right now it is difficult when you
2 look at the justification books, when you look at DoD's
3 budget, to understand how this meets the National Defense
4 Strategy. Bob will talk in a little bit about some of the
5 restructuring of the budget itself that we think will make
6 this much clearer.

7 We secondly looked at fostering innovation and
8 adaptability. Right now we know that the majority of our
9 innovation comes from the commercial sector, yet we do not
10 have the budgeting flexibility and the acquisition
11 procedures, and a trained workforce, to allow us to quickly
12 capitalize on these commercial developments.

13 We also, in a third category, looked at the
14 relationship between Congress and DoD. There is a bit of
15 skepticism on both sides, it seems, when dealing with PPBE,
16 and we believe that is in large part due to the fact that we
17 do not have the data-driven conversations we need to have.
18 We often talk in generalities. We think there needs to be a
19 cadence of communications on regular basis, with very
20 transparent budgets that are sortable and searchable and
21 very clear to all.

22 That leads us to the fourth category, which is
23 modernizing business systems and data analytics. Right now
24 the Department of Defense has many, many different business
25 systems, and even within one military service it is very

1 difficult, or within one agency, to understand all of the
2 pieces and parts of the budget as well as the supporting
3 materials. What we advocate is using common systems, where
4 we have data aggregated, and we can use modern technology to
5 sort and search and apply data analytics.

6 And finally we look at strengthening the workforce.
7 The human capital at the Department of Defense is what is
8 going to field capability quickly downrange. Today we do
9 not adequately train our workforce in order to allow them to
10 use all the authorities that Congress has given them, the
11 policies that DoD has drafted, and the implementation
12 guidance through procedures. We need to leverage the
13 Defense Acquisition University and our leadership to
14 motivate and reward our acquisition professionals, our
15 budgeting professionals to embrace the change we have and
16 use what we call "creative compliance."

17 So there are 28 recommendations we have, many of which
18 can be implemented now. We are very pleased with how the
19 DEPSECDEF has embraced many of these and actually already
20 put out some guidance. So to talk more specifically about
21 our recommendations and the new budget structure and the
22 defense resourcing process I am going to hand it back over
23 to Bob.

24 Mr. Hale: Okay, Ellen. Well, thank you. Based on our
25 400 interview and research we distilled that into, as Ellen

1 said, 28 recommendations, the first of which is to replace
2 the current PPBE with a new system that we would call the
3 Defense Resourcing System.

4 So if you turn with me to Slide 5, you will see that
5 there is a fair amount of streamlining in this new system.
6 On the left you see the current PPBE process. On the right
7 you see the new DRS process. I will not go through every
8 detail here, but the size of the slides makes clear that the
9 new system is streamlined, it uses fewer documents than the
10 current PPBE system. For example, in some cases today
11 services submit two documents to codify the budgets they
12 present to the Office of the Secretary of Defense. It is
13 not clear why you need to do that. We would go to just one
14 document.

15 We also propose combining the current programming and
16 budgeting phases of the PPBE into a single phase to avoid
17 duplication.

18 In addition to streamlining, the new DRS strengthens
19 the process for establishing guidance from the Secretary of
20 Defense, telling the services how they should build their
21 buildings to align the strategy. In past years that
22 guidance has not always been definitive, and it has often
23 been late. In 7 of the last 10 years it came after
24 February, when the services were well into their budget
25 builds.

1 The Commission recommends more use of analysis and more
2 senior leader meetings in December/January to provide more
3 definitive guidance, and do so in a more timely manner. Now
4 that may sound academic, but it is not. When you are facing
5 rapidly changing threats you want to be sure that the
6 services are following the strategy that has been laid out,
7 and so you want to be able to relate budgets to strategy.

8 Turn with me now, if you would, to Slide 6. As part of
9 the new Defense Resourcing System that Ellen has described
10 and I have begun to describe, the Commission recommends
11 transforming the way that DoD presents defense budgets and
12 the way that Congress authorizes and appropriates funds. As
13 you see on the left of Slide 6, today the budgets are
14 presented first in terms of a lifecycle phase, defined in
15 terms of appropriations, procurement, O&M. They are
16 presented in those terms, and in terms of service or
17 component, plus more detail in most cases, but I will not go
18 through a lot of that.

19 As the right-hand side of Slide 6 shows, the Commission
20 recommends presenting and authorizing and appropriating
21 budgets in terms of services and components -- that stays
22 the same -- but then in terms of major capability or
23 activity areas. DoD would have to define what these are,
24 working with Congress, but examples could include things
25 like tactical aviation, ground maneuver units, surface

1 ships. Now these categories certainly not by themselves
2 describe strategies, but they are a lot closer to a strategy
3 than appropriation titles like procurement.

4 So this new presentation would help to ensure alignment
5 of budgets to strategy, which as Ms. Lord noted, is one of
6 the Commission's key goals, and I think an important one.
7 And the transformed budget would also present data that is
8 more in line with the way this Committee and most people
9 talk about and discuss the defense budget, that is in terms
10 of capability areas.

11 Go with me now to Slide 7, if you would, which lists a
12 number of new processes and changes in budgetary rules that
13 the Commission recommends in the new Defense Resourcing
14 System. I will highlight a few of them.

15 Ellen mentioned that improving relations between DoD
16 and Congress constituted one of the Commission's key goals.
17 Now based on my personal experience, when there is a serious
18 problem, DoD and Congress find ways to work together to meet
19 national security needs. But there are strains in this
20 relationship. We certainly heard a good deal about those
21 strains during our extensive interviews, and some changes we
22 think could help ameliorate these strains.

23 For example, the Commission recommends encouraging
24 improved in-person communication between DoD and Congress on
25 budgetary issues. Today there is a lot of communication

1 when the budget is sent up here, at both senior levels and
2 more junior levels, but after that the communication tends
3 to be more episodic, and my impression at more of the role
4 of the junior levels.

5 The Commission recommends at least one more round of
6 in-person communications involving senior DoD and
7 congressional personnel. This round would focus partly on
8 execution-year issues, like the omnibus reprogramming. Why
9 is it up here? What are the most important parts? Also the
10 additional communication would focus on changes in the
11 President's budget proposal. For example, new technologies
12 that may have arisen in the years since the budget was put
13 together, which could be, as Ellen mentioned, a couple of
14 years ago, and that Congress may want to take into account
15 during its markups. So we think some enhanced in-person
16 communication would be good for the process, in general, and
17 help DoD-congressional relations.

18 Let me turn to another rule change on Slide 7. From
19 DoD we heard a lot of concern about late budgets and the
20 continuing resolutions that they cause, and these adversely
21 affect budget execution and certainly congressional
22 relations. Now a broad solution to late budgets involves
23 issues well beyond the scope of this Commission, but the
24 Commission does recommend some process changes that would
25 mitigate some, though certainly not all, of the adverse

1 effects caused by CRs while still maintaining congressional
2 oversight.

3 Specifically, the Commission recommends that DoD be
4 allowed to put in place new starts while under a CR, but
5 only if all four of the defense committees and subcommittees
6 had acted on the defense budget, voted on it, and none of
7 those four bills had prohibited the new start. Similar
8 rules would govern increases in weapon buy sizes while under
9 a CR. To ensure the legality of this recommendation, it
10 would be put in place using the same informal agreement that
11 Congress and DoD use today to govern the reprogramming
12 process.

13 Let me turn next to some important business process
14 changes that would help DoD and Congress process budgets
15 more effectively. I will mention just one. The Commission
16 recommends modernizing systems that are used to communicate
17 budgetary data to DoD, and Ellen mentioned this one briefly.
18 Today that is often communicated sometimes in printed form,
19 but usually in flat files, Excel, or PDF files. DoD could
20 put in place communication enclaves or platforms that would
21 use software to transmit budget data in ways that would be
22 more searchable, sortable, easier to extract information,
23 and these approaches would reduce workload on both sides of
24 the river, assuming Congress reciprocated and returned its
25 guidance to DoD using these communication platforms.

1 We talked a lot about fostering innovation, or Ellen
2 did, and adaptability. In its final report the Commission
3 makes 11 specific recommendations designed to speed up
4 actions under this new Defense Resourcing System, and so
5 better foster innovation and increase adaptability, which
6 again is one of our key goals. I will mention three
7 examples because this is an important area for the
8 Commission.

9 The Commission addresses color of money challenges in
10 several recommendations. One of them would provide that a
11 single-purpose organization, like a buying organization,
12 would be allowed to pay all its expenses with one color of
13 money, procurement in the case of the buying organization.
14 This is similar today to what we do in DoD labs, and it
15 avoids the problem that occurs if a program manager 2 years
16 ago said, "Yeah, I might need a little O&M for sustainment."
17 He gets into execution and finds out he does not have the
18 right amount. He has got to stop and probably go to an
19 above-threshold reprogramming to get that fix, or worse yet,
20 wait for the next budget cycle, all of which slows down the
21 program. We think this would get rid of many of those
22 problems.

23 My second example of fostering innovation and
24 adaptability involves consolidation of budget line items.
25 Budget line items are the lowest level of detail that

1 Congress uses to control a defense budget. There are 1,700
2 of them in the DoD budget today, 1,000 in the RDT&E
3 appropriations alone. The Commission believes this is too
4 many for effective oversight either in DoD or in Congress,
5 and we recommend that DoD establish a working group with
6 Congress -- this has to be done jointly -- to consolidate
7 budget line items while maintaining appropriate
8 congressional oversight.

9 My final example is an oldie but it is still a goodie
10 in the Commission's view, and that is extending the
11 availability of a small portion of DoD's operating funds.
12 As you know, today all of DoD operating funds -- that is the
13 O&M and military personnel appropriations -- must be
14 obligated in the year in which they are appropriated. That
15 often leaves insufficient time to obligate funds for the
16 highest priority needs, especially when we are operating
17 under CRs consistently -- so that 1 year could be 6 or 8
18 months -- and it leads to the infamous year-end spending
19 spree, when sometimes commanders and managers obligate money
20 on lower priority programs just to avoid losing those funds.

21 The Commission recommends that DoD be allowed to
22 obligate a small percentage of its operating funds, up to 5
23 percent in each operating appropriation, in the second year.
24 That would reduce the year-end spending spree and result in
25 more effective execution of defense dollars. The Commission

1 believes that extending the availability of operating funds,
2 along with some of the other rule changes we have
3 recommended, have been debated for years, and are ready for
4 legislative action. And we hope that this Committee will
5 include at least some of these proposed recommendations in
6 this year's version of the NDAA.

7 Turn with me now to Slide 8, and I will sum up the
8 advantages of the new Defense Resourcing System. Overall,
9 the DRS will help DoD react to rapidly changing threats and
10 technology changes, and to keep pace or outpace our
11 strategic competitors like China. How does it do that?
12 Well, it does it in the way that Ellen and I have been
13 talking about, reformed design to foster innovation and
14 adaptability -- that is those 11 recommendations on rule
15 changes -- a new budget structure, so we present the data
16 the way talk about the defense budget, attention to
17 communication with Congress, and other modernization of
18 business processes so that we are using more modern systems,
19 and finally streamlining to save both time and avoid non-
20 value-added duplication.

21 Now I will turn to Slide 9, which is the last one I
22 will brief. We are concerned that if toss 28
23 recommendations into the laps of staffs that are already
24 veery busy, both in DoD and Congress, handling day-to-day
25 activities there just will not be enough time to implement

1 these changes. So our 28th recommendation is that DoD
2 establish an implementation team, divorce it from the day-
3 to-day activities, and task it with overseeing
4 implementation of those of our recommendations that DoD and
5 Congress believe should be put in place. The team should be
6 cross-functional -- there is more here than financial
7 management -- it is going to affect acquisition and many
8 other areas, it should report directly, in our view, to the
9 Deputy Secretary of Defense because in DoD if you are going
10 to make changes across functional areas that is the lowest
11 level at which it can be effectively done. And finally, the
12 implementation team should be temporary, but in the
13 Commission's view, temporary is more like 3 years, because
14 it is going to take time to implement some of these changes.

15 The implementation team should definitely be directed
16 to involve Congress in these implementation efforts. It is
17 in DoD's DNA -- and I have worked there for many years -- to
18 go and huddle together and figure out the best solution and
19 then present it to you. I think we will have more chance of
20 success if they come and talk to you along the way, get your
21 thoughts from Congress, and then eventually, obviously, they
22 need to make a recommendation for most of these and make a
23 presentation. So collaboration here is critical.

24 Slide 10 lists all of our recommendations. I will not
25 brief it, but it is a good place for me to stop and say that

1 we would be glad now to answer your questions. Ellen, Lara,
2 and I would be glad to give you our best thoughts.

3 Chairman Reed: Thank you, Secretary Hale. Thank you
4 for all for an extraordinary bit of work, and my first
5 impression is establishing a relationship with DoD and
6 Congress is critical, and within that congressional sphere
7 it authorizes and appropriates. I think we have to be very
8 conscious of that, and we will try to do that.

9 We all recognize, based on just our experience over the
10 years, and this very excellent report, that PPBE is an
11 antique. We need something better. I wonder if both
12 Secretary Hale and Secretary Lloyd, could you explain how
13 the Defense Resourcing System is just not going to be a name
14 change if we do it right, and how would it enable the
15 Department to react more quickly to the demands? We will
16 start with Secretary Hale.

17 Mr. Hale: Let me start off. It is much more than just
18 a name change, although I think changing the name is
19 important to get people thinking that, hey, there is
20 something new going on here and not just revert to the old
21 ways. But Ellen and I gave some examples. It would have
22 processes to give better guidance to the services about how
23 to structure their budgets consistent with strategy. That
24 sounds academic, but it is not. And if you are facing
25 rapidly changing threats you need to be sure everybody is

1 rowing in the right direction to counter those threats. And
2 so we need a better process, and we think we have proposed
3 one to link budgets to strategy.

4 I mentioned some of the 11 changes that are designed to
5 foster innovation and increase adaptability to change
6 threats. Those would all be part of the Defense Resourcing
7 System. And Ellen may well have more to say about this, but
8 we need some modern business practices. I gave one example
9 of better ways of communicating with Congress so we save
10 time. Congress spends an incredible amount of time figuring
11 out how to take into account the guidance you give them.
12 Some of this can be done electronically, and we have some
13 specific proposals in our report.

14 So it is much more than a name change. There is a good
15 deal of specifics. Ellen, let me ask if you want to add to
16 that.

17 Ms. Lord: Certainly, then I think I should hand it
18 over to Lara to give some more examples, because she has
19 really got the details.

20 One of the key changes is to take two processes that
21 were done separately and bring them together. This is
22 programming and budgeting. So CAPE has typically worked
23 programming on one side and then comptroller budgeting on
24 another. While the Department has made some progress
25 towards using the same business systems to enter data, we

1 say this should be one collaborative process, because right
2 now too much time, in our opinion, goes by in the Department
3 with separate groups working separately, and then later on
4 in the cycle it all crashes together to try to be
5 adjudicated.

6 So we would start the cycles earlier so that we could
7 have wargaming, we could have data analytics, and we get
8 that programming and budgeting really looking at different
9 scenarios so that the DMAG cycle, the Deputy's Management
10 Action Group, could start sooner so that the Department
11 could get to some good decisions. So that is kind of on the
12 front end of things.

13 When the Department comes up with a budget, right now
14 it is not delivered in a consistent way across the agencies
15 and the military departments. So what this system says is
16 that there will be a common platform, common software
17 platform. That does not mean one platform. That means
18 platforms that speak with one another, where you can access
19 data, and then have justification books come across
20 digitally, all together, in a consistent format, so that
21 members and staffers can very clearly understand what is
22 budgeted, what the backup documentation is, versus going
23 from one budget to another and trying to rationalize the
24 differences in presentation, and so forth.

25 So this really requires the Department to come

1 together, use digital systems for the benefit of our
2 business systems. We all talk about digital engineering all
3 the time when we talk about warfighting platforms, but we
4 are not applying that same modern technology to the business
5 side of things.

6 And as I mentioned earlier in my opening comments, we
7 are trying to get more decision authority down to PEOs and
8 PMs, so a lot of these recommendations under "foster
9 innovation and adaptability" allow them to not wait for the
10 system to catch up, so they can continue on their programs.
11 It is allowing them to move a little bit of money around,
12 with guardrails on so that Congress understands what is
13 going on.

14 So Lara, why don't you bring it home.

15 Ms. Sayer: All right. Well, good morning, and thank
16 you so much for having us here today. So a lot of what you
17 have heard described talks about streamlining within the
18 Pentagon. I wanted to highlight that the bulk of what
19 happens in the PPBE process is actually in the field, in the
20 Acquisition Program Office. And so streamlining these
21 activities will alleviate a lot of duplicative, non-value-
22 added workload in those places where we actually execute the
23 mission, put things on contract, and deliver capability. So
24 I am no longer building a program and a budget. I am no
25 longer putting together two documents that have a lot of

1 similar information. So that is where the rubber meets the
2 road, where we simplify things.

3 One other thing I would like to foot-stop about the DRS
4 process, how we have designed it, is that continuous
5 analysis will be happening throughout the cycle. It will
6 kick off rep briefings, there will be tabletop exercises,
7 there will be conversations, including the Joint Force, so
8 all of the relevant voices are heard early and often. And
9 then the feedback with evaluation strengthened by modern
10 business process will make sure we have better data-driven
11 decisions throughout the cycle. Thank you.

12 [The prepared statement of Mr. Hale, Ms. Lord, and Ms.
13 Sayer follows:]

14 [COMMITTEE INSERT]

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1 Chairman Reed: Thank you very much. Now let me yield
2 to the Ranking Member, Senator Wicker.

3 Senator Wicker: Ms. Sayer, the implementation team
4 would be composed of employees inside the Department of
5 Defense. Is that correct?

6 Ms. Sayer: Yes, sir, but they could also hire subject
7 matter experts externally, as well. We haven't designed it
8 specifically who should be. But it needs to have leadership
9 direction from the Deputy Secretary of Defense to be
10 effective.

11 Senator Wicker: Right. Right. Okay. Is there
12 anywhere in the recommendation, change recommended for the
13 Office of Management and Budget?

14 Ms. Sayer: Well, they have to be a partner with us in
15 this regarding the changes to budget structure, and we have
16 talked with them several times, and they have been
17 supportive. So they will have to be involved with the
18 implementation team as the Department and Congress work
19 together on this.

20 Senator Wicker: But Secretary Hale -- I do not know
21 what is happening here. The mic does not like me today.
22 But this would require a change of approach from OMB, would
23 it not?

24 Mr. Hale: Yes. I mean, I think the fundamental
25 process could remain unchanged, of DoD having, we would

1 hope, a joint review in the fall with OMB. But obviously if
2 we transform the budget structure it would require a change
3 agreement from OMB, and frankly, also from the Congress
4 because we would propose that you authorize and appropriate
5 in these categories, as well.

6 And as Lara said, we have met several times with OMB.
7 I am not going to sit here and tell you they bless all of
8 these, but they were generally supportive, and they are
9 certainly well aware of our efforts, and we heard what
10 comments they had to provide us.

11 Senator Wicker: Okay. And Secretary Lord [audio
12 interruption] we do not have much time. On how we would
13 treat continuing resolutions differently, basically the same
14 people who have to agree on reprogramming would be able to
15 reprogram funds in the case of a continuing resolution. Is
16 that correct?

17 Mr. Hale: We did not actually recommend any specific
18 changes associated with the reprogramming under a continuing
19 resolution. Actually, DoD has a fair amount of flexibility,
20 because the typical CRs are at an appropriation level. What
21 they can't do is, right now at least, put in place any new
22 starts. If you have got a weapons system that has a planned
23 increase in the buy size, under CR they can't go above last
24 year's level. And we proposed allowing them to do that, but
25 to ensure that we provide for congressional oversight they

1 can only do that if all four of the defense committees and
2 subcommittees had passed the bill and none of them had
3 restricted the new start or the weapons size increase.

4 So I think we did what we tried throughout, Senator
5 Wicker, and that is to balance oversight, the need for
6 oversight, with the need for flexibility, and it seems to me
7 it is a good compromise and one that -- I would like to get
8 rid of CRs. I think we all would -- but a good compromise
9 to the extent that we have them.

10 Does that answer your question?

11 Senator Wicker: It seems to me there is a school of
12 thought out there that a CR saves money as opposed to the
13 next appropriation bill, which is at a higher level. And I
14 think the panel knows what our thoughts are on that, that
15 that is actually false.

16 Do you think this is going to make a continuing
17 resolution a little more palatable?

18 Mr. Hale: We had a brisk debate on that in the
19 Commission. Do you want to mitigate adverse effects, at the
20 risk of making it a bit more palatable? And frankly, we
21 looked at history. We had one budget passed on time in DoD
22 in the last 10 years. They are just a way of life, and they
23 are being caused by factors well outside the defense budget.

24 So we finally decided that we probably are not going to
25 increase the probability of them, because unfortunately they

1 are pretty high right now, and therefore we should look for
2 ways to mitigate adverse effects. And we offered that to
3 Congress and DoD as a way to do that, while again, I think,
4 still maintaining oversight.

5 Senator Wicker: On the record, Mr. Chairman, wondering
6 if they would comment, and at large on Secretary Lord's
7 testimony, about lessons learned in Ukraine and how we would
8 be better off under this new procedure in situations like
9 the current situation in Ukraine.

10 Ms. Lord: Are we taking that as a QFR, or -- okay.

11 Senator Wicker: Thank you.

12 Chairman Reed: Thank you very much. Senator Hirono.

13 Senator Hirono: Thank you, Mr. Chairman. I think any
14 time we are talking about a pretty big change -- because I
15 think this is a big change to how DoD operates. It is more
16 than a name change. And whenever we try to impose or have
17 changes there is a lot of resistance. So you have a number
18 of recommendations. How they are going to be implemented is
19 a huge question in my mind, regarding your Commission's
20 work.

21 One question that I do have for Ms. Sayer, you
22 mentioned the need to streamlining. A lot of the
23 streamlining needs to take place in the acquisition process.
24 You just said that, right?

25 Ms. Sayer: I said it would affect the program offices.

1 They would have less non-value-added work for PPBE.

2 Senator Hirono: I thought you mentioned that more
3 streamlining can occur in the acquisition process.

4 Ms. Sayer: I was thinking of the program office
5 itself. They actually are involved in putting the program
6 together and budget. They do the cost estimates.

7 Senator Hirono: And the reason I noted your testimony
8 is that I am having a Readiness Subcommittee hearing
9 focusing on acquisition. So, you know, it says that the
10 2016 NDAA, there have actually been some 600 -- there have
11 been nearly 500 acquisition provisions to provide
12 flexibility and options to the Department to tailor
13 acquisition to be more efficient, cost effective, all of
14 that. And we even created pathways for acquisition so that
15 we focus on how they ought to be operating. And I do not
16 think very many of us here, on this Committee, know that we
17 have these pathways -- rapid acquisition, middle tier
18 authority, major capability acquisition, software
19 acquisition, defense business systems, acquisition of
20 services. We have all these pathways that are intended to
21 provide more flexibility and have our acquisition people do
22 what they are supposed to be doing.

23 So I am wondering whether we -- I think we provided
24 enough ways that they ought to be operating. So what more
25 do we need to do to provide acquisition reform? Is it the

1 people, because you also mentioned the need to train people.
2 Is it that we need to better train, for example, our
3 acquisition people so that they know how to use the
4 authorities that they already have through these pathways
5 that I just mentioned?

6 Ms. Sayer: So I absolutely agree you have given
7 wonderful authorities to the acquisition community, and
8 absolutely training is needed. We are focusing on the
9 actual resourcing, the putting the budget together, and my
10 point was just that in the program office, in the
11 Acquisition Offices, they are a big part of building that as
12 they build their program office estimate. So we are
13 actually taking extraneous workload away from them so they
14 can focus more on acquisition, probably on their training,
15 so they can end up with better contracts. So my apologies
16 for the confusion.

17 Senator Hirono: Ms. Lord, do you want to add
18 something?

19 Ms. Lord: Yes. Thank you very much. There are not
20 many flexibilities relative to acquisition and OTAs, middle
21 tier of acquisitions, software pathways are being utilized.
22 They could be much more fully utilized if the workforce was
23 trained. However, these acquisition professionals have a
24 constraint if they do not have money available at the right
25 time in their program, and that is what we are trying to get

1 at with a lot of these changes here. Acquisition
2 professionals are constrained by the color of money, if you
3 will. RDT&E can only be used for certain things,
4 procurement. And what we are trying to do is couple budget
5 adaptability, agility with the acquisition authorities to
6 speed everything along. So they are very complementary.

7 Senator Hirono: And you say that you have some
8 language, statutory language, that we can consider for the
9 NDAA?

10 Ms. Lord: Absolutely. Absolutely.

11 Senator Hirono: Okay. I am all for providing the kind
12 of flexibility that people need, that our professionals need
13 in order to do their jobs. I think, Mr. Hale, you were
14 asked about allowing a small portion, 5 percent, of
15 operating funds to be carried over for obligations, so that
16 provides some level of flexibility. What does 5 percent of
17 operating funds translate to in dollars?

18 Mr. Hale: I would have to go back to the budget. It
19 would be --

20 Senator Hirono: Are we talking about billions?

21 Mr. Hale: -- maybe \$10 billion, \$20 billion.

22 Senator Hirono: We are talking about a lot of money.

23 Mr. Hale: Oh yes. A lot of money, for sure.

24 Senator Hirono: And that is so -- yes, go ahead.

25 Mr. Hale: But remember, they would still be spending

1 this money in accordance with the budget justification books
2 that they had sent to Congress. I mean, it is not as if, in
3 the second year, they could go off and do an entirely new
4 program. They would have to follow, again, what they told
5 you they were going to spend the money on.

6 Senator Hirono: So they still have to live within
7 certain constraints.

8 You know, just this hearing points out that I like your
9 idea that there needs to be more communication with Members
10 of Congress because you have done all of this work, and me
11 questioning for 5 minutes just does not hack it. So I like
12 the idea of providing additional opportunities for us to
13 interact, even with you all, and I probably will want to set
14 up something perhaps with my Subcommittee.

15 Thank you, Mr. Chairman.

16 Chairman Reed: Thank you, Senator Hirono. The techs
17 have been working on the microphones. The advice they give
18 us, though, is if you could back a little bit it would
19 mitigate the interference.

20 Senator Fischer, please.

21 Senator Fischer: Thank you, Mr. Chairman, and thank
22 all of you for the work you have done on this Commission. I
23 noted a couple of your key changes and reforms that you
24 pointed out. One was to be able to incorporate continuous
25 planning and analysis into compiling the guidance. I like

1 that.

2 I also like where you are looking at making sure that
3 you change the budget structure so that military programs,
4 they are all listed in the same part of the budget, because
5 it is really difficult to look through the entire Department
6 of Defense budget to figure out what a certain program's
7 cost is going to be.

8 Ms. Lord, the report highlighted the importance of
9 aligning the budget request with an overall strategy, but it
10 also underscored the difficulty in achieving the symmetry
11 under the current PPBE process. Can you explain to the
12 Committee what the importance is in being able to rectify
13 that gap, really so that the Department is able to react and
14 be in a good position to compete against a technologically
15 advanced adversary like China?

16 Ms. Lord: Absolutely. We begin with deconstructing
17 the National Defense Strategy into a new guidance document
18 that is much clearer about what should be done and what
19 should stop being done. We then start much earlier in --

20 Senator Fischer: I am going to interrupt you here. Do
21 you have specific recommendations on ways to stop --

22 Ms. Lord: Yes.

23 Senator Fischer: What page was that on?

24 Ms. Lord: We will go back and look at that, but
25 overall --

1 Senator Fischer: If you could let us know.

2 Ms. Lord: -- process, we can show you --

3 Senator Fischer: Because that --

4 Ms. Lord: -- where we talk about clarity, we discuss
5 at some length perhaps the opportunities to change the
6 Defense Planning Guidance, and we give it a new name and ask
7 for a lot more specificity. So we can get back to you with
8 the pages on that.

9 But that begins with articulating clear direction so
10 that we do not have different military services and agencies
11 going and building budgets according to their interpretation
12 of what is being asked to be done, and only find out 8
13 months later that their interpretation was different than
14 senior leadership.

15 Secondly, we begin this analysis cycle earlier, and we
16 want to make sure that we leverage force structure,
17 materiel, services all together in wargaming, tabletop
18 exercises, and what-if scenarios. That requires data being
19 in a central repository or able to be pulled out to do
20 modern data analytics so that you can run hundreds of what-
21 if scenarios to optimize, if you will, force structure, the
22 number of ships, the number of planes, all of these
23 different things.

24 So the idea is to get in there and do many, many more
25 what-if scenarios earlier so that when this is communicated

1 clearly to Congress, and you ask questions, there are data-
2 driven answers to come back to justify why a certain pathway
3 was taken.

4 Senator Fischer: Thank you. Senator Hale, do you have
5 anything to add?

6 Mr. Hale: No. I think Ellen did a good job. And I
7 will add one thought. In the past years, one of the
8 problems with this Defense Planning Guidance, which is the
9 current document that is used to give instructions to the
10 services on how to build budgets, one of the problems is it
11 has been a kind of consensus document. It gets sent around
12 for coordination. The services realize they want to get the
13 right words in there so they can justify their programs.

14 One of the changes we would make is more use of senior
15 leader meetings in December and January, probably at this
16 DMAG, presided over typically by the Deputy Secretary. The
17 Deputy Secretary and the Secretary need to hear from the
18 services about their thoughts on strategy, but they also
19 need to formulate what strategy they want the Department to
20 follow, and it may not be a consensus strategy. So we think
21 more use of these DMAG senior-level meetings would help
22 produce more definitive guidance, and if we do them in
23 December and January, an on-time definitive guidance.

24 Senator Fischer: Thank you. Secretary Lord, you know,
25 I mentioned just the continuous analysis that needs to

1 happen here. I think the Department has a risk-adverse
2 culture. So how is that going to play?

3 Ms. Lord: We believe that leadership is incredibly
4 instrumental in setting culture and that there need to be
5 motivations and rewards for taking smart risks. We often
6 treat risk in terms of risk elimination versus risk
7 management. We believe we need to take smart risks, and
8 what we are doing is trying to delegate down to the PEOs and
9 the PMs who are closest to the problem, make smart decisions
10 with how to spend money, to really come up with something
11 that is of utility for the warfighter.

12 Senator Fischer: Thank you. Thank you, Mr. Chairman.

13 Chairman Reed: Thank you, Senator Fischer. Senator
14 King, please.

15 Senator King: Thank you, Mr. Chairman. First two
16 quick introductory points. Thank you for this amazing
17 amount of work and the research and analysis that you have
18 done is very impressive and important. Clearly we have not
19 had a chance to absorb this report in this short period of
20 time.

21 Secondly, with regard to your legislative proposals, I
22 do not know if you have already done this. I served for 2
23 years on the National Cyberspace Solarium Commission. We
24 have had something like 70 percent of our recommendations
25 enacted. One of our tricks was that we supplied the

1 committees with fully drafted legislation. It makes it a
2 lot easier for staff. It makes it a lot easier to consider
3 the matters. If you have not done that I recommend it. It
4 will accelerate the process over here.

5 Mr. Hale: There is some legislative language that we
6 have drafted.

7 Ms. Lord: It is embedded in the report.

8 Mr. Hale: We were fortunate to have Peter Levine as a
9 commissioner. You will recognize that name.

10 Senator King: Absolutely.

11 Mr. Hale: And he and others on the Commission were
12 helpful in drafting some of the language. If there is more
13 needed we will do our best to provide it.

14 Senator King: It will just accelerate the process over
15 here, I think.

16 It seems like if you boil it all down, speed is what we
17 are talking about, and speed particularly in a period of new
18 threats and accelerating technological change. One of the
19 problems -- and again, I do not know if you have addressed
20 it -- is we have had testimony before this Committee from
21 smaller businesses in Silicon Valley and others, that
22 basically have given up on contracting with the Pentagon.
23 They said it is just impossible. Too much red tape, too
24 much work, too many filings and back and forth, and they
25 just say, "We are just not going to bother. We are going to

1 work in the private sector."

2 I hope you address that, because that is where a lot of
3 the innovation is taking place, in smaller businesses. And
4 if they do not even come and knock on the door we are never
5 going to take advantage of those innovations. Secretary
6 Lord?

7 Ms. Lord: The flexibility that we are talking about
8 giving the PEOs and the PMs to move small amts of money
9 around helps with that. Also, one of the biggest challenges
10 small businesses have is to understand what is being
11 budgeted for and who to go see in the Department. So our
12 budget transparency in terms of reorganizing the overall
13 structure as well as making these justification books
14 consistent and totally digital will help small businesses
15 understand where they money is, who has it, and who the
16 decision authority is.

17 Senator King: That is important, but do not forget the
18 paperwork barrier, the size of a proposal. That has to be
19 addressed, as well. And I think it would do well for the
20 -- and I know we have small business programs in the
21 Pentagon, but if there were sort of focus groups with some
22 of these companies saying what are the barriers.

23 Ms. Lord: Yeah. There is actually a little bit of a
24 tangent here, but there is National Economies studies right
25 now looking at the SBIR/STTR process -- I happen to be on

1 that committee -- and we are doing just that, to try to make
2 it easier for acquisition professionals in the Department to
3 get small businesses on contract, and conversely, point
4 small businesses towards the documents and the people they
5 need to know. But definitely a key part of this.

6 Senator King: A similar point, and I think you touched
7 on this in your testimony, the importance of relying on
8 commercial, off-the-shelf products. Senator Tillis, who
9 used to be a member of this Committee, always came with a
10 spec for the handgun, which is even thicker than your
11 report.

12 Ms. Lord: I have been on the receiving end of that,
13 yeah.

14 Senator King: You know what I am talking about. But
15 that is illustrative of a problem, it seems to me, that
16 often the Pentagon feels they have to have a custom item
17 rather than an off-the-shelf item that will meet 80 or 90
18 percent of the need, and I think that is something we need
19 to address.

20 Ms. Lord: Right. That is the requirements process.
21 One size does not fit all. Not everything needs to go
22 through JCIDS. That is where the middle tier of acquisition
23 allows a senior official in a military service or an agency
24 to state a requirement themselves and move out crisply.
25 Other transaction authorities allow you to do that, as well,

1 without clearly defining a requirement, just a general need.

2 So the adaptive acquisition framework does empower the
3 Department to do that. My opinion is the challenge is the
4 motivations and rewards are not there for the workforce to
5 do that. People are not being recognized who are using
6 these, and the workforce is not trained to use these as well
7 as they could, in addition. So we have a leadership
8 opportunity here.

9 Senator King: I agree. Final point, and I am out of
10 time. I think we could do well to have a higher degree of
11 relationship and cooperation with allies who are doing
12 similar research, producing similar problems, facing similar
13 problems, rather than say we have to do everything here,
14 working with great --

15 Ms. Lord: Well, absolutely, and I will say ITAR is a
16 little bit of a challenge there, so we need to work with the
17 State Department, as well.

18 Senator King: A huge challenge. Thank you. Thank
19 you, Mr. Chairman.

20 Chairman Reed: Thank you, Senator King. Senator
21 Cotton, please.

22 Senator Cotton: Thank you all for appearing here and
23 thanks to the Commission for a monumental job here.

24 Mr. Hale, we all know that continuing resolutions
25 disproportionately affect the Department of Defense in a

1 negative fashion, both in terms of lost money and lost time.
2 Congress continues to pass continuing resolutions, however.
3 I have sponsored, in the past, NDAA provisions that would
4 allow the Department of Defense to move forward with some
5 programs under a continuing resolution, but I think there is
6 more to be done. Could you talk about which of your
7 recommendations are most important to mitigating the
8 negative impact of a continuing resolution?

9 Mr. Hale: Senator, we made a specific recommendation
10 to do that, and the parts of it that we thought where we
11 could give DoD some more flexibility under a CR but still
12 maintain congressional oversight, and they are to allow some
13 new starts to take place under a CR, but only if all four of
14 the committees, Defense subcommittees and committees, had
15 passed the bill on the budget and none of them had
16 restricted the new start.

17 And similarly for increases in buy sizes of weapons,
18 which now are limited -- if you have got a program that is
19 growing in the budget years it cannot go higher than last
20 year while under a CR. We would allow that but again, only
21 if all four committees had passed bills and none of them had
22 restricted the buy size.

23 So we thought that was a good balance between oversight
24 and some flexibility for the Department. But the best thing
25 would be to get rid of these darn things. I mean, we cannot

1 mitigate some of the worst of the problems with CRs. I did
2 not think anybody can. It is the uncertainty about not
3 knowing how much you are going to have to budget, and this
4 year is a classic one. Are we going to be at the 1 percent
5 below or at the proposed level for DoD? And when they do
6 not know that they are almost having to try to manage two
7 budgets at the same time. That is a real problem.

8 So we will try to mitigate them, and I think these are
9 good ideas, and I hope you will consider them, but the best
10 thing would be to try to find some way to do away with CRs.

11 Senator Cotton: I agree. How would you respond to
12 those Senators or Congressmen who would say, "I understand
13 you tried to strike a balance, but you didn't strike a good
14 enough balance." There is not enough role for oversight
15 here in what you have proposed.

16 Mr. Hale, if you want to take that, and Ms. Lord, I saw
17 you nodding your head vigorously so I would like to hear
18 your response too.

19 Mr. Hale: We proposal we made, I think, strikes a good
20 balance. As I said, all four committees would have had to
21 have acted, and frequently by the time you are into a CR for
22 several months all four of the committees and subcommittees
23 have acted. So they could have expressed their will, and if
24 they restricted a new start then you would not be able to
25 put that one in place while under the CR.

1 This is not unlike what we did many years ago, back I
2 think when I was working for Congress, when we had a lesser
3 of House or Senate kind of language in continuing
4 resolutions, which provided that any bill that struck a
5 program at a lower level had to be adhered to during the CR.
6 So I think we have balanced the oversight well, and I would
7 urge you to consider putting that one in place.

8 Senator Cotton: Ms. Lord?

9 Ms. Lord: I do not believe we could let perfect be the
10 enemy of good enough here, and our recommendation recognizes
11 Congress' requirement to oversee taxpayer dollars, and we
12 are only talking about moving on new starts where SAS, HAS,
13 HACD and SACD have not marked. So that does preserve
14 Congress' oversight in our mind.

15 Senator Cotton: Okay. Thank you. I remain concerned
16 that certain cultural attitudes and bureaucratic inertia at
17 the Department of Defense could leave many, maybe most, of
18 your recommendations on the cutting room floor. It would
19 not be the first time that that has happened with a
20 significant report like yours.

21 What do you think are the biggest internal challenges
22 at the Department to making these changes? Ms. Lord, again
23 I see you nodding, if you want to take it, and then maybe if
24 we have enough time --

25 Ms. Lord: Thank you. First of all, we tried to make

1 sure we had stakeholder engagement during this whole
2 process. The first individual at the Department we talked
3 to was the DEPSECDEF, and we have gone in and briefed CAPE
4 and Comptroller, many different individuals, and we have
5 gone back prior to both the interim report release in August
6 as well as the report released in March to talk with the
7 DEPSECDEF.

8 We believe there has to be an implementation team
9 established, and that needs to come from the DEPSECDEF's
10 office so that there is the authority there. There has to
11 be accountability, and we have to have metrics. Without
12 data we have nothing. And so we need to put out a time
13 frame.

14 Now I will say that we were extremely pleased that
15 right after the interim report, Kath Hicks put out a
16 directive memo asking her team when and how they were going
17 to implement the actions that could be implemented now, and
18 we know that there have been legislative proposals in the
19 '25 budget that six of them reflect our recommendations.

20 But I think there has to be one human being responsible
21 for this, and there has to be accountability with data-
22 driven reports on a regular cadence of communications.

23 Senator Cotton: Thank you.

24 Mr. Hale: Can I add to that? I think you can play a
25 role in this, this Committee and the Congress. Some of

1 these can be legislated, and I would hope you would consider
2 them, either in the authorization or the appropriation
3 bills, and that will certainly give guidance to the
4 Department and force their hand. So you can play a role
5 here.

6 Senator Cotton: Thank you.

7 Chairman Reed: Thank you, Senator Cotton. Senator
8 Warren, please.

9 Senator Warren: Thank you, Mr. Chairman. So you three
10 are testifying here today because Congress directed your
11 Commission to take a close look at how the Pentagon
12 allocates its budgetary resources and make recommendations
13 about how the process could be improved. And as I read most
14 of your recommendations it is about providing increased
15 flexibility for DoD to move money around to different
16 programs as it sees fit, outside of what Congress
17 specifically authorizes.

18 This is troubling because if anything, the Pentagon,
19 arguably, has too much flexibility as it is when it comes to
20 spending taxpayer dollars. And I just want to run through a
21 few examples.

22 The Chief Financial Officer's Act requires annual
23 financial audits for every government agency. Mr. Hale, you
24 have spent years working on DoD's financial management
25 issues. Has the Department of Defense ever passed an audit,

1 ever?

2 Mr. Hale: DoD, as a whole, not, but the Marine Corps
3 just passed, got an unmodified opinion, and a number of
4 other agencies. DoD, as a whole, not.

5 Senator Warren: Good for the Marine Corps, but I have
6 got to tell you, that is a terrifying answer because not
7 only has DoD not, what you are really saying is only the
8 Marine Corps has, which is a way of saying all of the other
9 divisions, as well, have not.

10 You know, in other words I think we can say from that
11 DoD is not doing a good job of keeping track of where its
12 money goes. So it is puzzling that despite this failure of
13 basic internal controls this Commission is asking for DoD to
14 have significantly more flexibility to move money around.

15 So let's look at another example. Each year DoD
16 proposes a budget to Congress, but once that overall budget
17 is submitted, individual divisions within DoD get a second
18 bite at the apple. They can come to Congress separately and
19 ask for more funding, so-called unfunded priorities.

20 Mr. Hale, do you know how many other agencies do this
21 kind of two-bite funding, once for the overall department
22 where all of the balances are made about priorities, and
23 then a second time for practically every section in the
24 Department to come advance its own priorities, without any
25 curbs on the balances among them?

1 Mr. Hale: I am not aware of what other departments do.
2 I will say that the unfunded --

3 Senator Warren: So do you know of any that permit that
4 two-bite funding?

5 Mr. Hale: I do not, but that does not mean there are
6 not.

7 Senator Warren: Well, I will tell you the answer, as
8 best I can figure it out. It is zero. This is something
9 that no one else does, and why? Because it is a terrible
10 idea, and it leads to chaotic budgeting. DoD itself has
11 supported my bipartisan bill to get rid of this approach.
12 Nowhere else is this form of budgeting permitted, and yet
13 your Commission report just kicks the can down the road. I
14 mean, some watchdog you turned out to be here.

15 So I want to do one more example. The Air Force
16 recently reported that its new intercontinental missile
17 program is going to cost nearly 40 percent more than
18 originally expected. They have admitted that they started
19 out with bad data. Now I think it may be worse than that.
20 I think there is an open question about whether Congress was
21 purposely misled about the real costs of this project in
22 order to get Congress to approve it.

23 Mr. Hale, does giving the Pentagon more flexibility to
24 move money around from program to program make it more
25 likely or less likely that DoD will provide accurate cost

1 estimates for major programs?

2 Mr. Hale: I do not think it is going to affect the
3 accuracy of the programs because they are moving money
4 around within the guidelines of the justification books, and
5 they told you how it is going to be spent. It would not
6 solve some of the problems that you are raising, but I do
7 not think it would worsen any of them, and it would allow us
8 to react to technological change, or allow DoD to react to
9 technological changes in ways that will, I think, strengthen
10 national security.

11 Senator Warren: Well, I have to say, since your job
12 was on budgeting, I am a little alarmed at your casual
13 approach to the implications of being able to do this. If
14 DoD has more tools to cover up its mistakes then I think it
15 becomes even more tempting to lowball the costs and the
16 risks of a new program. This looks to me like the perfect
17 recipe for mismanaging tens of billions of dollars.

18 Look, I am all for improving how DoD allocates its
19 budget, but I do not see how these recommendations get us
20 there. It seems to me that DoD has plenty of flexibility
21 when spending taxpayer dollars. Before Congress gives DoD
22 the \$850 billion it requested for this year I think we
23 should insist on some guarantees that DoD will spend that
24 money more responsibly.

25 Thank you, Mr. Chairman.

1 Chairman Reed: Thank you, Senator Warren. Senator
2 Schmitt, please.

3 Senator Schmitt: Thank you, Mr. Chairman. In June of
4 last year the Pentagon announced that they identified a \$6.2
5 billion accounting error in the value of equipment that they
6 had previously sent to Ukraine. And then just a couple of
7 weeks ago the Pentagon said, in a release, that, quote, "The
8 Army had found additional funds" -- \$300 million -- "after
9 renegotiating contract costs to replace equipment that has
10 already been sent to Ukraine."

11 This release also quoted an unnamed official. It is
12 long but I think it is worth actually reading and quoting it
13 to highlight the absurdity of it. Quote, "We had savings
14 come in that will allow us to offset the cost of a new
15 drawdown package," said a senior defense official today.
16 Quote, "The savings that have come in here are going to help
17 square the circle of what the Secretary said of needing to
18 have new funding come in to be comfortable doing any more
19 drawdown. We did have funds come in that can cover the cost
20 of one more package, but this is a bid of an ad hoc or one-
21 time shot. We do not know if or when future savings will
22 come in, and we certainly can't count on this being a way of
23 doing business," end quote.

24 Well, I would agree that this is no way to do business,
25 and I know this Commission does not have anything to do with

1 funding Ukraine or any contingency, for that matter. But I
2 do want to just bring this up that you talk about people
3 losing faith in institutions. It is really hard, I think,
4 for people when we talk about these additional drawdown
5 packages and then they suddenly found \$6.2 billion. I know
6 in our budget maybe people do not think that is a lot of
7 money. Where I come from, that is a lot of money -- \$6.2
8 billion is a lot of money.

9 So I guess the question for each one of you, if you
10 want to chime in here, is what can be done to enhance the
11 transparency and accountability here with DoD's budgeting
12 and acquisition to both Congress and to the public,
13 addressing this. It feels like we are just continuously
14 pulling money out of thin air. Anyway.

15 Ms. Lord: I believe that one of the recommendations
16 that squarely addresses this is the need for modern business
17 systems. I went into DoD after 33 years in industry, and
18 the systems, the business systems used by the Pentagon are
19 10, 20, 30 years old, and they do not talk to one another,
20 so to speak. So there is a lot of fat-fingering that has to
21 happen to move, you know, one set of numbers to another, and
22 I believe there is always going to be human error.

23 One of our recommendations here is to demand that we
24 have modern business systems based on commercial off-the-
25 shelf technology versus having these bespoke systems that

1 are developed by different groups within DoD, outsourcing
2 other groups to do them. There is a lot of reconciliation
3 that has to be done with the systems we have now. And, in
4 fact, our staff has an enormous amount of experience on
5 that.

6 I do not know, Lara, if you want to comment on that,
7 having worked with the financial systems.

8 Ms. Sayer: So the financial systems are a bit
9 antiquated, and there is not consistent capability across
10 the Department. I have worked across multiple services
11 -- Air Force, Navy, and SOCOM -- and every time you change
12 commands it is something different.

13 There is also not consistent training. So the
14 transparency unique should be in the justification material,
15 the J Books, the RDoCs. There is no consistent training on
16 what we described and tell Congress what we are procuring.

17 Senator Schmitt: Do you think that would address this
18 particular issue, like somewhere, we have found \$6.2
19 billion.

20 Ms. Sayer: That was actually a misinterpretation of
21 confusing regulation in the Financial Management Regulation.
22 That actual document from the Department is over 7,000
23 pages, has not really been updated, and whenever they make
24 small changes they do not pull it through the entire
25 document. So they interpreted one section of it one way,

1 and then when they went back and read it again they realized
2 that had it wrong.

3 So that is one of our big recommendations is for them
4 to clean up their house on their guidance documents, sir.

5 Senator Schmitt: I do want to get to one other
6 question. I think everybody here can think of recent
7 examples of major acquisition programs that have either gone
8 completely off the rails, like the Army's Future Combat
9 Systems that wasted roughly \$18 billion, with virtually
10 nothing to show for it, to continuing over time and over
11 budget, like the F-35, that is 10 years late and 80 percent
12 over budget.

13 And while there are a bunch of reasons why I think
14 these programs fail or struggle, I wonder if the PPBE reform
15 could be a way to address some of those fundamental issues.
16 And I also think this is particularly relevant in this kind
17 of lightning fast technological innovation phase, that we
18 have got to be better at, I think.

19 And I have heard from some industry leaders that the
20 system procurement specifications are really prescriptive.
21 They are really prescriptive. And for example, rather than
22 simply stating what warfare problem is DoD trying to solve
23 and solicit really kind of market solutions, it is quite the
24 opposite. It is on the front end, being strictly very, very
25 prescriptive. And I just think this is going to be really

1 important. It has always been important, but now, with the
2 competition with China and others it is really important.

3 What are some recommendations you guys might have to
4 address that? Because it feels like this is a behemoth that
5 we talk about it, we know it is a problem, but then you get
6 into a 7,000-page document that people interpret
7 differently. So what can actually be done to cut through
8 here?

9 Ms. Lord: The requirements process is a big part of
10 it, but then when those requirements are translated to
11 budget documents we have to be very careful. We have an
12 example in the report about buying pens. You specify one
13 color pen. If you find pens that are a different color you
14 cannot buy them.

15 So what I would say is we need to be very careful how
16 we define requirement and then how we contract. Future
17 Combat Systems, I was on the industry side for that. There
18 was a major debacle in terms of the acquisition community
19 not working closely with the operators, the people, the
20 warfighters who were actually going to use what was being
21 procured. So what ended up being procured was not what was
22 needed. With Future Combat Systems we gave all the
23 responsibility and authority to a prime contractor and have
24 pulled it back over time.

25 So there are major problems with the way these

1 acquisitions were originally drafted, and that is more of an
2 acquisition problem. But what we are talking about is
3 making sure with these Justification Books that we do not
4 have overly prescriptive language and that we do not have
5 too many finite budget line items that cause program
6 managers to wait weeks and months to get money that actually
7 is authorized and appropriated for them to use, because of
8 these administrative glitches.

9 Senator Schmitt: Thank you. We will continue the
10 conversation. I am out of time. Thank you, Mr. Chairman.

11 Chairman Reed: Thank you. Senator Manchin, please.

12 Senator Manchin: Thank you, Mr. Chairman. Up front,
13 in your Executive Summary of your report you all call out
14 the damage delayed budgets and continuing resolutions do to
15 our national security, which we all agree. An example is
16 the CR that covered the beginning of fiscal year 2023 cost
17 DoD nearly \$18 billion, according to the American Enterprise
18 Institute, and that average delay in appropriations being
19 enacted is now over 4 months. I do not know what that
20 figure is going to be.

21 To help address that you have called for the creation
22 of a common modern business system -- common modern business
23 system -- to better communicate information inside the
24 Department and to Congress.

25 So my question is, putting it mildly, the Department

1 struggles to do anything that requires that level of
2 coordination, based on past experiences. Who exactly do you
3 see in the Department successfully leading this effort?

4 This is for all the panel, anybody.

5 Ms. Lord: Yeah, there have been some steps. CAPE and
6 Comptroller are now working together in one system, and we
7 see a demand signal from senior leadership to try to have
8 data move around. I think Lara probably has some specific
9 examples of pockets of --

10 Senator Manchin: I do not want to set you all up with
11 this question coming up, and this is even more. In 2005,
12 the Chief Management Officer was created. You all paid no
13 attention. It never took hold. No one supported it.
14 Nothing happened. They got rid of it. We put it back
15 again. I mean, I am just telling you, I do not know who
16 makes these decisions, but I can tell you they do not want
17 it. They do not want that oversight. I know what you are
18 saying. It sounds good, and you would think the Department
19 of Defense, being as large as it is, would want oversight to
20 make sure we are spending and doing that.

21 So I will lead into another. The military-industrial
22 complex, which is what Dwight Eisenhower warned us against,
23 every bit of that, every bit of these companies that
24 basically we are beholden to for our military might, if you
25 will, have retired, high-ranking retired military officials

1 in their ranks, every one of them. Some of them are
2 basically controlling the direction it is going.

3 Do they have more power than basically the Defense
4 Department has itself, or are they basically the tail
5 wagging the dog? Mr. Hale, you have been there, and I know
6 you have seen it inside out and every other way you can.
7 This is a tough one because something is wrong, sir. When
8 you only have the Marines -- John McCain and I, way back,
9 God bless John, we wanted to audit the Department of
10 Defense. It is the only agency we have in the Federal
11 Government that has never been audited. And to this date,
12 14 years later, only the Marines.

13 So I do not know how we break through this, but I can
14 tell you it keeps ringing in my ears, Dwight Eisenhower
15 saying, "Beware of the military-industrial complex," and I
16 am very much aware. So go at.

17 Mr. Hale: Well, I certainly hear your concerns. It is
18 not an area where we focused in the Commission. We were
19 looking for ways to take whatever level of monies Congress
20 and the President agree on and spend it in a matter that
21 helps us keep pace or outpace China and other strategic
22 competitors.

23 I understand your concerns --

24 Senator Manchin: Let me ask you this question.

25 Mr. Hale: -- but they were not a focus of this

1 Commission.

2 Senator Manchin: You only have two people, that I
3 understand, two positions in the Department that have the
4 authority to make the change would be the Secretary and the
5 Deputy Secretary, from what you are talking about. And to
6 be frank, they both already have more on their plates than
7 they can handle. That is why we created the Chief
8 Management Officer, and you all do not want it.

9 Mr. Hale: Well --

10 Senator Manchin: You will not accept it, you did not
11 integrate it, and nobody wanted it. Is that accurate?

12 Mr. Hale: Clearly the Department asked that it be
13 eliminated, so I think you are right there. We are not part
14 of DoD now, although we certainly have been.

15 Senator Manchin: So you understand that, basically
16 what you are saying right now --

17 Mr. Hale: But --

18 Senator Manchin: -- and identifying is kind of hard
19 for us to take it serious because you already had a position
20 that could have done it, and you were just never given the
21 authority to do it.

22 Mr. Hale: Well, I will say --

23 Ms. Lord: Well, there is --

24 Mr. Hale: -- the Deputy Secretary has taken this
25 Commission seriously. She has been very helpful. She

1 directed implementing a number of our recommendations in our
2 August interim report, and when we briefed her on this she
3 expressed support for the Commission and its goals. So I
4 think it is on her plate, and --

5 Senator Manchin: Okay. We will call her in and find
6 out.

7 Mr. Hale: Say again?

8 Senator Manchin: We will call them in and find out.
9 Secretary Lord, did you have something to say?

10 Ms. Lord: Yeah. I believe that potentially we are
11 conflating a couple of issues here. DoD is a very large,
12 complex --

13 Senator Manchin: We know that.

14 Ms. Lord: -- organization, and when we add new
15 departments it makes it more complex. So there is an issue
16 --

17 Senator Manchin: Who is adding departments? Why do
18 you add more departments when you cannot really oversee the
19 ones you already have?

20 Ms. Lord: I am addressing your CMO question, and that
21 is the very point I am making.

22 Senator Manchin: Okay.

23 Ms. Lord: When you add another group it adds to the
24 bureaucracy. So in my mind --

25 Senator Manchin: Whoa, whoa, whoa. Wait a minute.

1 You are saying by having an oversight CMO, a management
2 officer, is adding to the bureaucracy, that is supposed to
3 be overseeing the bureaucracy so it does not get more
4 bureaucratic?

5 Ms. Lord: We have checkers on checkers on checkers on
6 checkers on checkers.

7 Senator Manchin: Well, my God, no one is reporting on
8 the checkers, I can tell you that, because we cannot get an
9 audit out of you all. Thank you.

10 Chairman Reed: Thank you, Senator Manchin. Senator
11 Budd, please.

12 Senator Budd: Thank you, Chairman, and again I thank
13 the witnesses for all your work on PPBE Reform Commission.
14 Every week I hear from small businesses in my home state of
15 North Carolina. They face obstacles working with DoD. They
16 have got innovative ideas. They have got solutions to the
17 real problems, and these solutions they could scale up
18 quickly, but given the cumbersome Pentagon budget practices
19 that never really bridge this valley of death. I see this
20 as unsustainable for them and certainly for our military,
21 given these urgent emerging threats.

22 So Ms. Sayer, what were the Commission's finding
23 related to issues that small businesses face with the PPBE
24 process, and Ms. Lord, or Secretary Lord, what
25 recommendations from the report would best improve outcomes

1 for small businesses? Ms. Sayer, we will start with you.

2 Ms. Sayer: Thank you for that question. So when we
3 talked with private industry as part of our research we
4 heard a lot of feedback on the difficulty of doing business
5 with the DoD. A lot of it was not even understanding how to
6 look at our budget to understand where the Department was
7 investing so they could make sure they were aligned with
8 that. Another problem was just where the front door is to
9 DoD to do business. And while DoD has a lot of these
10 innovation units it is still sort of you get into the parlor
11 but you do not actually get into the actual front door to do
12 business.

13 And we have talked about, throughout this discussion
14 today, about the requirements being too descriptive, which
15 leaves no room for these new technologies to come in. And
16 so that is why we are looking at some of the streamlining of
17 the budget structure to give that ability to buy technology
18 wherever it falls, and technology readiness levels. And
19 then looking at our justification materials, the operations
20 and maintenance account is 35 percent of our \$800 billion-
21 plus budget. If you try to read it, good luck figuring out
22 what the Department wants to buy. And so we are looking for
23 that to be more programmatically based, where there is parts
24 obsolescence issues and hardware issues where these small
25 businesses could actually compete.

1 And I will turn it over to Ms. Lord.

2 Senator Budd: Thank you.

3 Ms. Lord: Two key issues here. One, the budget
4 structure, right now small businesses cannot figure out
5 where they could play in this very, very large budget
6 because of the way it is broken up by RDT&E, procurement,
7 and O&M. So our budget restructuring recommendation makes
8 it much more intuitive, by military service, by type of
9 platform, whether it be a ship, a plane, whatever it might
10 be. So one is transparency to see what is addressable by
11 small businesses.

12 On the other side is our recommendation for training of
13 the acquisition workforce. Right now I do not believe there
14 is sufficient training for SBIR/STTR programs, and right now
15 it is an afterthought for many acquisition professions. So
16 we have an obligation, I believe, to train the workforce to
17 understand not only how to use the small business set-asides
18 that are there but also how to use some of the flexible
19 acquisition pathways, like middle tier of acquisition and
20 other transaction authorities to help small businesses.

21 Senator Budd: You know, the Commission's final report,
22 it also identifies what I would characterize as a
23 misalignment between national strategy and resource
24 allocation. This is really clear if you consider both the
25 2018 and the 2022 National Defense Strategy, which

1 identified China as the pacing challenge, and yet Congress
2 had to push DoD to align resources to the Indo-Pacific,
3 through initiatives such as the Pacific Deterrence
4 Initiative and supporting unfunded requirements.

5 Another example is the Army's decision to cut -- to cut
6 -- special operations forces over the next 5 years, despite
7 the outsized role that SOF plays in competition with China
8 and Russia in counterterrorism and crisis response. Defense
9 planning guidance just does not properly account for SOF's
10 value proposition as the services plan their size and their
11 shape.

12 So I want to open this to the panel, and Secretary
13 Hale, we have not heard from you yet, if you will start us.
14 What are your recommendations to better align the budget
15 with the strategy?

16 Mr. Hale: We would propose that we start earlier with
17 more analysis that deals with threat analysis, wargaming,
18 that sets up meetings in December or January, at the DMAG
19 level, at the Deputy Secretary level, designed to let the
20 services comment on draft guidance that is being circulated
21 at that time, but also gives a venue for the Deputy
22 Secretary and perhaps the Secretary of Defense to enunciate
23 the guidance they want, and not just the consensus of what
24 the services have said but what guidance does the Secretary
25 of Defense want for the Department to pursue in this year's

1 budget.

2 We think that combination of more analysis and senior-
3 level meetings will yield more definitive guidance, and if
4 they do them in December or January it will be timely. That
5 has been another problem with the guidance. It comes after
6 the services have done much of their budget bills. So we
7 believe that we do have some proposals that will strengthen
8 the guidance process.

9 Senator Budd: Thank you, Mr. Secretary. In the
10 interest of time, anything very brief from the two of you?

11 Ms. Lord: Yeah. I think we addressed this very point
12 by recommending to do away with the Defense Planning
13 Guidance, which was too broad, and replace with the Defense
14 Resourcing Guidance that will be more specific in terms of
15 what to do and what not to do.

16 Senator Budd: Thank you.

17 Ms. Sayer: And I would just --

18 Chairman Reed: Thank you very much, Senator Budd. Oh,
19 go ahead.

20 Ms. Sayer: I was just going to add that the
21 transformed budget structure would be more clearly aligned
22 with whatever Defense Strategy, so it would be more apparent
23 what was being budgeted for and how it aligned. Thank you.

24 Senator Budd: Thank you.

25 Chairman Reed: Thank you, Senator Budd. Senator

1 Kaine, please.

2 Senator Kaine: Thank you, Mr. Chair. By attending
3 this hearing, Mr. Chairman, I am missing a budget hearing,
4 thereby risking the ire of the other Rhode Island Senator,
5 Senator Whitehouse, my Chair of the Budget Committee.

6 Chairman Reed: The junior Senator?

7 Senator Kaine: Oh, is he the junior Senator? Okay.
8 Thank you. But the reason I am doing it is I actually think
9 this budget hearing is even more important than the budget
10 hearing that he is conducting right now because of the
11 importance and size of the DoD budget.

12 And I just want to spend a little bit of time really
13 with my colleagues on this CR question. Having been here 11
14 years now, I have learned something about CRs, and I think
15 we are missing an obvious strategy to reduce them. The
16 normal CR is get the budget done right before the end of the
17 year. The abnormal CR is the one that we are in right now,
18 into the next calendar year.

19 Why has it become a norm to have a CR to December 31?
20 There is a reason, and I interested that none of the
21 recommendations kind of grapple with what seems to me to be,
22 in plain sight, a pretty easy solution. We have the wrong
23 fiscal year. We have the wrong fiscal year. To get a
24 budget done by September 30, to begin a fiscal year on
25 October 1, is going to require a lot of attention by Members

1 of Congress during the month of September. In every other
2 year 100 percent of the House and 33 percent of the Senate
3 are uninterested in the budget in September, and they are
4 sort of uninterested in the budget in October. They are
5 interested in their election. There is nothing that is a
6 forcing mechanism about October 1 to get a budget done, and
7 we set it up in the Budget Act of 1974 at precisely the
8 wrong time to get the attention of Congress to get a budget
9 done.

10 So a friend who is a landscape architect told me once,
11 if you are going to design a landscape do not put the
12 sidewalks down. Put the landscape down, then see where
13 people walk, then go pave the sidewalk where they walk. If
14 you look at what has happened since 1974, when do we usually
15 get the appropriations deal? There are exceptions, like
16 this year, but in 80 percent of the time, maybe more, we get
17 the deal before the holidays, and we get the deal before the
18 holidays because people want to take time off and enjoy
19 their time with their family, and the leaders basically say
20 we are going to get a deal before everybody goes home.

21 If you were to adjust the calendar back and do a
22 calendar year budget, which is 6-month offset with what most
23 state and local governments do, you would dramatically
24 reduce the number of CRs. You would still have abnormal CRs
25 like this year, where the absence of a House Speaker, and

1 then the need for a new House Speaker to get his feet on the
2 ground and then decide whether the deal that was cut on the
3 spending caps in May was a deal that the new Speaker needed
4 to honor, you would still have aberrational circumstances.
5 But you would set the budget calendar up at a time when the
6 traditional and practice in real life of this body suggests
7 this is when we do budgets. And we could avoid the
8 automatic 3-month CR, which has now become normal.

9 I have a bill that is bipartisan that is pending in the
10 Budget Committee to make this move. I have had some
11 appropriators -- and I am not an appropriator, but I have
12 had some appropriators say, "Oh, Congress will just slide it
13 back another 3 months." I actually do not think that is
14 true. I think, again, the actual experience of when we do
15 the appropriations bill suggests that at the end of the
16 calendar is the time that we would normally do it.

17 That is also, if you slide back the dates in the '74
18 Budget Act by 3 months to accommodate what I am suggesting
19 you would also slide back the date of the President's
20 submission of the budget. No incoming President is going to
21 submit a really good budget that is very thoughtful in
22 February. It does not happen. By sliding it back you would
23 give an incoming administration more time to really make a
24 budget their own and submit something meaningful,
25 particularly if there has been a transition from one party

1 to the next and a whole new budget and leadership team is
2 put in place.

3 So I appreciate what you have done in trying to urge us
4 to reduce CRs, to put some processes in place that could
5 mitigate the downside effect of CRs, but I think this is
6 mostly in Congress' hands, and I think Congress has a step
7 that we could easily take that would not eliminate CRs but
8 that would make them less normal, than would make them less
9 the norm, and would promote a lot more just budgeting
10 reality in this place.

11 So I am going to continue -- this is more to my
12 colleagues than to the witnesses, but I am going to continue
13 to press this with my Budget Committee colleagues in the
14 hope that we might adjust the rules to what has become the
15 normal practice.

16 I yield back, Mr. Chair.

17 Chairman Reed: Thank you very much, Senator Kaine.
18 Senator Shaheen, please.

19 Senator Shaheen: Well, thank you, and thank you to all
20 of our witnesses for being here and for the enormous amount
21 of work that you have done on this report, and to everyone
22 on the Commission.

23 I have to respond, though, Senator Kaine's comments
24 because I do not disagree with him necessarily. I think it
25 is a creative way to do it. But you and I have both been

1 governors. Neither of our states had fiscal years that went
2 according to the calendar annually. In New Hampshire ours
3 started July 1st. And I am not sure that just changing the
4 calendar deals with the problem. I would also argue that we
5 need a biennial budget, which is something Virginia and New
6 Hampshire both have, which would make it easier to do this
7 process. Again, there has been a lot of opposition to that.

8 But I think the point that you are making goes to one
9 of the underlying points that the Commission really has not
10 addressed, that I believe to be true when we talk about the
11 Department of Defense being risk averse, when others talk
12 about too much flexibility.

13 I think one of the challenges is Congress. I mean, the
14 fact that Congress cannot get our act together to get a
15 budget done on an annual basis, that we put so many
16 requirements in place that it is hard to get a procurement
17 process that people can understand, and I understand the
18 reasons why that is done, but I think we have got to be more
19 realistic about what is possible.

20 You know, one of the things that you may have talked
21 about, and I am sorry that I missed your testimony earlier,
22 we passed a supplemental funding bill here the Senate over a
23 month ago to support Ukraine. That bill is still sitting in
24 the House, when I think about \$28 billion of that money goes
25 to our defense industrial base to help address the national

1 security of this country, and yet here we are. We are still
2 under a continuing resolution that is going to be the end of
3 March before we get that done. And this has real impacts,
4 as you all know, on the Department of Defense and on our
5 ability to do what we need to, to protect this country and
6 to maintain the global position we have in the world.

7 So I think there is a lot of important information in
8 your report, but I guess I am in the camp that says all the
9 problem is not at DoD. Some of it is there, but a lot of it
10 is in Congress too, and we need to get our own act together.

11 So since I missed your testimony I guess one question
12 that I have is if Congress were only going to adopt one, or
13 DoD were only going to adopt one recommendation from your
14 report, what would be the most important recommendation that
15 we should be looking at?

16 Mr. Hale: Well, I will cheat and say put in place the
17 Defense Resourcing System, which encompasses all of the 28
18 things we recommended. I do not know that there is one
19 single silver bullet, Senator.

20 Senator Shaheen: I am not suggesting that it be a
21 silver bullet but more the top priority.

22 Mr. Hale: Well, the Commission came up with 14
23 priorities. I do not want to speak for them and choose one.
24 I will tell you that I think the extended availability of
25 operating funds into the second year would do a lot to

1 improve execution. It is not going to solve other problems
2 of adaptability, which are also very important.

3 Can I also say, we did debate biennial budgeting, and
4 frankly decided not to pursue it because it did not work
5 when it was tried in the 1980s, and it did not work because
6 there was never a 2-year appropriation bill. Actually, they
7 did not even authorize it for 2 years.

8 Senator Shaheen: Well, that is the problem. There was
9 not really biennial budgeting if you did not have a 2-year
10 appropriation.

11 Mr. Hale: And, in fact, I go back to, I used to say
12 Christmas is an action-forcing event, or winter holidays are
13 an action-forcing event on budgets. I still think that is
14 true. But as you think about changing the year I would urge
15 you to keep in mind the problems it will create for the
16 departmental workforce. You are going to have closeout
17 occurring during Christmas, and I think we need to keep in
18 mind what we are doing to these people if we do that. So I
19 would urge you to think about dates that might make that
20 less onerous on the workforce. But I understand your point.
21 And we also debated that issue at some length. It is not as
22 if it was not paid attention to.

23 Senator Shaheen: Mr. Chairman, since he was addressing
24 Senator Kaine's question can I have a few more seconds here?

25 Chairman Reed: Absolutely.

1 Senator Shaheen: I want to go back to the small
2 business piece because my state, like so many of the members
3 of this Committee's states have a lot of small businesses
4 that are very engaged with the defense industry. And one of
5 the programs that has made a huge difference for them has
6 been the SBIR program. Can you talk, Secretary Lord, to why
7 that program is important and the need to reauthorize it in
8 a way that continues the innovation that we are seeing
9 through small businesses?

10 Ms. Lord: It is critically important because the
11 preponderance of our innovation comes from small companies,
12 and we need the SBIR/STTR process to actually, I think, be
13 made larger and be championed to a greater extent by the
14 Department.

15 The budget is not transparent to small businesses.
16 They cannot understand what budget line items they can
17 address and then who they go to, to work on this. We also
18 do not particular train the acquisition workforce to work
19 with small businesses, so there is a lack of capability,
20 knowledge, transparency on either side.

21 I will say, I mentioned this earlier, there is actually
22 a National Academies study right now looking at that process
23 and how it could be done differently. I actually sit on
24 that task force, so it is important to make these
25 recommendations for the reauthorization, to make it a

1 stronger system.

2 Senator Shaheen: Good. Well, thank you. Thank you
3 all very much.

4 Chairman Reed: Well, thank you very much, Senator
5 Shaheen, and Senator Kaine. I want to thank you for superb
6 work. This Commission was thorough, exhaustive, in looking
7 at every option to improve what is now the PPBE system. And
8 it struck me in the course of the hearing, which I think was
9 a very good one, is PPBE one of the reasons we cannot get an
10 audit? Secretary Lord?

11 Ms. Lord: I think it has to do more with the business
12 systems we have that we are talking about and the lack of
13 clarity in the financial management kind of regulations. We
14 have put Band-Aids on everything at DoD, and you get so many
15 Band-Aids that you cannot get back to the core of what is
16 going on. And we do not go to base documents and build them
17 up so we have contradictions in our own documentation. So
18 we really need to kind of zero base sum of those
19 regulations.

20 Chairman Reed: But your proposals get at that problem,
21 in a way, so if we could adopt many of your proposals,
22 either administratively or legislatively, we would have a
23 much more efficient system, which would be more susceptible
24 to an audit.

25 Ms. Lord: I just want to say, I think Lara and the

1 team are great resources for the FMR and what could be done,
2 because they have lived with it, they have lived through the
3 complexity, the contradictions. It leaves a lot of DoD
4 employees in a very difficult position. How can they be
5 compliant if they have different directions?

6 Chairman Reed: And, in fact, I think one of the
7 incentives I have observed over the years is after a while
8 it is just, you know, you just want to make sure you check
9 all the boxes. It is not getting the best product. And you
10 want to avoid being censored later for violating an obscure
11 thing. So that is a great reason why we do not perform as
12 well as we must.

13 The other aspect of this, too, forgive me, but do you
14 think Microsoft would be successful if it had the PPBE
15 system?

16 Ms. Lord: No.

17 Chairman Reed: Okay.

18 Mr. Hale: I just want to go back, just briefly, to the
19 Financial Management Regulations. I have been working
20 financial management now for about four decades. I have
21 never heard of a fundamental look at that document, a zero-
22 based look. It is updated all the time, but I am sure there
23 are a lot of out-of-date provisions in there, and I also
24 suspect some of them could be rewarded in ways that gives
25 the Department more flexibility while still preserving your

1 oversight. So it is one of those recommendations that only
2 a comptroller could love, but I think redoing or a basic
3 look at the FMR would be very important.

4 Chairman Reed: And that was not in your purview.

5 Mr. Hale: Well, yes it was. We actually recommend
6 updating the PPBE documents and give the Financial
7 Management Regulations as a specific example. Now we did
8 not try to do it ourselves. That would have gone beyond our
9 capability. It is going to be a big job, and the Department
10 would need to establish a team that had the kind of
11 expertise to deal with that level of detail. But I think it
12 would be very important for them to do it. And yes, we
13 specifically recommended that.

14 Chairman Reed: And that is a task that we have to urge
15 on.

16 Ms. Sayer: They have actually started kicking off a
17 working group for that right now, and they have a plan, I
18 think, for a 20 or 30 percent update this year, and a 40
19 percent next year, so in 3 years it would be overhauled. So
20 that is encouraging.

21 Mr. Hale: Yeah, I agree, and I hope it is not just an
22 update. I hope they go back. This needs a zero-based
23 treatment, in my view. It has been 30, 40 years, maybe
24 longer, since that has happened.

25 Chairman Reed: Well, again, just to my point is that

1 we have a system that is antiquated, to be kind. Unless we
2 make some significant changes we are never going to be
3 competitive in both financial responsibility as well as
4 keeping up with our opponents. So this is not a question of
5 getting to an order. This is a question of giving our
6 forces the equipment they need in a timely fashion. And I
7 think we have to follow through.

8 Again, let me commend you on your excellent efforts,
9 and with that I will adjourn the hearing. Thank you.

10 Mr. Hale: Thank you, Mr. Chairman.

11 Chairman Reed: Thank you, Mr. Hale.

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

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