

Opening Statement on DOD Management Reform
Chairman John McCain
Tuesday, November 17, 2015

Before we begin this morning, I would like to briefly address recent events of profound consequence to the work of this Committee. Over the past few weeks, the massacre in Paris; attacks in Beirut, Baghdad, and Ankara; and the likely bombing of a Russian airliner over Egypt have signaled the beginning of a new phase of ISIL's war on the civilized world. This Committee has held several hearings on U.S. strategy against ISIL over the past several months. Yet no Administration witness to date has presented a plausible theory of success to degrade and destroy ISIL. With ISIL determined to launch more attacks across the globe, we cannot afford more of the same insufficient strategy. And in the coming weeks and months, this Committee will continue to focus our oversight on the urgent development of a new strategy to achieve the decisive and lasting defeat of ISIL.

The Committee meets this morning to continue our series of oversight hearings focused on defense reform. Today we will focus on reforming the management of the Department of Defense. This is a perennial, and enormously costly, problem precisely because it is one of the most difficult. But if the Department is to meet the diverse and complex national security challenges that our nation confronts around the world, both now and in the future, it must make far more effective and efficient use of its resources, especially when budgets are tight.

We are very fortunate to have a distinguished groups of witnesses to discuss how to overcome the obstacles to better management in the Department of Defense:

- The Honorable David Walker, former Comptroller General of the United States;
- Major General Arnold Punaro, Member of the Defense Business Board as well as the former Staff Director of this committee;
- Mr. Richard V. Spencer, a former Member of the Defense Business Board with a decades of experience in the private sector; and
- Ms. Lisa G. Bisaccia [**beh-SAH-chuh**], Executive Vice President and Chief Human Resources Officer at CVS Health Corporation. I would like to point out that while CVS has the misfortune of being headquartered in the state of Rhode Island, it has more than 6,000 employees and over 500 pharmacists

working in Arizona, administering some of our nation's most important federal health programs, and we are thankful for the work they do.

The United States military is without peer in delivering combat capability anywhere on the globe. Our soldiers, sailors, airmen, and marines are the greatest fighting force the world has ever seen. However, it is also the case that the management – what is sometimes called the “back-office” of the Department of Defense – is in dire need of improvement.

In constant dollars, our nation is spending about the same as we did three decades ago. However, for this money today, we are getting 35 percent fewer combat brigades, 53 percent fewer ships, 63 percent fewer aircraft squadrons, and a lot more overhead—how much more is somewhat unclear, because the Department cannot even produce complete and reliable data on its overhead expenses.

What we do know is these reductions in combat power have occurred while the Department's overhead elements, especially its contracted workforce, have exploded. Nearly 1.1 million personnel now perform overhead activities in the Defense agencies, the military departments, and the service staffs. And the money spent on these overhead functions is staggering. Indeed, of the top ten entities that contract for business with the Department of Defense, half of them are the Department's own agencies. In annual dollars, the Defense Logistics Agency does nearly twice as much business with the Department as Lockheed-Martin.

A few years ago, an analysis by McKinsey & Company found that less than one quarter of active duty troops were in combat roles, with a majority, instead, performing overhead activities. Recent studies by the Defense Business Board and others confirm that little has changed in this regard. The U.S. tooth-to-tail ratio is below the global average, including such countries as Russia, India, and Brazil.

For years, decades in some cases, the Government Accountability Office has identified some of the major overhead and headquarters functions of the Department of Defense as being at high risk of waste, fraud, abuse, and duplication of effort. Business Systems Modernization and Transformation, Supply Chain Management, Contract Management, Infrastructure Management, and Financial Management—all have been on GAO's High Risk list for years. And yet these problems have grown through administrations of both party and persist to this day.

It is not as if the Department has not tried to address these problems. Indeed, it has spent billions of dollars to bring so-called “private-sector best practices” into the

Department of Defense through the adoption of commercial off-the-shelf Information Technology programs. Unfortunately, these efforts have little to show for them. Information technology programs intended to create lasting business transformation at the Department have either collapsed from their own weight and size – such as the Air Force’s Expeditionary Combat Support System – or were merely reconfigured at great cost to replicate the inefficient and outdated business processes that the Department of Defense was already employing.

In order to improve its management skills and transform its business process, the Department has also paid consultants and contractors billions of taxpayer dollars to conduct analysis of problems in the areas of supply chain, logistics, financial management, and contract management. Here, too, there is precious little to show for the effort, which has persisted over decades. But despite this spending, none of the high risk areas that GAO has identified have been removed from that list.

What’s worse, it is hard to address management problems when you lack basic data that are essential to understanding and diagnosing those problems. And yet that is the case with the Department of Defense. Here is how former Secretary of Defense Robert Gates described the dilemma. He said: “My staff and I learned that it was nearly impossible to get accurate information and answers to questions such as ‘how much money did you spend’ and ‘how many people do you have?’”

The result is not just greater inefficiency and wasted resources; it also harms the effectiveness of the Department of Defense and thus our national security. The result of these shortfalls in information, as Secretary Gates has explained, is that Department leaders, and their overseers in Congress, cannot measure the results of our national security policies, or make judgments about priorities for our military, or accurately assess the trade-offs involved in different courses of action. If the Department cannot do these basic things, it will struggle to be effective.

We cannot afford to continue on this way. The stakes are too high, and the consequences of failure are too dire. I thank our witnesses for helping us to better understand these defense management problems, and how to overcome them.