

**STATEMENT OF MAJOR GENERAL ARNOLD L. PUNARO USMC RET.
BEFORE THE
OVERSIGHT AND INVESTIGATIONS SUBCOMMITTEE
OF THE
HOUSE ARMED SERVICES COMMITTEE
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THE TICKING TIME BOMBS IN NATIONAL DEFENSE

Madam chair, members of the subcommittee, I am very pleased to join my colleagues today on this crucial topic. I appear here today as a private citizen and do not represent the Defense Business Board, of which I am a member, or the Defense Reserve Forces Policy Board, which I chair, or any other element of the Department of Defense.

I believe, however, that my personal experience is relevant to your inquiries. I have 24 years of service with the Senate Armed Services Committee, 35 years in the U.S. Marine Corps, 14 years as a senior executive of a Fortune 500® company, three years as a small business owner, and I have either chaired or served on multiple commissions analyzing the issues and making recommendations on your areas of oversight.

I am sure that most of you would share my view that we have at present the best military in the world by any measure. But the way we finance, manage, and account for defense dollars is a long-term, structural problem. The result is we are not getting the defense capability we should for the dollars we spend and, if uncorrected, we will not have the military we need in the decades ahead. We must address our structural problems even without sequestration but inefficient stewardship of shrinking resources makes this an even graver matter.

We face three ticking time bombs: one, the substantial costs of DOD's acquisition processes and programs where the dollars increase while the quantities decrease; two, the unsustainable growth of the "all in" or "fully burdened" costs of the All-Volunteer Force which includes retirement, healthcare, fringe benefits, and deferred compensation; and three, the excessive amount of dollars and personnel tied up in DOD's massive and inefficient overhead.

While I know acquisition reform is not today's topic, Congressmen Conaway and Andrews have done landmark work in this area. We all need to keep trying to improve a system that spends \$400 billion a year on goods and services, supplies and equipment that can only be charitably characterized as "spend more, take longer, and get less." The root cause is the failure of the Pentagon to link and streamline the requirements, acquisition, and budget processes, and reinsert the service chiefs as key links in decisions. The Chiefs also need to take the lead in making sure we have highly qualified uniformed personnel in the acquisition field.

Another ticking time bomb is the all-in and life cycle costs of personnel. Both Secretary Gates and Panetta have been widely quoted highlighting the "unsustainable" trend line here. In the last 10 years, personnel costs have doubled yet the size of the force has barely changed. The Treasury pays \$100 billion a year for 2.4 million retirees or their survivors. Retirees and their dependents make up 5.5 million of the beneficiaries of DOD's \$52 billion a year health care costs while active duty personnel and their dependents make up 3.3 million.

The Reserve Forces Policy Board conducted a year-long analysis of the “fully-burdened” and “life-cycle” costs of military personnel, which is publicly available. This report to the Secretary of Defense concluded that DOD does not know, use, or track the “fully-burdened” and “life-cycle” costs of military personnel in decision-making. The RFPB found that DOD consistently ignores some of the largest costs of military personnel.

As the members of this subcommittee know, serious observers who have the best interests of our troops at heart are questioning the all-in costs of the All-Volunteer Force. They are asking whether the force is sustainable and whether it is providing what our troops want and the nation needs? Former Air Force Chief of Staff General Ron Fogleman has said the all-volunteer force as it exists today is simply unaffordable. But we cannot have an intelligent, informed discussion until DOD owns up to the full-in costs of the All-Volunteer Force, and its life cycle.

The third ticking time bomb is overhead, which is absorbing an enormous amount of the resources we dedicate to our national defense. If DOD’s overhead was a gross domestic product, it would be larger with its \$218 billion total than the entire economy of Israel. There are approximately 240,000 military and civilian employees in OSD, the Joint Staff, the Combatant Commands, and the Defense Agencies. And this does not include contractors, the number of which neither DOD nor Congress knows with any precision. The result is that a lot of our active duty military personnel are in the rear with the gear and not at the pointy end of the spear. Far too many of these active duty personnel, the most expensive on the payroll, are performing non-governmental, commercial activities, better suited to civilian employees or contractors. Some of these activities don’t need to be done at all. In DOD’s latest report, 323,000 active duty military personnel were performing inherently non-governmental activities at an excessive cost of \$52 billion a year.

This is graphically depicted in the chart on DOD characteristics by Administration, which clearly shows that more money does not necessarily translate into more capability.

History of DoD Characteristics by Presidential Administration

Category	End of Carter 1989	End of Reagan 1988	End of Bush 1992	End of Clinton 2000	End of GW Bush 2008	Obama 2012	Projected end of FYDP 2017	Change 1980 - 2017	Change 1988 - 2017
Total Base Budget Authority (\$B – Constant \$)	\$411	\$545	\$476	\$410	\$548	\$546	\$529	29%	-2.9%
Total Base Budget Authority (\$B – Current \$)	\$143	\$284	\$282	\$291	\$483	\$536	\$529	270%	86%
Supplementals (\$B)	\$0	\$0	\$4	\$0	\$190	\$115	\$44.2		
Active Duty Personnel (K)	2,063	2,209	1,880	1,449	1,474	1,481	1,377	-33%	-38%
Reserve and Guard Personnel (K)	851	1,158	1,135	865	843	846	824	-3.2%	-28.8%
DoD Civilian Personnel (K)	991	1,090	1,006	698	707	791	783	-21%	-28%
Active in Commission Ships	521	573	471	341	282	285	300	-42.4%	-47.6%
Army Divisions (active)	19	20	20	10	10	10	10	-47%	-50%
AF Fighter/Attack (Total Active Inventory)	2,789	3,027	2,000	1,666	1,521	1,493	1,325	-52.5%	-56.2%

Sources: National Defense Budget Estimates for FY2013, Apr 2012, Defense Manpower Requirements Reports, President’s FY2013 Budget Request, Congressional Testimony. BA numbers from table 6-8 less supplemental value, Active and Civ personnel from Table 7-5 (2017 values based on statements of planned reductions). Number of ships, divisions, and USAF inventory based on testimony.

Even with ‘reductions’, DoD budgets have increased substantially, yet the force structure that provides and supports warfighting capability is much smaller

The amount of money we spend on overhead and the way we spend it contribute greatly to the fact that we are getting less military capability for our dollars. The problems we have with identifying, managing, and reducing overhead have proved resistant to solution for decades, going back to a 1956 reform effort under President Eisenhower that identified the problems unsolved today.

There are a couple of reasons why reform has proved to be so difficult for so many years. One is very simple. No one, including Congress, holds the Pentagon's feet to the fire on reducing overhead. The Department is filled with dedicated, competent people, but no bureaucratic organization as large as DOD reforms or reduces itself willingly. Strong, sustained, knowledgeable oversight is needed coupled with some tough provisions that force DOD to deal with the overhead problem.

The second reason is that you can't manage what you can't measure. I know the subcommittee is aware of last year's GAO report on defense headquarters cost savings. It found that one of the fundamental challenges DOD faces is that it does not have complete and reliable headquarters information to support decisions on management and efficiency. This has been the case for decades. GAO has validated what I told Secretary Cohen in 1997 – the headcounts are much higher than reported. The GAO report said, and I quote, "an agency must have relevant, reliable, and timely information in order to run and control its operations." Well, amen to that. But it's not just headquarters management that lacks reliable, decision-quality management information. That problem exists in many key categories across DOD.

Willful Ignorance Factor

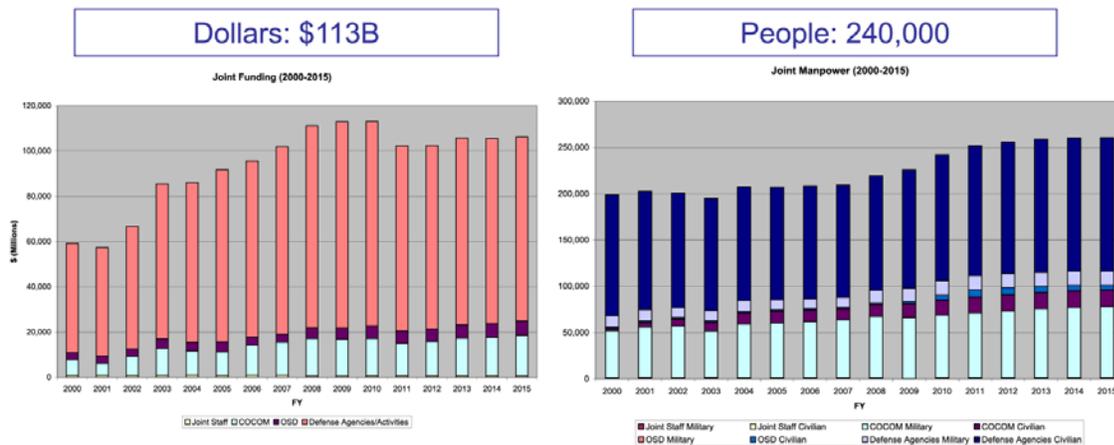
I call this the willful ignorance factor. When the information needed is not available, no one seeks it, and when it is available, no one uses it. Everyone knows that in many cases the numbers will look so bad that it would create pressure to fix the problem. This is particularly true in the overhead and personnel categories.

I would suggest you look closely at headcount, the number of people and what they are doing. Headcount is a standard business measure. Historically, DOD has a poor record of tracking its internal headcount and its external contractor headcount. The headcount would also provide a view of overhead across agency, service, and contractor boundaries, and it would capture the contractor headcounts now hidden in operations and maintenance accounts.

In terms of the number of personnel in OSD, the Joint Staff, the Combatant Commands, and the Defense Agencies there are more than 240,000 people not including contractors. These people cost \$113 billion each year. These organizations have grown consistently since 2000. Secretary Gates in his overhead reduction efforts, subsequently supported by Secretary Panetta, identified these areas for reductions. The “tooth-to-tail” ratio that was poor when Sec. Gates and Sec. Panetta began pushing to improve this area has unfortunately gotten worse. As we are reducing 100,000 troops in the Army and USMC, the Joint Staff has added 1,000 people – a 50% increase in its 2,000 person staff and they are not even ashamed about it. In the last ten years, DOD has added over 100,000 civilian employees.

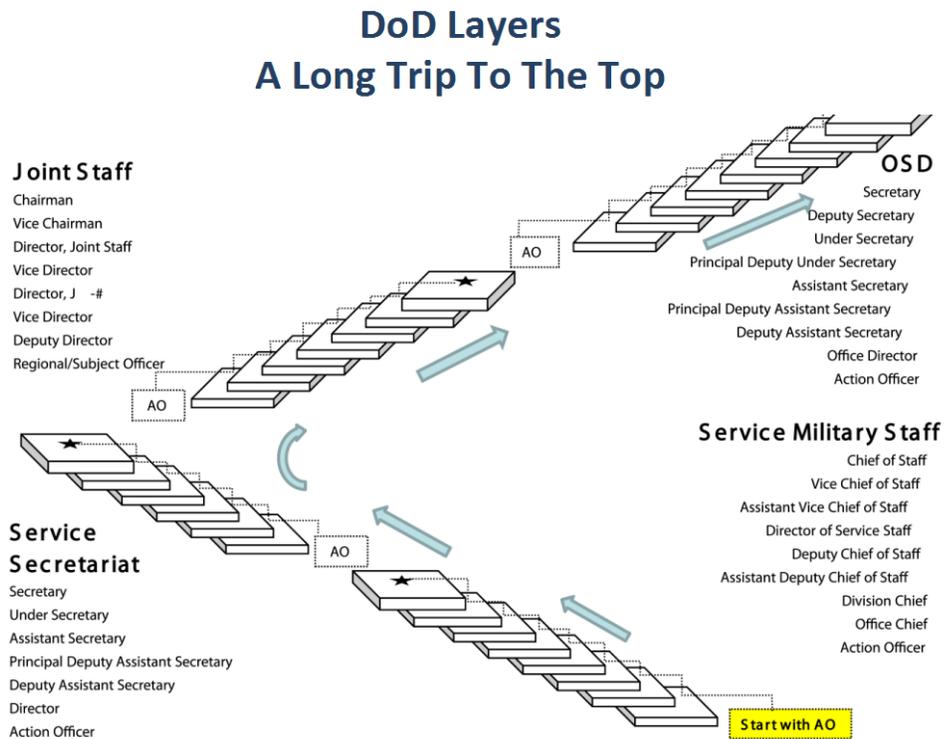
Organizational Totals

OSD, Joint Staff, COCOMs, and Defense Agencies



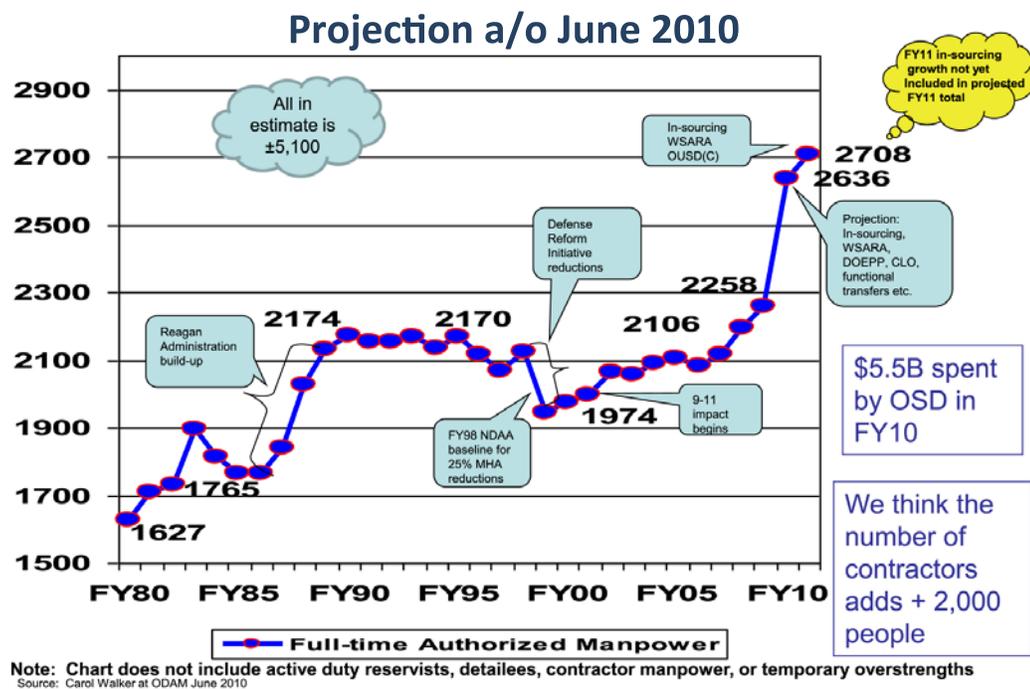
No Reliable Contractor Data Available

We have also known for years that the military structure of DOD institutionalizes layers of management. When you have lots of senior personnel, more layers follow. For example, when you have the top person in a layer – the head dawg – that person will have a "deputy dawg" and the "deputy dawg" will have a "deputy, deputy dawg" and so on. The case for cutting management layers is compelling when you see that the Department can have up to 28 layers from the action-officers in the military department to the Secretary of Defense. This is also what drives huge staffs and support personnel which continues to increase.



OSD is no exception to the large numbers. In FY10, the OSD staff numbered approximately 2,708. When you include the full-time reservists, detailees, and what OSD estimates to be the number of contractors, the staff count balloons to over 5,000 – there were 2,636 government civilians and military, about 76 full time reservists, 381 over staffs or detailees, and over 2,000 contractors.

OSD spent approximately \$5.5 billion in FY10, some of which is R&D and system costs for programs that OSD is running. OSD should not be running any programs. When we did a defense reform study for Secretary Cohen in 1997, we found that OSD was running 80 programs. One of these was DIMHRS, which the government ultimately scrapped after billions in sunk costs. Secretary Gates tried to freeze OSD staff size and then begin reducing it, but these reductions have been disproportionately smaller and insufficient than the corresponding reductions in the fighting forces. And GAO says they aren't sure what was done. Today at FY12 levels, the "advertised" size of OSD is 2,665 military and civilians (not including contractors and guard/reserve). This is larger than the comparable FY10 and FY11 numbers and DOD acknowledges that "bookkeeping" entries have made it look smaller in the most recent manpower requirements report.



Let's look at the Combatant Commands – the Department has added several Combatant Commands over the last 20 years, yet there appears to have been no equivalent reductions in the Military Departments to stand-up these organizations. COCOMs, such as U.S. Central Command running wars in Iraq and Afghanistan and U.S. Cyber Command, which has been added since this chart was created, are important. But the COCOMs, and their estimated 98,000 employees and \$16 billion annual budget, is an area that must be reviewed and compared to the Military Departments for redundancies and duplication.

The overhead problem in OSD and the COCOMs is only a small part of the problem. At least 70% of DOD's overhead in people and costs resides in the Military Departments. There are literally hundreds of thousands of personnel in installations, logistics, training, personnel and administration, management headquarters, and in acquisition programs. This is clearly a target rich environment that can become much more efficient and effective. For example, the overlap in the three services medical departments and OSD is over 10,000 people. We have a division of auditors, inspectors, and investigators in DOD. We have a division's worth of administrators in the medical establishment.

So how do we begin? We begin by reducing the willful ignorance factor:

- Mandate a high-level process that identifies and tracks headcount – including military, civilian, and contractor headcounts in full-time equivalents. Start with OSD, the Joint Staff, COCOMs, and defense agencies, and direct the Military Departments and Defense Agencies to do the same.
- Find out how many contractors work for DOD. Find out what they cost. Find out their fully burdened costs and compare it to the fully burdened cost of the active military, the guard and reserve, and the defense civilians. We don't have that information now.
- While we know how many active duty personnel we have, we don't have important information about them in the context of overhead. For instance, how many are in non-deployable portions of the services and have never deployed? Why do we have over 323,000 military serving in inherently non-governmental jobs?

Once we have information like this, we can begin to take strong action to reduce overhead. We can initiate hiring freezes and headcount control processes, begin to eliminate duplication and overlap, and get more of our uniformed personnel at the spear tip, and not at the rear with the gear. Many recommendations have been made over the years to control the headcount, but they have never worked because no one actually wants these handcuffs.

And if DOD does not come up with the requested data, we must take strong action here, as well. This is what I mean by holding the Pentagon's feet to the fire. If the information is not forthcoming, freeze the "reported level" and put in place reductions. You will then get the information you need.

I want to make clear that the point is not simply to collect more data, or even to massage it with big data techniques. If that happens, we will only have added to the problem, because DOD will add more people to collect and process the data.

The point is to use relevant information and insights we don't currently have to attack structural problems that have been both persistent and resistant for decades. In other words, we can't just collect more data and talk tough. Attitude is no substitute for fortitude.

We have to make the tough decisions necessary to reduce DOD's massive and inefficient overhead. And Congress cannot be exempted from this. The Congress must let – and in some cases, force – DOD take the necessary actions for the nation, even if it means some constituent pain.

And we do not have to wait for the data to make some big, overdue changes. We know the Department of Defense is the largest, most complex organization in the world, so let's structure its leadership accordingly. The size and complexity of the Department demand a broad array of experience and talent. And yet it is not organized for modern management practices. A number of outside organizations have indicated for years we need to go back to the management model of Secretary of Defense Melvin Laird and Deputy Secretary of Defense David Packard. Laird focused on external matters and Packard focused on internal management.

We need to get back to this proper division of labor and we also need two Deputy Secretaries as we had previously. One Deputy would focus on external support to the Secretary of Defense and have policy, intel, legislative and public affairs. The other Deputy would focus on management and have budgets, personnel, acquisition, and would be the leader of the department's "management chain of command." This would give these leaders a manageable span of control, allowing them a shot at streamlining, reducing overlap, and managing smartly.

With the right structure in place, with the information we need to manage, and most of all, the will to use that information to make the tough choices, we can maintain our national security, take care of our troops, and provide the stewardship of our nation's resources that our citizens deserve.