

Statement

of

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Under Secretary of Defense (Comptroller)

before the

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Good morning, Mr. Chairman, members of the committee. Thank you for this opportunity to discuss our efforts to improve efficiency at the Department of Defense (DoD).

I am joined today by Lynne Halbrooks, the acting Inspector General for DoD. Lynne and I share a common goal – that is, supporting the national security mission while also ensuring that we make the best possible use of every dollar. We take the DoDIG reports seriously and act on the great majority of recommendations stemming from the hundreds of reports that her dedicated team produces each year.

I would begin by noting that – like Congress – the leadership of the Department of Defense is mindful that our nation is dealing with significant fiscal and economic pressures. We recognize that we owe it to the taxpayers to make the most of every dollar they entrust to us for the defense of the United States. To borrow a line from Dwight Eisenhower, “The patriot today is the fellow who can do the job with less money.” That statement is, if anything, truer in our time than it was in the 1950s.

### **Initiatives to Improve Efficiency**

Consistent with this philosophy, the Department’s budget requests in recent years included steps to curtail or eliminate programs where we felt we had met our procurement needs, or where programs were seriously troubled or provided capabilities that were judged too narrow to justify their expense. While these proposals are often referred to as efficiencies, they are better described as efforts to make more disciplined use of resources. Whatever the short-hand title, I would like to describe some of our efforts which have included termination of weapon programs, elimination of lower-priority organizations, and improvements in business processes.

Over the past several years, more than 20 DoD weapons programs have been restructured or eliminated. They included termination of the second engine program for the Joint Strike Fighter, as well as the VH-71 Presidential helicopter which will be replaced with a more-limited aircraft. We also terminated the Navy’s DDG-1000 ship program in favor of continued buys of the DDG-51 destroyer, terminated the Air Force’s TSAT satellite in favor of continued buys of the AEHF satellite, and ended the Army’s Future Combat System (FCS) and the Marines’ Expeditionary Fighting Vehicle in favor of, respectively, a more focused Ground Combat Vehicle program and Amphibious Combat Vehicle development efforts. DoD also ended production of the F-22 and C-17 aircraft, both of which had met their inventory objectives.

DoD has eliminated lower-priority organizations in an effort to streamline operations and save money. We disestablished the Joint Forces Command, the first time a combatant command has ever been eliminated. The Navy disestablished the Second Fleet headquarters in Norfolk, a Cold War organization whose mission was transferred to Fleet Forces Command. The Air Force consolidated two Air Operations Centers in Europe and inactivated three numbered Air Forces, with the associated staff functions absorbed into existing major command headquarters. The Army is consolidating six installation management command regions into four.

In recent budget proposals we have focused on cost-cutting actions related to business processes. The Navy is pursuing acquisition savings through multiyear procurement approaches for the FA-18 E/F, EA-18G, MH-60R/S, V-22 tilt-rotor aircraft, Virginia-class submarines and

DDG Arleigh Burke Class ships. The Army is pursuing acquisition savings through multi-year procurement approaches for the UH-60 and CH-47 airframes. The Air Force has sought acquisition savings through adoption of a new method for acquiring both space launch vehicles and satellites – emphasizing block buys, sustained funding for engineering, and fixed-price contracts. Various Services have sought IT efficiencies through initiatives such as consolidation of e-mail servers.

Specific initiatives have led to a more efficient Department. For example, the Air Force has introduced numerous fuel-saving initiatives including use of commercial flight-planning software to make real-time flight adjustments in air speed and altitude in order to reduce fuel requirements. The Navy has consolidated numerous contracts into four Navy-wide contracts with major carriers for wireless services, thereby achieving better prices and savings through “minute pooling.” DoD’s Transportation Command reduced shipping costs by using 40-foot rather than 20-foot shipping containers. DoD’s health care agency reduced costs sharply by utilizing the Veterans Administration pharmaceutical pricing schedule and by using Medicare payment rates for certain hospitals.

In some cases, Services have made difficult decisions to emphasize certain approaches to support activities in order to cut costs. The Army, for example, has sharply reduced military construction funding in favor of maintaining existing facilities. Other Services have also cut back on military construction.

What have we saved? The initiatives described above, and many others, led to planned savings in the President’s Budget for FY 2012 of about \$150 billion in FY 2012-2016. In the budget for FY 2013, savings of about \$60 billion were planned in FY 2013-2017. The Services are monitoring these planned efficiency initiatives to be sure that they are implemented. Along with the Department’s Deputy Chief Management Officer, I lead twice-yearly DoD-wide reviews to verify implementation.

In addition to these changes, DoD has pursued a program to slow the growth of military compensation while still fully supporting the All-Volunteer Force. Military pay and benefits have grown sharply in recent years, outstripping both end-strength growth and wage growth in the private sector. DoD has proposed initiatives to raise by modest amounts the fees that military retirees pay for health care and to modify pharmacy co-pays in a manner that promotes use of cheaper alternatives including generic-brand pharmaceuticals and mail order delivery. In the FY 2013 President’s Budget, we also proposed to slow the growth in military basic pay in 2015 and beyond. In the President’s Budget for FY 2013 these proposed initiatives saved about \$29 billion over five years. More recently, we announced a plan to slow the growth in military basic pay for 2014.

Finally, in its FY 2013 budget DoD proposed to eliminate some lower-priority military units. Our proposals would have disestablished certain Army units, cut back on selected Air Force aircraft, and retired nine Navy ships early.

## **Support from Congress**

Despite the far-reaching nature of these initiatives, we are by no means done with our efforts to make more disciplined use of resources. Because the President's Budget for FY 2014 has not yet been sent to Congress, I cannot discuss its specific content. But I can tell you that DoD will again propose a substantial package of initiatives aimed at improving efficiency.

DoD can propose, but Congress must dispose. We need the support of Congress in our efficiency efforts. In recent years Congress has denied a number of our proposals including elimination of lower-priority weapons programs (such as the Global Hawk Block 30) and elimination of lower priority military units (including Navy ships and some Air Force aircraft such as the C-27J). Congress has also rejected some of our proposals to slow the growth in military compensation, including certain increases in fees and co-pays for military retiree health care, and has rejected our efforts to pursue consolidation of our infrastructure. Together these Congressional actions, if sustained, will add billions to our costs over the next five years. We hope that, in view of the serious economic problems facing our Nation, the Congress will allow us to implement these and other important changes.

## **Improving Financial Controls and Processes**

In addition to initiatives that achieve specific budgetary savings, the Department is pursuing improved financial information and controls for all of our programs and operations. The Financial Improvement and Audit Readiness (FIAR) plan will lead to audit-ready financial statements and will document the accuracy and reliability of the financial information used by DoD's decision makers.

The Department will achieve its FIAR goals by improving business systems, controls, and processes across all functional areas. By better controlling operations and better understanding our spending, the Department will improve its ability to identify efficiencies. Organizations that have already achieved audit readiness report that the improved financial visibility allows them to more efficiently allocate unobligated resources to urgent mission needs before the funds expire. They also have more timely and better documented information to use in judging the success of programs.

Let me mention one other area related to financial controls – namely, control of improper payments. Improper payments have declined since DoD first reported on them in FY 2004. The Office of Management and Budget reported that the overall government-wide error rate for improper payments stood at about four percent in FY 2012, while DoD's error rate is significantly less than one percent. I believe that our program to control improper payments is sound, and I remain committed to complying in all respects with current statutory requirements.

## **Efficiencies and Sequestration**

I conclude by noting that, important though they are, efficiencies will unfortunately not be enough to meet the sudden and arbitrary FY 2013 budget cuts imposed by sequestration. If sequestration lasts for the remainder of the fiscal year, it would result in a reduction of as much

as \$46 billion from our budgetary topline in FY 2013 alone. In the few months remaining in FY 2013, we would not have nearly enough time to identify and secure Congressional approval for the far-reaching changes that would be required to achieve these large savings. Moreover, the law requires that sequestration changes be made in a mindless, across-the-board manner. Sensible efficiency proposals would be unlikely to meet the details of the required reductions.

In FY 2013 we are also wrestling with a misallocation of funds under the current Continuing Resolution (CR) – which provides too many dollars for investment and not enough for the Operation and Maintenance accounts that most influence military readiness. A year-long sequestration and CR, coupled with higher-than-expected costs in overseas contingency operations, would leave us with enormous shortfalls in the Operation and Maintenance funds that sustain military readiness. It will drive us to major cutbacks in training and maintenance that will in turn lead to a crisis in military readiness. We would also be forced to disrupt as many as 2,500 investment programs – driving up unit costs at the very time we are trying to hold them down.

We will continue our efforts to improve efficiency in the Department of Defense. In turn we hope the Congress will support our efficiency proposals. We also hope that the Congress will replace the current CR with appropriations bills for Defense and other Federal agencies. And we urge that Congress pass a balanced-deficit reduction package that the President can sign and that permits a de-triggering of sequestration. The continued strength of our national security depends on successful action on all these initiatives.