

GAO Highlights

Highlights of [GAO-17-449](#), a report to congressional committees

Why GAO Did This Study

In fiscal year 2015, DLA generated \$23 billion in revenues from supply chain management sales to the military departments and other customers, such as federal agencies. These sales included commodities and distribution services provided through the Defense-wide Working Capital Fund, a revolving fund.

Senate Report 114-255 and House Report 114-537 included provisions for GAO to evaluate DLA's costs to provide commodities and services using the Defense-wide Working Capital Fund. This report identifies trends in the costs and annual prices that DLA has charged for commodities and distribution services; and evaluates the extent to which DOD has taken steps to more efficiently use its network of U.S. distribution centers. GAO analyzed the most currently available DLA cost data, estimated and actual revenue, and prices for commodities and distribution services since fiscal year 2009; reviewed DOD documentation; and interviewed knowledgeable DOD officials.

What GAO Recommends

GAO recommends that DOD assess and direct the implementation of actions, as appropriate, that can be taken using existing authorities to close, realign, or dispose of existing infrastructure to more efficiently use the department's network of U.S. distribution centers. DOD concurred with the recommendation.

View [GAO-17-449](#). For more information, contact Andrew J Von Ah at (213) 830-1011 or vonaha@gao.gov.

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SUPPLY CHAIN MANAGEMENT

DOD Could More Efficiently Use Its Distribution Centers

What GAO Found

GAO found that since fiscal year 2009, the Defense Logistics Agency (DLA)—the largest logistics combat support agency for the Department of Defense (DOD)—had reduced costs and maintained fairly constant prices for commodities, such as repair parts, clothing, and food. When developing annual budgets, DLA has generally underestimated revenue from the sales of commodities. The underestimated revenue contributed to gains that were applied to future year prices in the form of reductions, and helped offset inflationary increases in material costs.

GAO also found that since fiscal year 2011, DLA had reduced costs for distribution services (e.g., the processing and storing of inventory) by about 25 percent through the use of existing authorities to reduce infrastructure. However, DLA has often increased annual prices for distribution services by more than 10 percent due, in part, to a declining workload. DLA has generally overestimated revenue from the sales of distribution services. The overestimated revenue contributed to losses as well as to price increases in subsequent years as DLA sought to recover those losses.

DOD has taken steps to increase the use of DLA's 17 U.S. distribution centers to improve efficiency of DLA's operations, but additional opportunities for efficiencies exist across DOD's network of approximately 256 U.S. distribution centers. In January 2017, DOD revised guidance to require storage of government-owned inventory at DLA's distribution centers instead of at privately owned storage when both are located in the same geographic area to reduce costs. DOD has also identified inefficiencies in the provision of its distribution services. Specifically, the military departments, along with DLA, provided distribution services using U.S. distribution centers that often were in close proximity to or located on the same installation. To address inefficiencies, DOD established a program to, among other things, decrease the number of U.S. distribution centers. In October 2014, DOD discontinued the program without implementing its plan to reduce the number of distribution centers. Though DLA has been able to use existing authorities to realign functions and demolish some facilities to gain efficiencies at its distribution centers, DOD officials told us the department needs Base Realignment and Closure authority—a process whereby Congress authorizes an independent federal commission to review and determine whether to forward to the President for approval DOD's proposals to realign and close military installations—to address any additional inefficiencies. GAO found, however, that DOD had not assessed the extent to which the department could further use its existing authorities to minimize unnecessary overlap or duplication in its network of distribution centers. Without assessing the use of its existing authorities, inefficiencies in DOD's network of U.S. distribution centers that the department has previously identified may remain.