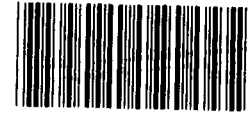


GAO

Testimony

Before the Subcommittee on Readiness,
Committee on Armed Services,
House of Representatives



146252

For Release on Delivery
Expected at
10:00 a.m., EST
Thursday,
March 26, 1992

DEFENSE LOGISTICS:

**DOD Initiatives Related to
Cutting Costs**

Statement of Donna M. Heivilin, Director, Logistics Issues,
National Security and International Affairs Division



Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to be here today to address issues related to the Department of Defense (DOD) Defense Management Report Savings Initiatives. Our discussion will focus on the results of our evaluation of DOD's Supply Depot Consolidation, as well as on the development of the Defense Distribution System and Computer Aided Logistics Support.

BACKGROUND

The 1986 report by the President's Blue Ribbon Commission on Defense Management made many recommendations to improve the management and organization of the DOD. In his February 1989 address to the Joint Session of Congress, the President directed the Secretary of Defense to develop "a plan to improve the defense procurement process and management of the Pentagon." In July 1989, the President approved and the Secretary issued the Defense Management Report, which outlined actions, policies and directives for improving defense capabilities with less resources.

In January 1990, a DOD status report contained specific management improvement initiatives intended to (1) save an estimated \$39 billion through reduced overhead, including elimination of redundant functions and improvement of business practices and (2) eliminate an estimated 42,900 civilian and military positions over fiscal years 1991-95.

In December 1990, we reported that DOD had implemented a number of savings initiatives and had begun to realize some savings, but the larger, more complex initiatives were still in the planning stages. We also reported that at least one-half of the \$39 billion in estimated savings was not based on cost analysis supported by historical facts or empirical cost data. For example, some savings were created by assigning a savings target, such as 3 percent annually, to a particular area and others were based on the professional experience of DOD officials.

In April 1991, DOD reduced the estimated savings of \$39 billion to \$35.7 billion, and outlined \$13 billion in new savings associated with additional initiatives.

In addition to revising the savings estimates, DOD projected savings through 1997 rather than 1995. This resulted in DOD's estimates that Defense Management Report initiatives will save about \$70 billion from fiscal year 1991 through fiscal year 1997. If you will look at table 1, DOD's April 1991 savings estimates by category, logistics account for the largest share of the savings originally projected.

Table 1: Estimated Savings, Fiscal Year 1991-1995
(\$ in millions)

<u>Functional category</u>	<u>Jan. 1990</u>	<u>April 1991</u>
Logistics	20,986	20,850
Administration	4,261	3,210
Base Operation and Facility Management	21	20
Automated Support and Information Systems	4,344	3,060
Finance, Procurement and Contract Management	3,856	2,930
Consolidation Studies and Decisions	<u>5,600</u>	<u>5,710</u>
Total	<u>39,068</u>	<u>35,780</u>

DOD noted that the savings estimates could be affected by a variety of future events, such as changes in force levels, new organizational structures, base realignment and closure decisions, and budget reductions and reallocations.

DOD's mechanics of tracking savings in specific categories are still being developed, and it is difficult to determine the extent that savings can be attributable to specific management actions. For example, with the Supply Depot Consolidation, DOD is unable to separate normal personnel attrition from reductions related to the consolidation. Therefore, it is difficult to determine the extent to which these personnel savings are actually the result of consolidation.

OUR WORK RELATED TO DMR INITIATIVES

As we reported in December 1990,¹ DOD's efforts to implement the Defense Management Report initiatives are in various stages, and many are undergoing extensive planning for implementation over the next several years. We have, however, evaluated DOD's implementation of several initiatives that have progressed beyond the planning stage and are currently being implemented. Our efforts, to date, have concentrated on DOD's efforts to (1) consolidate supply depots under DLA, (2) develop standard automated data processing (ADP) systems under the DOD Corporate Information Management initiative, and (3) develop Computer Aided Logistics Support. These initiatives illustrate the complex interrelationship of the various initiatives and the difficulty in determining savings from specific initiatives.

¹ACQUISITION REFORM: Defense Management Report Savings Initiatives (GAO/NSIAD 91-11, Dec. 4, 1990)

SUPPLY DEPOT CONSOLIDATION

We believe consolidating supply depots under single agency management, if properly combined with other DOD initiatives, can result in more efficient and cost-effective depot operations. However, unless better ways to identify savings can be developed, the impact of individual policies and directed initiatives may be difficult to quantify. For example, in just the short time since the Defense Management Report savings estimates were developed, major force structure reductions have begun that will reduce depot requirements. Also, the use of commercial practices, such as direct vendor delivery, is being expanded which further affect the quantity and placement of material needed to be stored in the depot system. In fact a substantial portion of warehouse management savings that can be achieved is likely to be attributable to decreasing the amount of the stocks stored, thus reducing the amount of storage space managed. The results of the various initiatives are dependent on the results of others, and the effective integration of the various management initiatives is critical to achieving optimum results. The consolidation of supply depots under DLA illustrates the problem faced in evaluating savings related to individual initiatives.

In March 1990, DLA estimated that consolidating the five San Francisco Bay area military supply depots under DLA would save about \$128 million between fiscal years 1991 and 1995. Of the total, \$98.7 million was employee salary savings based on an estimated reduction of 807 employees. Underlying this estimate was the assumption that the Bay area depots would experience a stable workload and be able to reduce the work force because of efficiencies associated with a single management for those depots. Between 1989 and 1991, DLA estimated the costs to consolidate the San Francisco Bay area depots, exclusive of development costs for a standard ADP system, to be about \$6.7 million.

In DLA's calculation of the savings for the first two years of the San Francisco Bay area consolidation, personnel attrition accounted for 98 percent of the \$25.5 million in reported savings. DLA did not, however, differentiate between normal attrition from reduced workload and a freeze on hiring, and attrition due to consolidation of functions. In fact, some of the attrition took place before consolidation of the depots and some would have taken place regardless of consolidation. Therefore, DLA's reported savings from consolidating the Bay area depots is overstated.

In July 1991, DLA estimated that if one agency managed all 30 supply depots \$1.2 billion would be saved between fiscal years 1991 and 1997. At that time the depots were operated by the military services and DLA.

This savings figure is comprised of \$837 million in reduced operating cost, and \$381 million in avoided military construction.

The reduced operating cost consists of savings from overhead consolidation and other efficiencies such as standardizing shipping and receiving practices, and projected savings from using a standard automated system. Military construction savings are planned construction projects that DLA deemed unnecessary under the consolidation. The military construction savings appear to be reasonable, but because of delays in developing a standard automated system, under the Corporate Information Management initiative, the other savings will take longer than projected to be realized.

CIM'S ROLE IN THE SAVINGS PROCESS

In October 1989, the Deputy Secretary of Defense announced the Corporate Information Management (CIM) initiative as one of the management methods for achieving many of these savings. Broadly stated, the information management goals are to improve business processes by establishing more efficient practices and by using information technology more effectively. DOD officials have described information management as an enabler for many of the savings initiatives and have attributed nearly \$36 billion of the \$70 billion in estimated savings directly to DOD's implementation of improved information management. About \$5.6 billion of savings attributed to CIM are directly identified with information technology initiatives: \$1.2 billion from the consolidation of ADP operations and design centers, \$2.8 billion from the development of standard ADP systems, and \$1.6 billion from the Computer Aided Acquisition Logistics Support initiative. The majority of the savings, approximately \$30 billion, is linked with functional areas by allowing implementation of new or re-engineered business methods. For example, DOD states it can reduce supply costs by an estimated \$17 billion by implementing CIM.

STATUS OF CORPORATE INFORMATION MANAGEMENT INITIATIVE

In the over 2 years since CIM began, DOD has focused primarily on realigning its organizational structure and creating policy to implement the initiative. For example, it has established the Information Technology Policy Board, the Information Policy Council, the Defense Information Systems Agency, the Center for Information Management, and working groups in functional areas such as material management, civilian personnel, and finance and accounting. These changes are intended to centralize information management and technology policy and decisionmaking within the Office of the Secretary of Defense, which had previously been decentralized within the military components.

However, as we reported in testimony before this Subcommittee in April 1991,² DOD's progress toward its basic CIM goals of business process improvement and automated systems standardization has been slow, and savings from CIM will probably not materialize for several years.

For example, DOD created several working groups in the logistics area to improve business processes and standardize automated systems. However, these groups had little success. DOD has now assigned responsibility for logistic information management initiatives to a new organization, the Joint Logistics Systems Center. Since the Center just opened in March 1992, DOD efforts to improve business processes under the information management initiative are just beginning.

DOD is also attempting to realize near-term savings through the selection of standard automated systems. Our review of the development of the Defense Distribution System illustrates the difficulty of this task. The system was being developed as a proposed standard system to support supply depot consolidation. However, DOD experienced significant systems integration problems in attempting to develop the system because it had not first developed data standards or standardized business processes across the existing military department systems. Until this is done, any attempt to integrate and standardize depot ADP systems will be difficult. In February 1992, DOD selected the Army's Area Oriented Depot System as the standard system for supply depots and eliminated DDS from consideration. However, the Army system may experience the same system integration problems as the Defense Distribution System.

STATUS OF COMPUTER AIDED LOGISTICS SUPPORT

We have also recently reported³ on another Management Report directive aimed at improving DOD's automated systems--the Computer-Aided Logistics Support initiative. This initiative is intended to automate the millions of pages of technical data needed to support weapons systems and thereby reduce the cost of maintenance and support. DOD had numerous Computer-Aided Logistics Support projects ongoing within each of the military services totaling more than \$5.2 billion, but it was not clear how they related to overall

²Defense ADP: Corporate Information Management Initiatives Faces Significant Challenges (GAO/IMTEC-91-35, April 22, 1991). Defense ADP: Corporate Information Management Savings Estimates Are Not Supported (GAO/IMTEC-91-18, Feb. 22, 1991). Challenges Facing Defense's Corporate Information Management Initiative (GAO/T-IMTEC-91-10, April 23, 1991).

³Defense ADP: A Coordinated Strategy Is Needed to Implement the CALS Initiative (GAO/IMTEC-91-54, Sept. 13, 1991)

Computer-Aided Logistics Support goals or to each other. We recommended that a coordinated DOD-wide strategy be developed. DOD agreed, and is taking actions to revitalize and strengthen CALS, and it has been incorporated into the CIM program. In October 1991, the Assistant Secretary of Defense, Production and Logistics, began DOD's effort to consolidate these automated systems by canceling an Air Force project--the Joint Uniform Service Technical Information System--and incorporating the requirements into an ongoing Army Computer-Aided Logistics Support project.

- - - -

Mr. Chairman, that concludes my prepared testimony. I am pleased to answer questions at this time.

(398063)

1

**United States
General Accounting Office
Washington, D.C. 20548**

**Official Business
Penalty for Private Use \$300**

**First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100**
