



**DEFENSE BUSINESS BOARD**

**For the Secretary of Defense**

# **Logistics as a Competitive War Fighting Advantage**

DBB FY17-03

**Recommendations on the logistics  
enterprise and its ability to provide the  
Nation a competitive war fighting  
advantage**

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## **PREFACE**

This study, *Logistics as a Competitive War Fighting Advantage*, is a product of the Defense Business Board (DBB). Recommendations by the DBB contained within are offered only as advice to the Department of Defense (DoD) and do not represent DoD policy.

The DBB was established by the Secretary of Defense in 2002, as authorized by the Federal Advisory Committee Act of 1972 (5 U.S.C., Appendix, as amended), and governed by the Government in the Sunshine Act of 1976 (5 U.S.C. § 552b, as amended), 41 CFR 102-3.140, and other appropriate federal and DoD regulations. The DBB provides the Secretary and Deputy Secretary of Defense with independent advice and recommendations on how “best business practices” from the private sector’s corporate management perspective might be applied to overall management of DoD. The DBB’s members, appointed by the Secretary of Defense, are senior corporate leaders and managers with demonstrated executive-level management and governance expertise. They possess a proven record of sound judgment in leading or governing large, complex organizations and are experienced in creating reliable and actionable solutions to complex management issues guided by proven best business practices. All DBB members volunteer their time to this mission.

## **Optimizing the Logistics Enterprise to Maintain a Competitive War Fighting Advantage**

### **TASK**

In August 2015, the Deputy Secretary of Defense directed the DBB to form a task group to recommend actions the DoD should take to optimize its logistics enterprise. The Terms of Reference guiding this effort can be found at **Tab A**.

The DoD faces an extraordinary confluence of management challenges, mounting costs, and budgetary reductions. The convergence of these conditions presents the DoD with myriad challenges and opportunities, yet also provides an opportune time for Defense leadership to make adjustments to the management of the logistics enterprise.

Major General Arnold Punaro, U.S. Marine Corps, Retired, served as the chair of this task group. Other members include John O'Connor and William Phillips. Two military representatives to the DBB, Captain Garrett Campbell, U.S. Navy and Lieutenant Colonel Lisa Mabbutt, U.S. Air Force, served as the task group's staff support.

### **PROCESS**

The task group interviewed and took briefings from over 40 senior officials and experts from within DoD, other government agencies, and the private sector. By interacting with the breadth of logistics professionals, it ensured the task group members understood the current challenges associated with the domestic logistics enterprise, as well as the challenges to supply chain resiliency posed by our Nation's potential adversaries.

The task group compiled and compared logistics best practices from government and the private sector, reviewed applicable laws, regulations and policies, and reviewed DoD strategic documents, reports, and available data. This included audits and studies from think tanks, corporations, businesses, and government agencies.

The task group's draft findings and recommendations were presented to the full DBB membership for deliberation and vote at the October 20, 2016 quarterly Public Meeting wherein the DBB voted to approve all recommendations offered. See **Tab B** for the briefing presented to and approved by the DBB. **Tab C** includes DoD component responses.

## **BACKGROUND**

As reported in the DBB's 2011 study *Global Logistics Management*, the DoD operates one of the largest logistics enterprises in the world, comprised of over 100,000 suppliers, \$96.4 billion in inventory, and supported by 18 maintenance depots, 25 distribution depots, and over 49,000 customer sites. The annual cost to operate and maintain this vast logistics enterprise is over \$170 billion and covers supply, maintenance, and transportation.<sup>1</sup>

The Department's logistics enterprise exists primarily to support the warfighter operating at the 'tip-of-the-spear' and as such provides the U.S. military a proven and recognized qualitative advantage over adversaries. However, it is necessary that DoD optimize the use of resources and maximize the dollars available to support the spectrum of its missions. While the enterprise has made significant progress over the last several years toward reducing inventory and streamlining processes, additional opportunities for increasing effectiveness exist.

The task group followed a specific path in its review of the logistics enterprise. With an understanding that significant parts and functions of DoD's logistics enterprise has been extensively studied, task group members undertook a comprehensive review of prior studies and reports conducted by DoD, DoD advisory groups, Congress, the U.S. Government Accountability Office (GAO), and other relevant organizations to identify opportunities for improvement. This helped narrow the task group's focus to potential problem areas and to identify areas where change might be implemented and/or further efficiencies achieved. Chief among the task group's efforts was the review of past and current governance models for logistics across DoD. The task group endeavored to formulate its recommendations in a practical manner to

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<sup>1</sup> Defense Business Board study *FY11-07 Global Logistics Management*. Washington, D.C., 2011

reflect current realities and the best business practices resident within private industry logistics enterprises of similar complexity.

Another significant focus of the task group was in areas which represent 'enduring issues' for the Department. These were broken down into three main categories: 1) the Defense Working Capital Fund (DWCF), 2) Defense Base Closure and Realignment Commission (BRAC) actions, and 3) those areas associated with statutory requirements and/or barriers that hinder the Department from implementing structural recommendations which support efficiencies, specifically, A-76 and the '50/50 Rule' on contracted depot maintenance.

Finally, while investigating the challenges facing the logistics enterprise, it became readily apparent to the task group that various elements of the supply chain face potential risk from adversaries who have taken technical and economic actions that may be leveraged to threaten enterprise resilience. The logistics enterprise's resiliency is fundamental to the Nation's ability to project power globally. However, because of the broadness of this topic area, and the fact it required research of classified aspects of the Department's supply chains and supporting industrial base, the task group chose to narrow its focus specifically to the Department's global end-to-end fuel chain. In doing so, the task group aimed to both highlight the particular vulnerabilities to a crucial aspect of the logistics enterprise and to provide a general understanding of the potential challenges facing enterprise stakeholders. By taking this approach, the task group endeavored to work with DoD leadership to pass-the-torch to separate entities within the Department for further in-depth study of this topic. Because of the limited scope applied toward the topic of Supply Chain Resiliency, it was the first topic presented by the task group at the October 20, 2016 public meeting.

## **OBSERVATIONS & FINDINGS**

Overall, the task group found DoD employs highly dedicated professionals who are forward-thinking and committed to driving results and improvements in areas where they affected the DoD's logistics enterprise. The task group made observations in the following major areas:

### **1. Supply Chain Resiliency.**

- A. In researching the end-to-end fuel supply chain we found DoD's supply chain is at significant risk.
- i. Adversaries' commercial economic activities can potentially influence our supply base (production, infrastructure and distribution), leaving our supply chain vulnerable to manipulation, degradation, interdiction and influence.
  - ii. Cyber security of the industrial base and supply chain poses an 'Achilles Heel' issue for the DoD. There has not been an end-to-end vulnerability assessment conducted; thus there is not a corrective action plan in place to mitigate the potential risks associated with cyber vulnerabilities in the logistics arena. Through open source resources and an understanding of recent cyber intrusions, the task group found that electronic components across the petroleum refining, transport, and storage industry, and also within steel, aluminum, ship building, aircraft engines and parts are at some considerable risk.
  - iii. Globalization's benefits are also accompanied by significant vulnerabilities. Consolidation within various global industries to achieve efficiencies and boost net returns for investors also potentially limits DoD supplier options and leaves companies at risk to potentially hostile foreign investment or take over.
  - iv. Commercial SCADA (Supervisory Control And Data Acquisition) systems across a myriad of industries (energy, transportation, petro chemical, etc.) used for remote monitoring and control have experienced high levels of cyber penetration, thus proving associated industries are vulnerable to cyber obstruction, interdiction, and/or manipulation.
- B. Within the DoD logistics enterprise, over 90% of U.S. Transportation Command (USTRANSCOM) activity takes place on commercial networks with sub prime contractors and DoD has little to no visibility into USTRANSCOM's 3rd and 4th tier suppliers.
- C. Intellectual property (IP) theft across global commercial enterprises threatens DoD's ability to maintain a qualitative, military advantage, and in turn diminishes its ability to leverage on

commercial innovation as an element of maintaining deterrence against potential adversaries (e.g. the Third Offset).

- D. Supply Chain Resiliency is at risk due to potential adversary efforts which, according to a senior DoD official, “they have effectively operationalized globalization.” Through IP and cyber intrusion, several nations have developed the capability to undermine or interdict a commercial enterprise’s logistics processes.

## **2. Defense Logistics Agency (DLA) Leadership Model.**

- A. As the Nation’s largest logistics enterprise, DLA’s leadership should attempt to emulate private business sector structures in order to become more effective at overall management.
  - i. Leadership incentive structures do not reflect current private sector best business practices, which inhibits both innovation and effective leadership.
  - ii. Leadership performance objectives in similar functions do not produce similar positive results.
  - iii. DoD should strive to keep costs low and deliver products ‘on time and on cost.’ Examples are:
    - a. Large scale operations,
    - b. Diverse international operations, and
    - c. Extensive supply chains supporting highly distributed product lines.
- B. A previous DBB study on supply chain integration (FY03-3 TRANSCOM-DLA Task Group) recommended against combining USTRANSCOM and DLA. This recommendation remains relevant and valid because:
  - i. The two organization’s roles, missions, competencies remain too diverse to create a constructive combination.
  - ii. An organizational merger would not significantly facilitate broader transformational objectives of supply chain integration.
  - iii. Inter-organizational coordination and cooperation have yielded improvements in asset visibility and management.
  - iv. There is no compelling catalyst for consolidation and interest in DoD for creating a larger centralized organization seems non-existent.



### 3. DWCF - DLA.

- A. The primary function of the DWCF is to improve efficiency and effectiveness, but it is additionally being leveraged to collect savings.
- B. Reducing DWCF overhead surcharges will support reducing costs.
  - i. DoD policy requires DWCF to set prices based on full cost recovery which includes overhead costs per DoD Financial Management Regulation (FMR), Volume 2B, chapter 9, pages 9-21)
  - ii. Customers need a process in order to question the prices that DWCF charges, while DWCF needs to continually identify ways to reduce costs and thus prices.
  - iii. A review of prices charged by the DWCF can be accomplished by two means: (1) internal by the customers and DWCF or (2) via the audit community.
  - iv. Increased transparency = better efficiency and effectiveness.
- C. Depot level maintenance and supply issues continue to impact the Services' ability to budget and manage DWCF workload. Shortcomings in this area have directly increased individual Services' carryover. Numerous root causes contribute to unplanned carryover. They are:
  - i. Timing – the work start date occurring near the end of a fiscal year (FY) due to changes in prioritization or ability to meet backlogged work orders directly results in unplanned carryover.
  - ii. Defining the Scope of Work – unexpected or unplanned delays, whether due to part unavailability or absent required work orders, has significant impact on carryover.
  - iii. Prioritization of Parts and Laborers (engineers and artisans) – a lack of planning, mismanagement, and/or unplanned shortages in parts and/or their prioritization based on emerging requirements. Management of skilled artisans and the workforce has routinely impacted the ability to meet timelines and backlogged orders, thus resulting in carryover.
- D. GAO consistently found that there is a problem with Services in projecting workload. GAO reports on Service carryover, through comparing budgeted customer orders to actual orders received

from customers, indicate large variances between the budgeted and actual orders.

**Table 2: Actual Adjusted and Budgeted Adjusted Army Industrial Operations' Carryover for Fiscal Years 2013 through 2015**

Dollars in millions

Fiscal year	Actual adjusted carryover (dollars)	Budgeted adjusted carryover (dollars)	Difference (dollars)	Percentage difference
2013	4,491	3,100	1,392	45
2014	4,445	1,868	2,577	138
2015	3,988	2,860	1,128	39

Source: GAO analysis of Army Industrial Operations' budgets. | OIG-16-548

- E. Failure to adequately project workload results in personnel hiring decisions which in turn result in unprogrammed delays. Unprogrammed delays result in significant variances between the actual versus the budgeted revenue.

**Table 5: Actual and Budgeted Army Industrial Operations' Revenue for Fiscal Years 2013 through 2015**

Dollars in millions

Fiscal year	Actual revenue	Budgeted revenue	Difference
2013	5,061	6,268	(1,207)
2014	4,543	6,024	(1,481)
2015	4,528	4,661	(132)

Source: OIG analysis of Army Industrial Operations' budgets. | OIG-16-543

**4. BRAC.**

- A. Declining budgets, force reductions and emerging missions underscore the need to divest excess infrastructure.
  - i. Army and Air Force have produced estimates of 33% and 32% excess state-side infrastructure capacity respectively; the DLA estimates it has a 12 -14% excess.<sup>2</sup>
  - ii. DoD estimates overall that there is a 22% excess capacity of military base infrastructure.
  
- B. Existing authorities limit the DoD's ability to reduce or realign excess infrastructure. However, DoD and some defense communities continue to favor another BRAC authorization.
  
- C. A growing number of Congressional delegations are supportive of a new BRAC authorization. Within in both chambers, members of both parties are debating the issue of authorizing another round of BRAC.<sup>3</sup>

<sup>2</sup> Defense Business Board study *FY16-02 Best Practices for Real Property Management*. Washington, D.C.: 2016. Also cited in Cohen, Dan. "DoD Analysis Reveals Excess Capacity in Army, Air force Facilities," The Association of Defense Communities, April 15, 2016.

<sup>3</sup> "Not Just the Senate: BRAC Surfaces in the House." The Daily Press. January 26, 2017. <http://www.dailypress.com/news/military/hrmilitary-blog/>

- D. Congress does not dispute the need for efficiency, but remains concerned about the current reduction of military capabilities and the excessive costs and focus of the 2005 BRAC. However, in not establishing new BRAC legislation, Congress:
- i. Cites the 2005 BRAC round which cost \$35 billion (\$14B over estimates) to achieve roughly \$4 billion in future annual savings.<sup>4</sup>
  - ii. Is skeptical of the Department's estimates of proposed savings.
  - iii. Often sees BRAC as an irreversible way to reduce military capabilities.
  - iv. Notes DoD does not support proposed changes in the BRAC law that will control costs and increase transparency.
- E. According to GAO opportunities exist to improve future BRAC Rounds.<sup>5</sup>
- i. Accurate BRAC cost estimates were hindered in many cases by DoD underestimating recommended specific requirements that were entered into the Cost of Base Realignment Actions (COBRA) model.
  - ii. Additional requirements were identified after BRAC implementation began.
  - iii. DoD also did not fully anticipate information technology requirements for many recommendations.
  - iv. DoD's methods for estimating excess capacity outside of a congressionally-authorized BRAC process have limitations.
  - v. DoD did not establish a target for reducing excess infrastructure, as it did in the 1995 BRAC round.
  - vi. DoD bundled multiple closures and realignments into single, highly complex recommendations in its report to the Commission without itemizing the costs and savings associated with each separate major action, thus limiting visibility into the estimated costs and savings for individual facility closures and realignments.
  - vii. The Office of the Secretary of Defense (OSD) did not establish a process to ensure a timely security review of its supporting

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4 Dr. Dorothy Robyn, "Statement," U.S. Congress, House, Appropriations Committee Subcommittee on Military Construction, Veterans Affairs and Related Agencies, *Department's Implementation of Base Realignment and Closure (BRAC)*, March 17, 2010

5 GAO-13-149, *Military Bases: Opportunities Exist to Improve Future Base Realignment and Closure Rounds*. Washington, D.C.: March 2013

- data to prevent the disclosure of classified information, thus delaying the Commission's work.
- viii. OSD's facility utilization data continues to be incomplete and inaccurate; and data limitations affect the military departments' use of their individual databases to identify consolidation opportunities.
- F. Despite the concerns raised by GAO, the DoD has not proposed changes to the BRAC law to address primary issues and concerns.
- i. The BRAC authorization language proposed by DoD each year since 2013 is essentially the same language authorizing the 2005 BRAC round, despite the 2005 round representing a significant departure from previous BRAC rounds.
  - ii. OSD representatives have testified to Congress in support of a BRAC round with assurances that the next round will concentrate on efficiencies and cost reductions vice transformation (2005 BRAC) – Congress has requested proposed changes to the law to reflect the different approach.
  - iii. OSD has rejected changes to the BRAC law proposed by Congressman Adam Smith, Ranking Member of the U.S. House Armed Services Committee, in provisions drafted in 2015 and 2016 that are intended to address Congressional concerns.
  - iv. OSD submitted to Congress in April 2016 a report mandated by the National Defense Authorization Act for FY2016 with estimates of excess facility capacity based on anticipated force structure projections for FY2019, but Congress specifically asked for an assessment based on FY2012 force structure levels to address concerns about force structure reductions in light of sequestration.
- G. GAO has determined that DoD's methods for estimating excess capacity outside of a congressionally-authorized BRAC process has limitations. Specifically, analysis for calculating excess capacity lacked precision necessary to identify specific installations of functional configurations for realignment or closure.

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- i. DoD excess infrastructure is believed to be in excess of 20%, equating to billions of dollars every year. Estimates post BRAC 2005 were also in excess of 20%.<sup>6</sup>
  - ii. Realignment of supply, storage, and distribution management (BRAC FY2005) one-time implementation costs increased \$347 million (180 percent) primarily for information technology.<sup>7</sup>
  - iii. Costs to integrate each of the services' inventory management systems with the DLA's systems were higher than anticipated based on costs for re-warehousing stock at the strategic distribution platforms, consolidating storage at the forward distribution points, redistributing inventories among various distribution depots, and modifying existing contracts.
- H. BRAC 2005 was the largest round undertaken and represents a significant departure from the norm as compared to prior rounds. BRAC 2005 focused on transformation, DoD is on record that future rounds will focus on efficiency.
- I. DLA BRAC Data indicates:
- i. Site reductions: 1989 = 34, 2012 = 20; Reduced by 14 sites
  - ii. DLA Available Cubic Feet (ACF): 1989 = ~ 694 million ACF, 2012 = ~ 233 million ACF; Reduced by ~ 461million ACF<sup>8</sup>

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6 GAO-13-535, *Defense Infrastructure: DOD's Excess Capacity Estimating Methods Have Limitations*. Washington, D.C.: 2013

7 GAO-12-709R, *Military Base Realignments and Closures Report*. Washington, D.C.: This data is found in Table 5: Dollar Differences in One-Time Costs From BRAC Commission Estimates to Fiscal Year 2011 DoD Budget, page 23, line 11 - Realign supply, storage, and distribution management.

8 DLA response to Defense Business Board Key Observations: BRAC.

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(TY \$B)	Major Base Closures	Major Base Realignments	Minor Closures and Realignments	Costs <sup>1</sup> (\$B)	Annual Recurring Savings <sup>2</sup> (\$B)
BRAC 88	16	4	23	2.7	1.0
BRAC 91	26	17	32	5.2	2.3
BRAC 93	28	12	123	7.5	2.7
BRAC 95	27	22	57	6.6	1.9
Total	97	55	235	22.0	8.0 <sup>3</sup>
<b>BRAC 05</b>	<b>24</b>	<b>24</b>	<b>765</b>	<b>35.1</b>	<b>4.0</b>

**5. A-76 Public-Private Competitions.**

- A. Re-invigorating the A-76 study process would support DoD efforts to ensure that public-private competitions result in greater savings.
  - i. A focus of the A-76 competitive process is to produce savings through reducing personnel costs by reengineering activities to perform them with fewer personnel (in-house or by contractor).
  - ii. Historically, DoD conducts more A-76 competitions than any other federal agency (food services, laundry services, building services, and public works).
  - iii. The GAO and the DoD Inspector General (DoD IG) have determined that DoD has yet to demonstrate that A-76 competitions produce savings department-wide.
  - iv. However, DLA's A-76 service provider performance period from 2008-2013 achieved a 5 year net savings for 19 competitions totaling \$514 million after accounting for costs associated with acquisition planning, procurement, personnel separation, transition, and contract/letter of obligation administration.<sup>9</sup>

<sup>9</sup> DLA response to Defense Business Board Key Observations: A-76.

- B. DoD A-76 efforts have dwindled post Congressional moratorium, and there is a perception A-76 provides government entities an unfair cost advantage due to issues associated with contractor reporting and accountability per the fully-burdened costs of their workforce.
- i. DoD continues to struggle with credible, comparable, and accurate cost data on development and operations. Additionally, DoD needs to better understand the context of the data as it relates to the for profit logistics industry with the capability to bid on, compete for, and potentially partner with private entities in order for DoD to achieve cost savings, efficiencies, and performance improvements.
  - ii. The 2014 DoD's Federal Activities Inventory Reform (FAIR) Act report, which reviews the number of active duty military serving in commercial activities, showed that of the 1.3 million serving on active duty over 330,000 active duty military personnel - our most expensive personnel asset by far – serve in jobs that could be done by civil servants or contractors.
  - iii. Removing even 10 percent of the 330,563 active duty from this category could free up \$5.3 billion for combat and or operational purposes.<sup>10</sup>

**6. Title 10 U.S.C. § 2466: Limitations on Performance of Depot Level Maintenance (the '50/50 Rule').**

- A. The '50/50 Rule' applies a constraint on Depot-level maintenance and repair.
- i. DoD does not seem to have clear understanding of what it needs on hand to sustain itself over time.
  - ii. A fully optimized maintenance capability requires flexibility so as to:
    - a. Reduce the depot maintenance component of Total Ownership Cost (TOC) on current and future systems by focusing on core depot-level capabilities.
    - b. Tailor the infrastructure, logistics processes, and employ a flexible labor force to maximize worker task time and minimize overhead costs.
    - c. Maintain a more consistent level of material condition, and

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<sup>10</sup> Major General Arnold L. Punaro USMC, Retired, "Statement," U.S. Congress, Senate, Senate Armed Services Committee, *The Urgent Need to Reform and Reduce DoD's Overhead and Infrastructure*, November 17, 2015.



- d. Meet aircraft production requirements associated with specific readiness demands.
- iii. Establishing a hard percentage constraint does not support DoD/Services efforts to:
  - a. Maintain sufficient public and private sector depot level maintenance workloads to ensure sufficient public sector industrial capacity, and
  - b. Surge to meet wartime material readiness requirements in the event of a crisis.

## **RECOMMENDATIONS**

The DBB offers the Secretary of Defense the following recommendations to drive changes, effect improvements, and ensure that a culture which continually fosters efficiency is maintained. Implementing these recommendations could offer significant improvement in DoD's management and potentially offer significant savings over time, as well as ensure the resiliency of the logistics enterprise in the face of global challenges from our potential adversaries.

### **1. Supply Chain Resiliency.**

- A. DoD should to gain a fuller understanding of the end-to-end supply chains beyond first tier suppliers to identify at-risk foreign and domestic companies.
- B. DoD should identify foreign infrastructure and companies at risk of potential adversary economic manipulation and influence, to include data integrity and IP, and understand the associated impact on both Combatant Command Operational Plans and the ability to project power globally in the face of possibly diminished service suppliers.
- C. DoD should coordinate with the Department of the Treasury's Committee on Foreign Investment in the United States (CFIUS) to ensure the preservation of the logistics enterprise beyond prime contractors. This may require DoD seeking the implementation of specific legislation limiting foreign investment in, or the purchase of, sub-prime contractors vital to DoD supply chain effectiveness and efficiency.

- D. Understanding the true vulnerability to defense infrastructure requires an assessment of areas extending beyond just IP and cyber.
- E. DoD should implement increased cyber security standards across both the domestic and foreign tiers of the supply chain. This should include foreign government owned and operated facilities that could affect DoD contracts and purchases. CFIUS does not address cyber security vulnerability analysis for supply chains.
- F. DoD should centralize these efforts under a single lead entity so as to coordinate effectively with other executive and governmental agencies. Defense interests need to be better protected as it relates to the supply chain.

## **2. DLA Leadership Model.**

- A. In order to align effective performance objectives, DoD should consider bringing in proven and accomplished private sector leaders to lead its vast logistics enterprises (e.g. DLA).
  - i. The realignment of DLA leadership structures would include:
    - a. A civilian head with a 3-star military deputy tied to operations.
    - b. The DLA civilian head should NOT be a political appointee.
    - c. Hire a proven business professional with a track record, and background in global logistics.
    - d. Introduce a 5 year incentivized results driven metrics-based contract.
  - ii. Request Congress provide DoD pilot authority to act as a test bed for potential additional realignment opportunities.

## **3. DWCF – DLA.**

In order to reduce and minimize carryover, DoD should ensure Service *depot* repair processes are based on a well-defined scope of work and the parts needed by the Industrial Operations activities to perform the contracted repair work (parts and materials, skilled labor, tools, equipment, technical data, and funding) are readily and easily

made available. DoD should require Services to conduct trend analysis comparing budgeted orders to actual orders. This will provide an understanding of future years' depot maintenance workload requirements. Understanding trend data on actual orders will also serve to minimize carryover and support adjustments to budget estimates as necessary. Where applicable, but not at the expense of maintaining service capability, public-private partnerships should be leveraged to offset Depot backlogs.

#### 4. **BRAC.**

- A. DoD should continue to pursue another round of BRAC in order to reduce excess logistics' infrastructure. BRAC 2005 is NOT representative of the historical norm. Legislation authorizing a BRAC process should:
  - i. Stipulate the focus is closure, with minimal realignments necessary for closure, efficiency, and immediate or near term savings, and
  - ii. Target supply chain and excess warehouse capacity.
  
- B. While recognizing the political hurdles associated with continuing to press for another round of BRAC, the Department should pursue other tools it has at its disposal which allow it to leverage and/or redeploy its logistics assets. Specifically:
  - i. Performance-based logistics contracts,
  - ii. Energy savings performance contracts, and
  - iii. Enhanced use leasing.

#### 5. **A-76 Public-Private Competitions.**

- A. DoD should complete a thorough analysis of A-76 competitions and meet the Congressional mandated report requirement. DoD's report should indicate what can be outsourced prior to reinitiating public – private competitions.
  - DoD should evaluate where A-76 competitions best provide immediate cost savings, thus validating a lifting of the moratorium and preparing the Department to implement the competitive process where and when permitted.

- B. True life-cycle cost – cost calculations and potential savings need to be evaluated using standard criteria in order to determine the true life-cycle cost of both personnel and things.
  - C. DoD should create a single definition of what constitutes the ‘fully burdened, life cycle cost’ of personnel and begin to track these costs for its various workforce populations: active, Guard, Reserve, civilian, contractor, and Federally Funded Research and Development Center employees.
    - i. DoD should take into account all cost elements including education, health care, and future retirement costs.
    - ii. DoD should strive to remove military personnel from commercial activities.
    - iii. DoD should develop an accurate inventory of activities performed by private contractors in order to fully comply with title 10 U.S.C § 2330a and to rebuild a viable program, align resources, and promulgate improved guidance.
- 6. Title 10 U.S.C. § 2466: Limitation on Performance of Depot Level Maintenance (‘50/50 Rule’).**
- A. DoD should better leverage commercial infrastructure to achieve significant savings. Specifically, aircraft programs are ripe to implement the proven material solutions embraced by major commercial aircraft operators.
    - i. Forego the practice of maintaining large DoD inventories of parts and instead pursue commercial parts pools that are readily available. Current commercial industry maintains parts pools to support ~20,000 aircraft today, and the DoD should be able to leverage this reality in order to achieve cost savings.
    - ii. Because specific new aircraft are Federal Aviation Administration certified, DoD can potentially save billions in material and labor costs over the lifecycle of those aircraft.
    - iii. Leveraging dual use (civilian and DoD) airframes will afford DoD the opportunity to incorporate and take advantage of commercial aircraft maintenance and logistics best practices. By incorporating the positive elements of this culture the DoD will reap the benefits of its associated performance focused attributes.

- B. Industry utilization of pools during Interim Contractor Support (ICS) of specific aircraft can be continued when ICS ends (2020).<sup>11</sup>
  - i. Ample opportunity still exists for depot work (organic).
  - ii. DoD should strive to invest wisely by focusing depot repair on mission equipment and leaving commercial repair of dual use systems to industry specialists.
  - iii. Partner with industry for core title 10 success and '50/50 Rule' thresholds.<sup>12</sup>
- C. DoD should seek to revise title 10 U.S.C. § 2466 to assure it provides maximum flexibility to pursue cost savings, supports efficiencies within the depot-level repair system, and promotes adequate industrial infrastructure both in the public and private sectors to meet current and future workload requirements.
- D. At a minimum, the '50/50 Rule' should be applied DoD-wide, not to each Service individually, and
- E. Any revision of title 10 U.S.C. § 2466 will require DoD to redefine 'core.' The guide for this should be that for DoD to maintain a capability, it should be defined within what is determined to be 'core.'

## CONCLUSION

The Department of Defense's logistics enterprise exists to effectively support the warfighter operating at the 'tip-of-the-spear,' and as such has provided the Nation a recognized qualitative advantage over its adversaries. It is diverse, distributed, and adaptive to military operational requirements. It has met unprecedented success through its responsiveness and global reach, and as such its process orientation ensures unity of effort, enterprise visibility, and a precise response which can best be characterized by declaring 'speed is our savings'.

However, while great strides in efficiency have, and continue to be made, across the enterprise, potentially critical vulnerabilities have

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<sup>11</sup> Industry Utilization Pools. DoD's standard reliance on huge on-the-shelf inventories is viewed counter to industry standards, as they leverage commercial parts pools that are readily available. Recommendations were received from leading aviation industry companies regarding how to achieve cost savings vis-à-vis airframes common to both industry and the DoD.

<sup>12</sup> This is a recommendation on how DoD might take advantage of parts pools as associated with title 10 U.S.C. Core Logistics as applied to the '50-50 Rule.'

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developed due to the globalization of economies and military and logistics associated industries and increasing reliance on cyber systems. And while the potential exists to threaten the resiliency of the enterprise, DoD should also remain vigilant in its efforts to optimize the use of resources and maximize the dollars available to support the spectrum of its missions. After fifteen years of continuously supporting the warfighter across the globe, there remain opportunities for improvements toward reducing inventory and streamlining processes, incorporating better management and modern leadership structures, better utilizing existing facilities, and revising legislation that complements ongoing efforts to move the Department toward a more innovative future.

On behalf of the Chairman, and the Defense Business Board this study is respectfully submitted,

A handwritten signature in black ink, appearing to read 'Arnold Punaro', with a long horizontal line extending to the right.

Arnold Punaro  
MajGen, USMC, Retired



# **Defense Business Board**

## **TAB A**

TERMS OF REFERENCE







DEPUTY SECRETARY OF DEFENSE  
1010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1010

AUG 18 2015

MEMORANDUM FOR CHAIRMAN, DEFENSE BUSINESS BOARD

SUBJECT: Terms of Reference - Logistics as a Competitive War Fighting Advantage

The Department of Defense (DoD) operates one of the largest logistics enterprises in the world, comprised of over 100,000 suppliers, \$96.4 billion in inventory, and supported by 18 maintenance depots, 25 distribution depots, and over 49,500 customer sites. The annual cost to operate and maintain the logistics enterprise is over \$170 billion and covers supply, maintenance, and transportation. The Department of Defense's logistics enterprise exists to support the "tip-of-the-spear" and gives the U.S. a qualitative advantage over our adversaries; as such it is necessary that DoD optimize the use of resources and maximize the dollars available to support missions. While the enterprise has made significant progress the last several years reducing inventory and streamlining processes, additional opportunities exist.

To help the Department identify these opportunities, I am establishing a Task Group under the Defense Business Board (DBB) to recommend those actions the Department should take to optimize our logistics enterprise. Specifically, the DBB should:

- Review the existing governance model for logistics across DoD and align recommendations in a practical manner that reflect current realities. Compare current logistics activities to those of "best of breed" private sector companies by major category of activity, to identify improvements that should be made regardless of where the service is being provided, while preserving and advancing logistic expertise within DoD as a core competency.
- Review private sector best practices on inventory management and reducing annual operating costs for fielded systems, and make recommendations on how those practices and associated processes and systems can be applied to DoD.
- Identify how private sector companies prioritize activities and then create and operationalize incentive structures. Make recommendations on those structures best suited to DoD.
- Review prior studies and reports conducted by DoD, DoD Advisory groups, Congress, the U.S. Government Accountability Office, and other relevant advisory organizations to identify opportunities.



- Identify any legislative requirements or other barriers that hinder the Department from implementing the recommendations (e.g., the 50/50 rule on contracted depot maintenance or capital investment minimums). Categorize recommendations into those that are: immediately actionable with no new legislation; immediately actionable but requires new legislation; requires further analysis but no new legislation; requires further analysis and new legislation.
- Develop an executable plan for each recommendation and identify the organization(s) and executives within the Department that should be responsible for implementation.
- Review such other matters as the DBB determines relevant.

The DBB will provide its findings and recommendations to the Secretary of Defense or the Deputy Secretary of Defense no later than April 21, 2016.

As a subcommittee of the DBB, pursuant to the Federal Advisory Committee Act of 1972 as amended, the Government in the Sunshine Act of 1976 as amended, and other applicable Federal statutes and regulations, this Task Group shall not work independently of the DBB's charter and shall report its recommendations to the full DBB for public deliberation and approval. The Task Group does not have the authority to make decisions on behalf of the DBB, nor can it report directly to any federal representative. The members of the Task Group and the DBB are subject to 18 U.S.C. 208, which governs conflicts of interest.

Robert O. Hyde



# **Defense Business Board**

## **TAB B**

PUBLIC MEETING BRIEFING

PROVIDED TO THE DEFENSE BUSINESS BOARD



# DEFENSE BUSINESS BOARD



## Logistics as a Competitive Warfighting Advantage

October 20, 2016

MajGen Arnold Punaro, USMC(ret), Chair  
Mr. Bill Phillips  
Mr. John O'Connor  
CAPT Garrett Campbell, USN, DBB staff

# Task Group

## Background / Context

- **The Department of Defense operates one of the largest logistics enterprises in the world**
- **Includes supply, maintenance, and transportation across the spectrum of operations, from training to warfighting to asset reconstitution**
  - 100,000 suppliers
  - \$96.4B inventory
  - 18 maintenance depots, 25 distribution depots, and over 49,500 customer sites
- **Its annual cost to operate and maintain in excess of \$150B**
- **Provides a real war fighting advantage**
  - Diverse, distributed, and adaptive to the military operational requirements
  - Responsive, global reach
  - Process oriented to ensure unity of effort, enterprise visibility, and precise response – “speed is our savings”
  - Depot unity of effort aligns expertise and capacity, but greater efficiencies can be achieved (50-50 constraints)
  - 15 years supporting the warfighter
  - Opportunities exist for further improvements and cost reductions



# Task Group

## Terms of Reference (TOR)

The Department of Defense (DoD) logistics enterprise exists to support the “tip of the spear,” and give the U.S. a qualitative advantage over our adversaries...it is necessary that DoD optimize the use of resources and maximize the dollars available to support missions.

While the enterprise has made significant progress the last several years reducing inventory and streamlining processes, additional opportunities exist.

- **To fully explore this, the Task Group worked to:**
  - Understand the unique requirements, perceptions, and realities of logistics in the DoD from each of its major stakeholders
  - Consider recent (and potential future) evolution of the Defense logistics enterprise as driven by mission, worldwide events, industry developments, and legislation
  - Speak with industry practitioners and academic experts to better understand outside recommendations for DoD logistics practices
  - Formulate findings and recommendations



# Task Group

- Research sources
  - DSB, CSIS, BENS, GAO, Rand, OSD (AT&L), McKinsey & Co., Lexington Institute and DBB
- Interviews
  - Current and former senior OSD, Joint Staff and Service leaders
  - Other government: GAO, NDU, LMI, IDA
  - Private industry: Amazon, NDIA Industry Forum
- Briefings
  - Institute for Defense Analysis
  - National Defense Industry Association, Logistics Division





# Key Observations – Industry

## Application of Industry Standards.

	World Class Business Practices	DoD Application
1	Focused on Core Functions	Define and focus on core functions; Divest other activities
2	Flat, flexible structures	De-layer, Consolidate
3	Widely shared information and knowledge	Powerful CIO focused on promoting information and knowledge sharing
4	Process-centered in cross functional teams	Established cross-functional teams for key processes
5	Performance goals used to achieve results	Refinements to the performance management system
6	Tight control over overhead personnel	Continuous evaluation and implementation of effective control systems

# Key Observations

## - Where Change is Needed -

- **Supply Chain Resiliency**
  - Understanding lower tiers capacity and impact on enterprise resiliency
  - Cyber security
  - Data rights
  - Market control – DoD is at the whim of primes and lower cost timelines
- **DLA Leadership Model**
  - Aligning DLA leadership to business standards
- **Defense Working Capital Fund - DLA**
  - Efficiency and effectiveness
- **BRAC Cost Analysis**
  - Master plans with environmental baseline studies focused on closure -- realignment only for efficiency and savings
  - Depot efficiencies – How many are excess? What is the excess?
- **Logistics Enterprise Enduring Issues**
  - Public – private partnerships and the A-76 moratorium
  - Uniformity and standardization in accounting for fully burdened personnel costs
  - 50/50 DoD legislation – relevancy to the current logistics enterprise
  - Inventory management and reduction



# Findings

## - Supply Chain Resiliency -

- **Findings: DoD's Supply Chain Resiliency is at risk.**
  - Adversaries' commercial economic activities can potentially influence our supply base (production, infrastructure and distribution)
  - Cyber security of the industrial base and supply chain is an “Achilles Heel” issue for the DoD, no end-to-end vulnerability assessment having been conducted , thus no corrective action plan
  - Consolidation within the global economy brings efficiency and net returns for investors, but limits DoD supplier options and leave companies at risk to foreign investment
    - Commercial SCADA (Supervisory Control And Data Acquisition) systems across a myriad of industries (energy, transportation, petro chemical, etc.) used for remote monitoring and control are vulnerable to cyber obstruction
  - 90% of TRANSCOM activity takes place on commercial networks with sub prime contractors - DoD has little to no visibility into 3<sup>rd</sup> and 4<sup>th</sup> tier suppliers
  - Intellectual property (IP) theft across global commercial enterprises threatens DoD's ability to maintain a qualitative, military advantage, and thus leverage commercial innovation to maintain deterrence (the Third Offset)
  - Potential adversaries have “Operationalized Globalization”

# Recommendations

## - Supply Chain Resiliency -

- **DoD needs a fuller understanding of end-to-end supply chain vulnerability to identify at-risk foreign and domestic companies**
- **Identify at-risk foreign infrastructure & companies and the potential impact on the ability to project power**
- **Coordinate with the Committee on Foreign Investment in the United States (CFIUS) to ensure the preservation of the logistics enterprise beyond prime contractors.**
- **Establish cyber security standards across all tiers of the supply chain.**
- **Centralize resiliency efforts under a single entity in order to more effectively coordinate with other government agencies**



# Findings

## - DLA Leadership Model -

- **Finding: As the nation's largest logistics enterprise, DLA's leadership should incorporate private business sector structures**
  - Leadership incentive structures are not reflective of private business best practices
  - Leadership performance objectives in similar functions should produce similar positive results
  - DOD needs to learn from global organizations to keep costs low and deliver products “on time and on cost.”
    - large scale operations -
    - diverse international operations -
    - extensive supply chains supporting highly distributed product lines -
  
- **Finding: Previous study (DBB Report FY03-3 TRANSCOM-DLA) recommended not to combine TRANSCOM and DLA. Recommendation remains relevant and valid**
  - Roles, missions, competencies remain too diverse to create a constructive combination
  - The organizational merger would not significantly facilitate broader transformational objectives of supply chain integration
  - Inter-organizational coordination and cooperation have yielded improvements in asset visibility and management
  - Catalyst for consolidation and creating larger centralized organization is non-existent

# Recommendations

## - DLA Leadership Model -

- **DoD should bring in accomplished civilians to lead its large logistics enterprises (e.g. DLA)**
  - The realignment of DLA leadership structures would include;
    - A civilian head with a 3 Star military deputy tied to operations
    - The DLA civilian head should NOT be a political appointee
    - Hire a proven business professional with a track record and background in global logistics
    - Introduce a 5 year incentivized results driven metrics-based contract
    - Put civilian global logistics experts throughout all levels of enterprise leadership
  - Provide DoD pilot authority to act as a test bed for potential additional realignment opportunities.

# Findings

## - Defense Working Capital Fund (DWCF) -

- **Finding: The primary function of the DWCF is to improve efficiency and effectiveness, but it is being used to collect savings**
- **Finding: Reducing DWCF overhead surcharges will reduce costs**
- **Finding: Depot level maintenance and supply issues continue to impact the Services' ability to budget and manage DWCF workload which increases carryover**
  - Timing
  - Defining the Scope of work
  - Prioritization of parts and laborers(engineers and artisans)

# Recommendations

## - DWCF -

- **To reduce carryover, require a well-defined scope of work and the parts needed by the Industrial Operations activities to perform the contracted repair work (parts and materials, skilled labor, tools, equipment, technical data, and funding)**
- **Require trend analysis of budgeted orders versus actual orders.**
  - Can provide an understanding of future years' depot maintenance workload requirements.
  - Will minimize carryover
  - Supports adjustments to budget estimates
- **Pursue public-private partnerships to offset depot backlogs**



# Findings

## – Base Realignment and Closure –

- **Finding: Declining budgets, force reductions and emerging missions underscore the need to divest excess infrastructure**
  - Army and Air Force estimates 33% and 32% excess state-side infrastructure capacity respectively; Defense Logistic Agency 12% excess
  - DOD estimates 22% excess capacity of military base infrastructure
- **Finding: Existing authorities limit DoD's ability to reduce or realign excess infrastructure. DOD and defense communities favor BRAC authorization.**
- **Finding: A growing number of defense communities and Congressional delegations are supportive of a BRAC authorization**
  - Bills were introduced in both chambers in 2016 by Members of both parties
- **Finding: Congress does not dispute need for efficiency, but remains concerned about the current reduction of military capabilities and the excessive costs of the 2005 round**
  - Cites the 2005 BRAC round which cost \$35 billion (\$14 B over estimates) to achieve roughly \$4 billion in future annual savings
  - Skeptical of the Department's estimates of proposed savings
  - BRAC seen as an irreversible way to reduce military capabilities
  - Proposed changes in the BRAC law that will control costs and increase transparency – DOD does not support.

# Findings

## - Base Realignment and Closure -

- **Finding: BRAC 2005 was the largest round undertaken and represents a significant departure from the norm as compared to prior rounds. BRAC 2005 focused on transformation, DoD is on record that future rounds will focus on efficiency**

(TY \$B)	Major Base Closures	Major Base Realignments	Minor Closures and Realignments	Costs <sup>1</sup> (\$B)	Annual Recurring Savings <sup>2</sup> (\$B)
BRAC 88	16	4	23	2.7	1.0
BRAC 91	26	17	32	5.2	2.3
BRAC 93	28	12	123	7.5	2.7
BRAC 95	27	22	57	6.6	1.9
Total	97	55	235	22.0	8.0 <sup>3</sup>
<b>BRAC 05</b>	<b>24</b>	<b>24</b>	<b>765</b>	<b>35.1</b>	<b>4.0</b>

Source: Statement of Dr. Dorothy Robyn Deputy Under Secretary of Defense (Installations and Environment) March 17, 2010

- **DLA BRAC Data:**

- Site reductions: 1989 = 34, 2012 = 20; Reduced by 14 sites
- DLA Available Cubic Feet (ACF): 1989 = ~ 694 million ACF, 2012 = ~ 233 million ACF; Reduced by ~ 461million ACF

# Recommendations

## - Base Realignment and Closure -

- **Pursue another round of BRAC to significantly reduce excess logistics' infrastructure.**
  - Legislation authorizing a BRAC process should;
    - Stipulate the focus is closure, with minimal realignments necessary for closure, efficiency, and immediate or near term savings
    - Target supply chain and excess depot warehouse and capacity
- **Pursue other tools to leverage and or redeploy logistics assets.**
  - Performance-based logistics contracts
  - Energy savings performance contracts
  - Enhanced use leasing

# Findings

## - A-76 & Public-Private Competitions -

- **Finding: Re-invigorating the A-76 study process would support DoD efforts to ensure that public-private competitions result in greater savings.**
  - A focus of the A-76 competitive process is to produce savings through reducing personnel costs by reengineering activities to perform them with fewer personnel (in-house or by contractor)
  - Historically, DOD conducts more A-76 competitions than any other federal agency (food services, laundry services, building services, and public works)
  - The GAO and DoD IG have determined that DoD has yet to demonstrate A-76 competitions do indeed produce savings.
- **Finding: DoD A-76 efforts have dwindled post Congressional moratorium, and there is a perception A-76 provides government entities an unfair cost advantage due to issues associated with contractor reporting and accountability per the fully-burdened costs of their workforce.**
  - DOD lacks credible, comparable, and accurate cost data on development and operations. Additionally, DoD needs to understand the context of the data as it relates to a large, profitable logistics industry sector with the capability to bid on, compete for, and potentially partner with private entities in order for DoD to achieve cost savings, efficiencies, and performance improvements

# Recommendations

## - A-76 & Public-Private Competitions -

- **Complete a thorough analysis of A-76 competitions and meet the Congressionally mandated report requirement indicating what can be outsourced prior to reinitiating public – private competitions**
- **Establish a uniform definition of “fully burdened, life cycle cost” and track and report these costs for its workforce: active, Guard, Reserve, civilian, contract, and FFRDC**
  - Must take into account all cost elements including education, health care, and future retirement costs
  - DoD should strive to remove military personnel from commercial activities – currently does not take into account the fully burden cost of a service member
  - To fully comply with 10 U.S.C 2330a and rebuild a viable program, align resources and promulgate improved guidance, DoD should develop an inventory of activities performed by private contractors and
- **True life-cycle cost – calculations and potential savings need to be an evaluation criteria**

# Findings

## - 10 USC 2466 50-50 Rule -

- **Finding: The 10 USC 2466 Limitation on Performance of Depot Level Maintenance (50 – 50 rule) applies an self-imposed constraint on Depot-level maintenance and repair.**
  - DOD does not know what it needs on hand to sustain itself over time
  - A fully optimized maintenance capability requires flexibility so as to;
    - Reduce the depot maintenance component of Total Ownership Cost (TOC) on current and future systems by focusing on core depot-level capabilities
    - Tailor the infrastructure, logistics processes, and employ a flexible labor force to maximize worker task time and minimize overhead costs
    - Maintain a more consistent level of material condition
    - Meet aircraft production requirements associated with readiness demand
  - Establishing a hard percentage constraint does not support efforts to;
    - Maintain a sufficient public and private sector depot level maintenance workload ensuring sufficient public sector industrial capacity
    - Surge to meet wartime material readiness requirements in the event of a crisis

# Recommendations

## - 10 USC 2466 50-50 Rule/Leveraging Commercial Best Practices -

- **Pursue revision of 10 USC 2466**

- Provide greater flexibility to pursue cost savings,
- Supports efficiencies within the depot-level repair system
- Promotes adequate industrial infrastructure both in the public and private sectors
- 50-50 should be DoD-wide, not Service specific
- DoD should redefine “core” so that if we have it, it must be core

- **Leverage commercial infrastructure to achieve significant savings. Specific aircraft programs are ripe to implement proven material solutions that are embraced by major commercial aircraft operators.**



# Logistics Recommendations Summary

- **Assess end-to-end supply chain vulnerabilities and work with CFIUS to ensure enterprise-wide resiliency**
- **Institute civilian leadership over its large logistics enterprise (DLA)**
- **Reduce DWCF carryover through effective trend analysis and improved repair processes**
- **Pursue a new round of BRAC**
- **Re-evaluate in order to Re-institute an improved A-76 process**
- **Revise 50-50 Rule for greater efficiency and effectiveness**







# **Defense Business Board**

## **TAB C**

DoD COMPONENT RESPONSES

SUBMITTED TO THE DEFENSE BUSINESS BOARD





## Defense Business Board

### **DEPARTMENT OF DEFENSE COMPONENT RESPONSES**

As of the date of this study being published two Department of Defense component responses were received by the Defense Business Board for inclusion.

The Defense Logistics Agency (DLA) and the Headquarters, Department of the Army, Deputy Chief of Staff for Logistics (HQDA DCS G-4) offered the following enclosed comments.



## DLA Comments to Draft Defense Business Board

### Key Observations

The following underlined/red topics are “Key Observations” from the DRAFT Defense Business Board (DBB) out brief regarding the Task Group’s study “Logistics as a Warfighting Advantage”. The Defense Logistics Agency (DLA) would like to offer the following comments for the Key Observations summarized on Chart 2 of the DBB brief.

#### Supply Chain Resiliency & Vulnerabilities

- **DLA Response:** Concur
  - DLA agrees there are supply chain vulnerabilities – DLA had previously identified a number of these vulnerabilities.
  - DLA has established a Cyber Program Management Office to identify and assess the vulnerabilities in more detail. We are establishing a ‘cyber toolkit’ leveraged by all stakeholders reaching across the workforce, customers and suppliers, to continuously monitor and assess DLA’s Key Cyber Terrain to avoid, and where applicable, mitigate disruptions in supply chain operations.
  - The Cyber Program Management Office will continue to pursue implementation of the Cyber Resilience Integration Plan, with an emphasis placed on particular supply chain vulnerabilities.
- **DLA Leadership**
  - **Aligning DLA leadership to business standards**
- **DLA Response:** Concur with comment:
  - As a combat logistics agency, DLA maintains a balanced leadership structure, which allows for the adoption of best business practices from the private sector, without compromising military readiness and responsiveness.
  - DLA employs a unique combination of skillsets in the areas of military and combat logistics, inventory/distribution/warehousing, supply chain management, business/financial administration, acquisition management, and information systems.
  - This combination incorporates the key principles of military readiness and cost consciousness.
  - Regarding leadership incentive structures and performance objectives, DLA is required to follow the policy framework of other DoD Components, both military and civilian.
  - While DLA, like other DoD Components, is constrained with respect to significant financial incentives tied to performance, we leverage other forms of incentives and recognition to reward leadership behaviors that drive improvements to mission outcomes and cost savings.

- **Defense Working Capital Fund - DLA**
  - **Efficiency and effectiveness**
- **DLA Response:** Concur with comment:
  - DLA and Military Service counterparts will continue to ensure an open and transparent approach to cost control and resulting rate development. Through a rigorous internal budget development process, DLA closely evaluates and strives to reduce costs to provide the lowest prices to our customers.
  - DLA already uses multiple approaches to ensure our rates are open to scrutiny from external customers, internal review, OSD oversight and auditors if/when requested, here are some examples:
    - In the annual Program Budget Request cycle DLA provides OSD Comptroller Staff proposed DWCF rates and a proposed rates briefing to the Military Services WCF representatives.
    - DLA partners with the Military Services to host quarterly Cost Summits bringing together financial and logistics senior leaders to discuss and scrutinize pricing mechanisms, customer-driven pricing anomalies and areas of mutual interest.
    - DLA is successfully reducing the composite Cost Recovery Rate (CRR) through self-imposed cuts, our PBR 17 proposal will reduce it each year in the FYDP.
- **BRAC Cost analysis**
  - **Full master plans that include environmental baseline studies and that are focused on closure with realignment only necessary for efficiency and savings.**
  - **Depot efficiencies – How many are excess? What is the excess? (Also BRAC References on Slides 9 &10)**
- **DLA Response:**
  - Concur with slide 9 bullet 1: 2005 BRAC round which cost the Pentagon over \$35 billion to achieve roughly \$4 billion in future annual savings
  - Absent BRAC authorization, a detailed analysis outside a congressionally authorized BRAC could imply that an installation is surplus which could negatively impact local markets and elected officials.
  - Costs to integrate each of the services' inventory management systems. Service reluctance to embrace a common BRAC 2005 enterprise approach resulted in implementation gaps and increased cost.
  - All BRAC rounds should be considered as opposed to BRAC 2005 in isolation. BRAC 2005, unlike prior BRAC rounds was focused on transformation. DoD is on record that future BRAC rounds will focus on efficiency.

- Recommended change: Add bullets to illustrate a balanced perspective of BRAC on DLA:
  - Previous BRAC rounds achieved significant DLA reductions
    - DLA Site Reductions:
      - 1989 = 34
      - 2012 = 20
 Reduced by 14 Sites
    - Available Cubic Feet (ACF):
      - 1989 = ~694 million ACF –
      - 2012 = ~233 million ACF –
 Reduced by ~461 million ACF
- **Logistics Enterprise Enduring Issues**
  - **Public – Private partnerships and the A-76 moratorium**
- **DLA Response:** Concur
  - DLA has leveraged public private competition to drive greater efficiencies and improved operations for several business areas, notably our storage and distribution enterprise.
  - If the moratorium is lifted by Congress, DLA would pursue additional savings opportunities with the new requirement to consider public-private competition.
  - The moratorium immediately halted DLA progress on a number of other opportunities that DLA was considering at the time.
  - The moratorium also impacted, in the 2015 timeframe, DLA's pursuit of Performance Based Logistics (PBLs) arrangements.
    - It was determined PBLs do not constitute a conversion of functions or activities at DLA PLFAs or Distribution Centers, and therefore do not require an A-76 competition.
    - The purpose of DLA PBL arrangements is not to convert activities or functions performed by government employees, but instead is to have a contractor manage the supply chain for various component items and deliver those items directly to the customer.
    - DLA PLFA and Distribution Center functions and activities performed by federal employees will not fundamentally change, and management, operations, and performance activities will continue.
    - However, there is litigation risk given the anticipated impact of resulting reduced workload on the federal workforce and potential need for reductions in force if PBL-managed stock items are no longer managed or processed through government organic supply chain operations.
    - Similar problems occurred with opportunities DLA was perusing for Industrial Hardware.
  - Overall, DLA's A-76 program was rated GREEN from FY 2008 through FY 2013 when the last A-76 service provider completed its five-year period of performance, both for performance and in exceeding the budgeted cost savings targets.

- Five-year net savings for the 19 competitions totaled \$514 million after accounting for costs associated with acquisition planning, procurement, personnel separation, transition, and contract/letter of obligation administration.
  
- **Not understanding the impact of fully burdened personnel costs**
  
- **DLA Response: N/A**
  - The cost of active duty military personnel assigned to the Defense Working Capital Fund is included in the total cost of operations.
  
  - DLA reimburses the Military Services for military personnel costs as delineated in Volume 2B, Chapter 9, and Volume 11B, Chapter 12, Section 1202 of the DOD FMR.
  
- **50/50 DOD legislation – relevancy to the current logistics enterprise**
  
- **DLA Response: N/A**
  - The proposed 50/50 legislation has no direct impact on DLA.



ITEM	#	SOURCE	TYPE	PAGE	PARA	LINE	COMMENT	RATIONALE	DECISION (A/R/M)
	1	USA-G44M	S	I-2	Bullet 2	Sub-bullet 2, line 7	Sub-bullet needs to indicate that the 18 maintenance depots, 25 distribution depots and over 49,000 customer sites represents the DOD Organic Industrial Base which is an integral part of the overall Defense Industrial Base (DIB). Clarify scope to ensure inclusion of munitions centers and manufacturing arsenals (Joint Munitions Command entities, U.S. Army manufacturing arsenals, the Joint Systems Manufacturing Center (JSMC) at Lima, Ohio, and ammunition plants).	Scope clarification provides context for findings and recommendations. The U.S. Army manages three Government-owned, Government-operated (GOGO) manufacturing arsenals and the Government-owned, Contractor-operated (GOCO) Joint Systems Manufacturing Center at Lima, Ohio and eight GOCO ammunition plants.	
	2	USA-G44M	S	I-2	Bullet 4	Sub-bullet 4, line 14	Recommend following be inserted after "...expertise and capacity...": "...and further enhanced by aligning work to designated Centers of Industrial and Technical Excellence (CITE),..."	Title 10, United States Code, Section 2474, requires the SECDEF to designate each depot-level activity or military arsenal facility of the military departments as a Center of Industrial and Technical Excellence in the recognized core competencies of the designee.	
	3	USA-G44M	S	I-4	Bullet 2	line 4	Recommend that the Task Group conduct interviews with a sample of the different types of organic industrial base (OIB) activities found in each Service.	Additional interviews with Service OIB activities would help validate Task Force findings and recommendations.	
	4	USA-G44M	S	I-11	Bullet 3	line 4	Recommend following be inserted between "...maintenance and supply issues..." and "continue": "..., late receipt of funding, and multi-year funded programs..."	Late receipt of funding and programs funded with multi-year appropriations, which the depots often have no control over, have a significant impact on carryover.	
	5	USA-G44M	S	I-12	Bullet 3	line 10	Change bullet to read: "Pursue public-private partnerships to enhance efficiencies between organic and private sector industrial base activities"	Public-private partnerships are not normally pursued to offset workloads – they are primarily established for sharing technical expertise, enhancing efficiencies and reducing costs.	

ITEM	#	SOURCE	TYPE	PAGE	PARA	LINE	COMMENT	RATIONALE	DECISION (A/R/M)
	6	USA-G44M	C	I-13	Bullet 1	Sub-bullet 1, line 3	Change to read: "The Army, Air Force and Defense Logistics Agency (DLA) estimate some excess capacity within their organic industrial base activities. The Army is will soon conduct independent/third party on-site capacity assessments at its five maintenance depots and three manufacturing arsenals to validate if, in fact, any of these eight facilities have excess capacity."	The Army cannot confirm the 33% excess capacity reported on Chart 13. Additionally, an overarching excess capacity calculation does not directly tie to the need to close a facility. Capacity is not the same as capability. Finally, a purposeful drive for efficiency for the sake of efficiency introduces risk in our ability to respond to COCOM war requirements.	
	7	USA-G44M	C	I-15	Bullet 2	Sub-bullet 4, line 11	Add sub-bullets that address organic industrial base (OIB) assets such as "Public-Private Partnerships (PPP)"; "Aligning Workloads to Centers of Industrial and Technical Excellence (CITE)"; "Modernizing OIB facilities at the same pace we are modernizing our weapon systems"; and "Reduce Carryover".	This bullet, as currently written, only focuses on the private sector, when, in fact, DOD's organic industrial base (OIB) play a key role in leveraging and redeploying logistics assets.	
	8	USA-G44M	C	I-18	Title		Change the Title to "10 USC 2464 Core Logistics Capabilities"	Task Force should focus on the core depot logistics requirements process as governed by Title 10, United States Code Section 2464 for shaping organic industrial base depots.	
	9	USA-G44M	C	I-18	Bullet 1		Change to read: The 10 USC 2464 Core Logistics Capabilities requires DOD to maintain a core logistics capability that is Government-owned, Government-operated (GOGO), including Government personnel and GOGO equipment and facilities, to ensure a ready and controlled source of technical competence and resources necessary to ensure effective and timely response to a mobilization, national defense contingency situations, and other emergency requirements.	Task Force should focus on the core depot logistics requirements process as governed by Title 10, United States Code Section 2464 for shaping and modernizing the organic industrial base depots and ensuring complementary capabilities are established between the organic and private industrial base sectors.	
	10	USA-G44M	C	I-18	Bullet 1	Sub-bullet 1, line 4	Do not agree with this finding.	Task Force should focus on the core depot logistics requirements process as governed by Title 10, United States Code Section 2464 for shaping and modernizing the organic industrial base depots and ensuring complementary capabilities are established	

ITEM	#	SOURCE	TYPE	PAGE	PARA	LINE	COMMENT	RATIONALE	DECISION (A/R/M)
								<i>between the organic and private industrial base sectors,</i>	
	11	USA-G44M	C	I-18	Bullet 1	Sub-bullet 2, line 5	<p><i>Change to read: "The core logistics capability process provides the flexibility to:"</i></p> <ul style="list-style-type: none"> <li><i>•Reduce the depot maintenance component of Total Ownership Cost (TOC) on current and future systems by focusing on core depot-level capabilities</i></li> <li><i>•Tailor the infrastructure, logistics processes, and employ a flexible labor force to maximize workforce task time and minimize overhead costs</i></li> <li><i>•Maintain a more consistent level of material condition</i></li> <li><i>•Meet production requirements necessary to meet aircraft and ground system readiness demands</i></li> <li><i>•Maintain a sufficient public and private sector depot level maintenance workload ensuring sufficient public sector industrial capacity</i></li> <li><i>•Surge to meet wartime material readiness requirements in the event of a crisis</i></li> </ul>	<i>Task Force should focus on the core depot logistics requirements process as governed by Title 10, United States Code Section 2464 for shaping and modernizing the organic industrial base depots and ensuring complementary capabilities are established between the organic and private industrial base sectors.</i>	
	12	USA-G44M	C	I-18	Bullet 1	Sub-bullet 3, line 12	<i>Do not agree with the sub-bullet.</i>	<i>Task Force should focus on the core depot logistics requirements process as governed by Title 10, United States Code Section 2464 for shaping and modernizing the organic industrial base depots and ensuring complementary capabilities are established between the organic and private industrial base sectors.</i>	
	13	USA-G44M	C	I-19			<i>The Army does not support pursuing the revision of 10 USC 2466.</i>	<p><i>10 USC 2466:</i></p> <ul style="list-style-type: none"> <li><i>•Enhances the ability to maintain an organic core logistics capability.</i></li> <li><i>•Supports requirement to surge.</i></li> <li><i>•Promotes balanced workload between public and private sectors.</i></li> <li><i>•Generates public-private partnerships (PPP) which allows:</i></li> </ul>	

ITEM	#	SOURCE	TYPE	PAGE	PARA	LINE	COMMENT	RATIONALE	DECISION (A/R/M)
								<ul style="list-style-type: none"> <li>•Organic depots to increase their revenue by supplementing their annual workload.</li> <li>•Organic depots to reduce overhead costs because the private firm reimburses depots for the use of their facilities.</li> <li>•Organic depots/private companies to enhance their capabilities and sustain core and other critical labor skills.</li> <li>• Organic depots/private companies to reduce costs because they cooperatively share the program workload rather than exhaust valuable resources to operate independently and compete for future workloads between the organic and private industrial base sectors.</li> </ul>	
	14	G44S	M	12	1	1	<i>The services work with DLA to improve supply support to Industrial Operations. The Army Supply Plan has reduced forecasting errors over 17% and has achieved an 87% materiel availability rate in the last 12 months. This should improve as the Army/DLA team continue to collaborate.</i>		
							<p><i>General concerns about the brief:</i></p> <ul style="list-style-type: none"> <li>-Brief does not articulate how logistics provides the Warfighter a greater advantage (per the title of the brief), nor clearly lay out how to improve that advantage.</li> <li>-Operational need must inform capacity assessments and divestment decisions. For example, divesting an entire facility because a specific Service or DoD writ large has excess capacity will reduce the cost; but at the expense of a capability required to support near term readiness and the ability to respond to the next joint combined arms maneuver war-fight.</li> </ul>		





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