



## Testimony

Before the Subcommittee on Military Readiness,  
Committee on National Security, House of Representatives

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For Release on Delivery  
Expected at  
10:00 a.m., EST  
Friday,  
March 13, 1998

# DEFENSE MANAGEMENT

## Challenges Facing DOD in Implementing Defense Reform Initiatives

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to present our observations, based on past and ongoing work, on the Department of Defense's (DOD) latest reform initiatives. These initiatives are described in the Defense Reform Initiative (DRI) Report, which was issued by DOD in November 1997. DOD is attempting to bring about a revolution in its business and support operations by identifying and adopting the best business practices from the private sector. Specifically, it is proposing to:

- reengineer many of its business processes;
- consolidate and reorganize DOD's headquarters elements and defense agencies, including the Office of the Secretary of Defense;
- increase the use of the Office of Management and Budget (OMB) A-76 process to compete DOD's commercial activities; and
- conduct two additional rounds of base realignment and closures (BRAC).

These actions are intended to reduce the cost of DOD's business and support activities so that operations and maintenance funds can be freed up to support weapons modernization and readiness needs.

In announcing this hearing, you expressed concern about DOD's record of executing programs designed to achieve infrastructure savings and the potential impact on readiness accounts if current reform initiatives falter in execution. In that context, my comments today will focus on the (1) risks associated with reducing budgets before savings are achieved, (2) challenges associated with implementing DOD's various business process reengineering initiatives, (3) opportunities to capitalize on consolidation and regionalization opportunities, and (4) underlying management problems that need to be addressed in implementing the reform initiatives. Before discussing my specific observations, I would like to briefly summarize my key points.

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## Results in Brief

The task facing DOD as it tries to implement reform initiatives is not easy. However, it is one we strongly support. Our work continues to show that significant opportunities remain to further streamline operations, consolidate functions, eliminate duplication of effort, and improve efficiency in DOD's business activities. These opportunities must be fully embraced if DOD is to achieve the level of savings it needs to meet other priorities such as weapon system modernization and readiness within expected budgets. The following are some key points we believe the

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Congress and DOD should take into consideration as DOD assesses DRI implementation and expected results.

First, DOD's plans to reduce out-year budgets before the magnitude of savings are clearly known is not without risk. This risk is that operating units and field commanders will not have sufficient funds to meet their readiness needs. Past reform initiatives, like the Defense Management Review (DMR) of the early 1990s, started with much the same hope and promise as the DRI. However, for a number of reasons, which I describe below, they were not able to sustain themselves and fully achieve hoped for results. In many cases, DOD reduced its operations and maintenance budgets up-front, in anticipation that the savings would be realized. When these savings did not materialize as quickly or to the extent expected, one of two things happened. Either money was moved from other parts of the defense budget to pay for shortfalls in operations and maintenance accounts or support functions went underfunded. We see the same type of risk with the DRI. For example, most savings from the DRI are expected to come from future competitions using OMB's A-76 process and from two additional BRAC rounds. In addition, DOD is once again proposing to reduce operations and maintenance funds in out-years budgets to capture the expected savings. Yet, our past work shows that A-76 competitions and BRAC rounds have produced savings, but they have not been as great or materialized as quickly at DOD initially estimated.

Second, many of the DRI business process reengineering initiatives must overcome significant challenges if they are to be implemented in a timely, efficient, and effective manner. While DOD expects these initiatives to save an unspecified amount of money, it is also counting on them to bring world-class business processes to DOD and improve the quality of service provided to defense customers. Our overall impression is that the initiatives have the potential to save significant amounts of money and improve the quality of service they provide. However, in some cases, DOD either faces significant implementation challenges or is not thinking broadly enough in implementing the reform. For example, DOD has made significant progress in implementing the prime vendor program for medical and food supplies, but these account for only two percent of the 4 million consumable items managed by the Defense Logistics Agency (DLA). Implementing this program for hardware items, which make up 97 percent of DLA's consumable items, has not been as easy. Resistance to change, particularly from the military services who must use the prime vendor program, has kept the program from expanding as quickly as DOD planned.

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Third, significant opportunities exist to achieve savings from , DRI consolidation, restructuring, and regionalization initiatives. However, our past work shows that DOD has not been able to fully capitalize on the potential offered by these initiatives . For example, we recently reported on the Navy's efforts to streamline and consolidate its maintenance programs for fleet ships and aircraft. While we found that the Navy had made substantial progress, the consolidations and related savings had not materialized as expected. Because the Navy had already made reductions to spending plans in anticipation of these savings, we reported that the overall material readiness of ships and aircraft could be negatively affected. For example, while the Navy had been able to absorb the reductions in the short term by fixing specific problems rather than performing scheduled depot-level overhauls, Navy officials were concerned about the long-term impacts of this approach.

Lastly, achieving success in the DRIS requires DOD to address the underlying causes of its systemic management problems, which we have previously reported. These causes include (1) cultural barriers and service parochialism that limit opportunities for change; (2) the lack of incentives for seeking and implementing change; (3) the lack of comprehensive and reliable management data for making decisions and measuring program costs and performance; (4) the lack of clear, results-oriented goals and performance measures, in some cases; and (5) inconsistent management accountability and follow through. To address these problems, DOD needs to ensure that implementation plans for each level of the organization include goals, performance measures, and time frames for completing corrective actions; identify organizations and individuals accountable for accomplishing specific goals; and fully comply with legislative requirements of the Chief Financial Officers Act, the Government Performance and Results Act, the Paperwork Reduction Act, and the Clinger-Cohen Act.

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## Background

DOD's latest efforts to reform operations and processes were spelled out in the Secretary's DRI Report, which was released on November 10, 1997. The report was the result of recommendations made in the Report of the Quadrennial Defense Review (QDR)<sup>1</sup> The QDR report noted that while DOD had reduced active duty personnel by 32 percent between 1989 and 1997, it had only reduced the number of people performing infrastructure functions by 28 percent. The report called for significant additional

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<sup>1</sup>The QDR was required by the National Defense Authorization Act for Fiscal Year 1997; it was intended to provide an examination of America's defense needs from 1997 to 2015, including a blueprint for a strategy-based, balanced, and affordable defense program.

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reductions in military and civilian personnel. Reductions called for by the QDR and other DOD planning efforts would have the effect of reducing military and DOD civilian personnel end strength levels by an additional 59,000 and 130,000 positions, respectively, below their fiscal year 1998 levels.

The Secretary noted in his DRI report that the military forces and the defense industry have made great strides in adjusting to a dynamic new world but much of the rest of the defense establishment remains “frozen in Cold War structures and practices.” For this reason, he pointed out that there is a real danger that the planned revolution in military affairs will quickly “outrun” the ability of logistics, personnel, medical, and other systems to support it. Accordingly, the Secretary called for what has been characterized as a revolution in business affairs and included in the DRI report, a number of reengineering initiatives aimed at adopting modern business practices and attempting to achieve world-class standards of performance. These initiatives include DOD’s efforts to

- reduce the administrative cost and burden of approving temporary duty travel, filing for reimbursement, and receiving payment;
- expand its use of prime vendors to buy, store, and distribute DOD’s consumable inventories;
- develop a total asset visibility capability so that it can better manage its inventory;
- change its household goods transportation process to provide better, cheaper service for the hundreds of thousands of military and civilian personnel that are required to move each year; and
- make its contracting and contractor payment processes paper-free.

The DRI report also lays out plans to reduce excess support costs by consolidating support agencies to achieve economies of scale. In addition, it calls for large numbers of A-76 outsourcing competitions and two additional rounds of BRAC.

An important element of this reform initiative is that the Secretary has established the Defense Management Council to, in effect, serve as DOD’s internal board of directors. The primary mission of this Council, which is chaired by the Deputy Secretary of Defense and includes many of DOD’s senior managers, is to monitor progress of the management reforms, seek new solutions and reengineering opportunities, and assist the Secretary in overseeing the activities of the military departments and defense agencies.

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This Council, if it operates as described, should bring a heightened awareness and sense of importance to DOD's management reforms.

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## Risk in Reducing Budget Before Savings Are Achieved

DOD is planning to reduce out-year operations and maintenance budgets in anticipation of the savings that will accrue from the DRIS. Just about all the anticipated savings identified in the DRI report, however, are linked to future competitions under OMB Circular A-76 and two additional rounds of base closures. Our past work has shown that A-76 competitions and base closures produced savings, but they may not have been as great or materialized as quickly as DOD initially estimated. Consequently, reducing out-year budgets before savings are more clearly known increases the risk that operating units and field commanders will not have sufficient funds to meet their readiness needs. Although DOD is currently not targeting savings from business process reengineering initiatives for similar out-year budget reductions, DOD will still need efficiencies from these initiatives to meet its planned personnel reductions targets.

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## Magnitude of BRAC and OMB-76 Savings Estimates in Out-Year Budgets Is Questionable

Most savings from DRIS are expected from additional rounds of BRAC and public-private competitions under OMB A-76. The Secretary of Defense recently submitted a legislative proposal to the Congress requesting authority for two additional BRAC rounds, one in 2001 and another in 2005. While DOD estimates that these two rounds will require an estimated up-front investment of \$12 billion, it believes they will save about \$14.5 billion during the base closure implementation period. In addition, DOD estimates that each round will save \$1.4 billion a year after the closures are completed. Our work has shown that savings from prior BRAC rounds are expected to be substantial. However, because DOD's up-front costs were higher than initially estimated, net savings have not been realized as quickly as expected. In addition, DOD does not have adequate cost accounting systems to track the cost of its operations, either before or after the base closures. Additionally, accounting systems track expenditures, not savings. Consequently, DOD has not had an effective means of tracking changes that occur over time affecting initial savings estimates. As a result, questions remain about the preciseness of DOD's BRAC savings estimates. On a number of occasions, we have cited the need for DOD to improve its financial management systems and the process it uses to track and update BRAC savings estimates.

The DRI report also indicated that DOD planned to use the A-76 process to compete approximately 150,000 full-time equivalents over the next 5 years

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and projects that it can save about \$6 billion over those 5 years and \$2.5 billion each year thereafter.<sup>2</sup> The DRI report notes, however, that only a portion of DOD's total personnel are in positions currently classified as commercial activities subject to A-76 competition. Consequently, DOD plans to complete a review of all its commercial activities by November 30, 1998, to determine which are inherently governmental<sup>3</sup> and must be performed by government employees and which are commercial in nature and can be competed. It expects that this review will identify more positions that can be competed under the A-76 process.

Overall, we believe that A-76 competitions can be cost-effective. Data indicate that savings can occur, regardless of whether the competitions are won by the government or the private sector. We have raised questions, however, about whether savings will be as great or if they will materialize as quickly as DOD projects.<sup>4</sup> If they do not, one of two things could happen. Either money will have to be moved from other parts of the defense budget to pay for shortfalls in operations and maintenance accounts or support functions will be underfunded. If the latter occurs, operating units and field commanders will have less money to pay for their readiness needs (e.g., aircraft and weapon system maintenance, training, flying hours), potentially resulting in a military force that is less prepared or ready to meet its mission requirements.

As already noted, DOD does not have an adequate cost accounting system to track the costs of its operations. This affects its ability to fully identify savings from A-76 competitions. DOD is working toward developing accounting systems that meet the federal cost accounting concepts and standards issued by the Federal Accounting Standards Advisory Board. The concepts and standards became effective on October 1, 1997. As we recently reported, however, it will likely be many years before these systems are in place and can provide the type of information DOD needs to estimate costs for A-76 purposes.<sup>5</sup> In addition, DOD is working to improve the commercial activities management information system (CAMIS), which it uses to track the status and results of ongoing and completed A-76

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<sup>2</sup>DOD has subsequently revised upward the number of positions to be studied to 220,000.

<sup>3</sup>An inherently governmental activity is one that is so intimately related to the public interest that it must be done by federal employees. These functions include those activities that require either the exercise of discretion in applying government authority or the making of value judgements in making decisions for the government.

<sup>4</sup>Base Operations: Challenges Confronting DOD as It Renews Emphasis on Outsourcing (GAO/NSIAD-97-86, Mar. 11, 1997).

<sup>5</sup>Defense Outsourcing: Better Data Needed to Support Overhead Rates for A-76 Studies (GAO/NSIAD-98-62, February 27, 1998).



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studies. Each military service currently has a different version of this system and the data each collects vary in content and are often incomplete and inaccurate. Specifically, DOD has formed a CAMIS working group to develop a minimum set of standard data elements that would be common to each service's system. Until this initiative is completed and greater efforts are made to enter complete and accurate information into the system, DOD's information on A-76 results will be limited in its reliability.

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## Out-Year Budgets Do Not Target Savings From Most Reengineering Initiatives

The DRI report does not identify specific saving goals associated with the business process reengineering initiatives and DOD has not targeted any related savings for out-year budget reductions. According to DOD's senior managers, these initiatives will certainly result in savings but that is not their primary benefit to DOD. Rather, they are being counted on to improve the quality of service provided to the warfighters and other defense business customers and to meet personnel reduction targets that have already been planned. While we do not support making budget reductions in anticipation of savings, we do believe establishing savings goals could be a useful tool for tracking progress.

In past reform initiatives, DOD took the savings from future year budgets. However, this approach caused funding shortfalls when the estimated out-year savings were not achieved. For example, in the Corporate Information Management (CIM) initiative,<sup>6</sup> DOD had started a number of reengineering initiatives that showed a great deal of promise. However, it redirected CIM to focus on system standardization efforts in each of its business areas. It did this primarily to achieve savings more quickly so it could offset the reductions that had already been taken from the budget. As we have reported,<sup>7</sup> this change not only postponed the dramatic gains that could have been achieved through reengineering but also contributed to the failure of the CIM program.

Another good reason for avoiding budget reductions before savings are more clearly known is that DOD has probably already reduced its budget in anticipation of savings from the reengineering initiatives. While they are hard to track in DOD over time, many of the reengineering projects identified in the DRI report are likely outgrowths of previous reform efforts

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<sup>6</sup>CIM was a DOD-wide effort that began in 1989 to dramatically improve the way DOD conducted business, primarily by adopting the best practices from the public and private sectors and developing standard information systems to support improved business practices.

<sup>7</sup>Defense IRM: Poor Implementation of Management Controls Has Put Migration Strategy at Risk (GAO/AIMD-98-5, Oct. 20, 1997) and Defense Management: Stronger Support Needed for Corporate Information Management to Succeed (GAO/AIMD/NSIAD-94-101, Apr. 12, 1994).

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like DMR. DMR, for example, included 250 separate decisions to implement consolidations, improve information systems, enhance management, and employ better business practices. These decisions were expected to yield anywhere from \$62 billion to \$71 billion in savings over a 5-year period and DOD's budget was reduced up-front to capture these savings. In reviewing these savings estimates, we found they were not always based on cost analyses supported by historical facts or empirical cost data.<sup>8</sup> During a 1993 review of the DMR, we also found it difficult to validate and track savings to specific initiatives.<sup>9</sup>

In addition, many reengineering or process improvement projects were done under the CIM umbrella. As an outgrowth of DMR, CIM was initially expected to yield \$36 billion of the DMR savings. Reducing the budget once again for expected savings from these type of initiatives could, in effect, result in double counting.

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## Reengineering Initiatives Show Promise, but Implementation Challenges Remain

We have either completed or have ongoing work associated with several of the reengineering initiatives in the DRI report. Overall, we are encouraged that DOD has embraced the concept of reengineering to streamline its business practices and processes and believe many of the initiatives have promise. However, these initiatives, most of which have been ongoing for some time, still face implementation challenges. DOD's travel reengineering and prime vendor programs are both good examples of areas where significant progress has been made but opportunities still exist if organizational and cultural barriers can be overcome.

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## Travel Reengineering—Strong Potential for Significant Process Improvement

DOD's travel reengineering project is comprehensive in scope. First, it involves a complete analysis and redesign of the temporary duty travel process, from the time a traveler decides to travel until he/she is reimbursed by DOD. Second, it transcends all organizational boundaries in that it involves a single process and system that will be implemented DOD-wide. As we understand it, there will be no Navy, Army, or Air Force derivative. Third, the project received high visibility and support from top DOD management, which helped deflect institutional roadblocks and barriers. Finally, the travel reengineering task force that DOD established took several actions to improve the likelihood of success. These included surveying the private sector to determine the best industry travel practices, considering the views of DOD travelers and other stakeholders in

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<sup>8</sup>Acquisition Reform: Defense Management Report Savings Initiatives (GAO/NSIAD-91-11, Dec. 4, 1990).

<sup>9</sup>Defense Management Review (NSIAD-94-17R, Oct. 7, 1993).

designing the new process, establishing base line cost and performance information from which it could measure process and cost improvements, relying on commercial off-the-shelf software to support the new process, conducting 27 pilots to test the new approach, and requiring potential contractors to demonstrate their proposed travel system as part of the contracting process.

As shown in table 1, DOD expects the travel reengineering initiative to result in significant processing improvements and cost savings. The table compares baseline performance (the old process) with preliminary pilot test results.

**Table 1: Comparison of Baseline and Reengineered Travel Processing Performance**

Performance indicator	Average for baseline processes	Average for reengineered processes	Percent reduction
Number of steps in the process	40	21	48
Processing time	4.5 hours	1.7 hours	63
Processing cost	\$131	\$49	63
Cycle time	11 days	6 days	48

The pilot tests also demonstrated a 56-percent decrease in average administrative labor costs and almost a 100-percent increase in customer satisfaction in many of the critical indicators.

This has not been an easy process. DOD has had to overcome many internal and external barriers, including legislative changes to simplify or eliminate certain record keeping and travel certification procedures. The difficulty of the task is illustrated by the fact that the reengineering initiative is in its fourth year and the new, simplified process has still not been implemented. DOD had intended to award a contract in December 1997 for a single travel management system for all of DOD. This has been delayed until May 1998 to give DOD time to negotiate with each of the companies that have bid on the contract. This will be followed by 18 additional contracts—one for each of 18 travel regions established by DOD—to provide specific travel services to DOD travelers. Full implementation throughout DOD is not expected until 2001.

While the results of these pilot tests appear promising, DOD still has challenges ahead. Besides completing its contracting process, DOD must implement the new system across a diverse set of organizations and

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cultures, some of which may not be supportive. It must also establish controls and monitor implementation using a wide variety of accounting systems and processes. Such monitoring is important so it can gauge success and look for opportunities for further process improvements.

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### Additional Opportunities Exist to Expand the Prime Vendor Program

A prime vendor is a contractor that buys inventory from a variety of suppliers, stores it in commercial warehouses, and ships it to customers when ordered, usually within geographical areas. This reduces delivery times and eliminates the need for customers to maintain costly warehousing and distribution systems. Since 1993, DLA, which manages most of DOD's consumable inventory,<sup>10</sup> has made progress in implementing the prime vendor program for medical and food supplies. For example, we estimate that the program, along with DLA's other inventory reduction efforts in the medical area, allowed DLA to save over \$700 million between fiscal year 1991 and 1996. In addition, DLA believes that the program will save it as much as \$1 billion in the food supply area over the next 5 years.

The DRI goal is to use prime vendor contracts for 40 percent of all DLA sales by fiscal year 2000. Based on our most recent analysis, however, this goal may be difficult to obtain because DLA has not aggressively pursued the program for hardware supplies,<sup>11</sup> which account for about 97 percent of the 4 million consumable items managed by DLA. In addition, the services have been slow to adopt the program into their operations.

Moreover, we found that the current prime vendor program for hardware items does not streamline logistics operations to the extent we have seen in private sector programs. For example, DLA prime vendors merely deliver hardware items to a base or installation warehouse, where DOD personnel still order, receive, store, and distribute material to the retail customer. In the private sector, these activities also shifted to the prime vendor. In our January 1998 report, we recommended that the Secretary of Defense take a greater leadership role in seeing that this program is expanded throughout DOD and fully incorporates the type of services offered in the private sector.<sup>12</sup>

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<sup>10</sup>Consumable inventory includes items that are generally used once and either consumed or discarded.

<sup>11</sup>Hardware supplies include six supply categories: commercially available electronics, construction, industrial, automotive, fuel, and facilities maintenance.

<sup>12</sup>Defense Inventory Management: Expanding Use of Best Practices for Hardware Items Can Reduce Logistics Costs ([GAO/NSIAD-98-47](#), Jan. 20, 1998).

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The National Defense Authorization Act for Fiscal Year 1998 also directed DLA to develop and submit to the Congress a schedule for implementing the best commercial inventory practices, including the use of prime vendors, for all consumable items. The act further directed that the schedule “shall provide for the implementation of such practices to be completed not later than three years after the date of the enactment of this Act.” We plan to monitor and report on DLA’s efforts to comply with this requirement.

We have recently released a report required by the act in which we reported that DOD could also expand the application of best practices, similar to the prime vendor concept, to the management of reparable parts<sup>13</sup> currently reported to be valued at more than \$49 billion.<sup>14</sup> This would have to be done, however, within the existing legislative framework and regulatory requirements relating to defense logistics activities, such as OMB Circular A-76.

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## Total Asset Visibility Continues to Experience Delays

Since the 1970s, DOD has recognized that it needs better visibility over its inventory. This problem became more visible when DOD was unable to identify the contents of roughly half of the 40,000 containers it shipped to support Operations Desert Shield and Desert Storm. However, questions about achieving total asset visibility (TAV) still remain.

The DRI initiative relating to TAV is intended to provide the capability necessary to support just-in-time logistics and improve inventory management. Like many of the initiatives included in the DRI report, TAV is not new. Rather, DOD’s latest effort had its roots in an April 1992 TAV plan. This plan was subsequently updated and reissued by DOD’s Under Secretary of Defense for Acquisition and Technology in May 1996. The objective of TAV is to provide users with timely and accurate information on the location, movement, status, and identity of units, personnel, equipment, and supplies worldwide. It will depend on several large, complex information technology initiatives (such as Joint TAV, Army TAV, Navy TAV, the Global Transportation Network, and automated identification technology) and component logistics information systems.

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<sup>13</sup>Reparable parts are generally expensive items that can be fixed and used again, such as hydraulic pumps, navigational computers, wing sections, and landing gears.

<sup>14</sup>Inventory Management: DOD Can Build on Progress by Using Best Practices for Reparable Parts (GAO/NSIAD-98-97, Feb. 27, 1998).

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The TAV initiative can be an important enabler for reducing DOD inventory requirements. However, full implementation of TAV has been a moving target for DOD since the early 1970s, and it continues to face critical challenges. Our ongoing work focuses on whether DOD is structuring TAV to improve known inventory problems, such as reducing excess inventory, enhancing inventory management practices, and improving data quality and timeliness. We are also assessing how well the military services are supporting TAV implementation and whether DOD has adequate performance measures to determine if it will improve inventory management.

Although total costs have not been finalized, we have been able to identify funding needs exceeding \$600 million for TAV and its supporting initiatives. However, this amount does not include all necessary programs or support/equipment. We have also noted that the TAV implementation date has slipped considerably, from 1995 to, according to an official in the office of the Deputy Under Secretary of Defense (Logistics), 2004. We plan to report on this initiative later this year.

In related work, we recently issued two reports that identified inaccuracies in key systems the Army and the Air Force use to maintain visibility over their major equipment assets, including their most critical war fighting equipment. We made a number of recommendations in these reports aimed at addressing the causes of the inaccuracies and improving DOD's ability to manage and oversee its assets from both a financial management and readiness perspective.<sup>15</sup>

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## Challenges Remain for Reengineering the Movement of Household Goods

DOD has long been concerned about the quality of its program to transport, store, and manage household goods. According to the DRI report, DOD paid about \$2.8 billion in fiscal year 1997 to move almost 800,000 military families. Yet, its system gives its personnel some of the worst service in the nation. The report stated, for example, that of all DOD moves, 25 percent end up with damage claims, compared to 10 percent in the private sector. Also, best-in-class movers have customer satisfaction rates of 75 percent, while DOD's is 23 percent.

Because of these and other problems, DOD proposed several years ago to reengineer its personal property program, primarily as a quality-of-life initiative. Its primary goals were to substantially improve the quality its

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<sup>15</sup>Financial Management: Accuracy of Air Force Aircraft and Missile Data Could Be Improved ([GAO/AIMD-97-141R](#), Aug. 15, 1997) and Army Logistics Systems: Opportunities to Improve the Accuracy of the Army's Major Equipment Item System ([GAO/AIMD-98-17](#), Jan. 23, 1998).

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military personnel and their families received from DOD's contracted movers; simplify the total process—from arranging the moves to settling the claims; and base the program on business processes characteristic of world-class customers and suppliers.

In a November 1996 report, we assessed two competing reengineering proposals, one developed by DOD and the other by a transportation industry working group. Because the Congress was concerned that the reengineering initiative would have a negative impact on the moving industry, particularly small businesses, it directed DOD to work with an industry working group to develop a mutually agreeable program to pilot test the reengineering proposal. Because these two groups could not agree on an approach to the pilot project, each presented a separate proposal. During our work, we found that both proposals would likely accomplish the reengineering goals but that DOD's would likely achieve those goals to a greater extent.

Currently, the pilot project, which is being planned by the Military Traffic Management Command, is on hold pending completion of a bid protest. Another related pilot project is also being conducted by the Army at Hunter Army Airfield, Georgia. We are monitoring DOD's progress on both of these pilot efforts.

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## Electronic Commerce and Paperless Communications—Much Work Remains to Be Done

According to the DRI report, DOD is looking to electronic commerce to drastically reduce the amount of paper it produces, receives, processes, and stores and to bring much needed efficiencies to its business practices. Electronic commerce embraces many technologies, including electronic data interchange, electronic mail, computer bulletin boards, and electronic funds transfer. The DRI report states that, by January 1, 2000, all aspects of the contracting process for major weapon systems will be paper-free.

To achieve this goal and maximize its potential, much work must be done. As the DRI report points out, few aspects of current business practices and systems used by DOD are integrated. Overall, DOD has 150 accounting systems, 76 procurement writing systems, numerous logistics systems, and one major contract administration and payment system, all of which process contract data. Generally, these systems pass data to one another through paper processes rather than electronically. To address this condition, business practices, supporting processes and systems, and electronic linkages need to be examined. These include practices and processes for such functions as determining requirements, preparing

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requisitions and solicitations, writing contracts, accepting delivery of goods and services, tracking inventory, processing invoices, disbursing funds, and posting transactions to accounting records as well as determining how and what data will be electronically shared. This will not be an easy task.

The DRI electronic commerce and paperless communication initiatives involve a number of ongoing projects. Some of these projects began as acquisition reform measures, others were initiated to improve financial management operations and problem disbursements, and others were initiated to simply take advantage of existing and emerging technologies to improve operational efficiencies and save money. (See app. I for a brief description of the electronic and paperless programs included in this initiative.) The DRI report does not explain the relationships among these initiatives nor does it attempt to quantify the costs and benefits of the initiatives.

Meeting the DRI goal of paper-free processing by the year 2000 will be a challenge, given DOD's inability to bring radical change to its processes in the past and the fact that many of the paperless communication efforts are not scheduled to be completed until after 2000. Efforts could be further complicated because each military service and defense agency typically changed only the processes and systems it controlled. Often, this approach eliminated the potential to significantly improve a process that cuts across several agencies. To address these types of issues and to centralize the management of DOD's electronic commerce initiatives, DOD recently created the Joint Electronic Commerce Program Office. This Office will be managed and staffed with DLA and Defense Information Systems Agency (DISA) personnel.

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## **Military Services and Defense Agencies Need to Capitalize on Consolidation and Regionalization Opportunities**

The DRI report includes several military service and support agency consolidation, restructuring, and regionalization initiatives that are intended to make DOD activities more efficient and support DOD's planned personnel reductions. Overall, we support these initiatives but, based on our past and ongoing work, believe their potential has not yet been realized. As with the reengineering initiatives, most of these initiatives have been going on for several years but still face implementation challenges.



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## Future Plans to Address Excess Capacity in Research, Development, Test, and Evaluation (RDT&E) Laboratories Are Unclear

Each of the military services operate (1) research and development laboratories to develop new or enhance existing military technology and (2) test and evaluation centers to demonstrate and validate the capabilities of these technologies. DOD's RDT&E facilities employ about 100,000 people in 67 federally owned facilities located primarily in the continental United States. For fiscal year 1997, the DOD budget for these laboratories totaled just over \$37 billion.

Our most recent work, completed in January 1998,<sup>16</sup> pointed out that DOD's RDT&E infrastructure continues to have excess capacity—an estimated 35 percent in its laboratories and an estimated 52 percent in its test and evaluation centers in the air vehicles, electronic combat, and armaments/weapons areas. This condition exists even though DOD will have reduced funding, personnel, and force structure and closed 62 RDT&E sites and activities at host sites as part of the previous BRAC process.

The focus of our recent work was primarily on how best practices might be used to reduce excess RDT&E capacity in DOD, the Department of Energy (DOE), and the National Aeronautics and Space Administration (NASA). These agencies represent about 72 percent of all federal investment in research and development and own most of the RDT&E infrastructure. During this work, we identified five critical elements that led to the successful downsizing of unneeded laboratory infrastructure at the Boeing Company's Information, Space, & Defense Systems Group and the Defence Research Agency within the British Ministry of Defence. These elements were: (1) a "crisis" that served as a catalyst to spark action; (2) an independent authority to overcome parochialism and political pressures that, if left unchallenged, would have impeded decision-making; (3) core RDT&E missions focused to support the organization's overall goals and strategies; (4) the infrastructure needed to support the overall goals and strategies clearly defined; and (5) accurate, reliable, and comparable data that captured total infrastructure cost and utilization rates for each RDT&E activity. According to officials managing these restructurings, their success depended on using all five of the elements together.

Our report also discusses the actions that DOD has taken to address its excess RDT&E infrastructure. For example, after full implementation of previous BRAC recommendations, DOD and the Congress realized that the RDT&E infrastructure was still too large. Consequently, the National Defense Authorization Act for Fiscal Year 1996 (sec. 277), directed the

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<sup>16</sup>Best Practices: Elements Critical to Successfully Reducing Unneeded RDT&E Infrastructure (NSIAD/RCED-98-23, Jan. 8, 1998).

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Secretary of Defense to develop a 5-year plan to consolidate and restructure DOD's RDT&E facilities for the 21st century. The Secretary was to identify the administrative and legislative actions needed to consolidate RDT&E facilities into as few as practical and possible by October 1, 2005. The Secretary responded with a plan and developed a legislative package entitled Defense Research, Development, Test, and Evaluation, Vision 21, Reduction, Restructuring, and Revitalization Act of 1997 (commonly referred to as Vision 21). However, while the legislative package was being reviewed for interagency coordination, officials from the Office of Management and Budget told DOD to include a provision for an independent commission, since DOD has historically been unable to reduce significantly its RDT&E infrastructure. This commission—similar to previous BRAC commissions—would make the final realignment and closure recommendations to the Congress.

After the QDR was completed in May 1997, DOD decided not to submit the Vision 21 legislative package to the Congress, opting instead to include RDT&E infrastructure consolidations and reductions in any future BRAC rounds. DOD also emphasized that significant reductions could only be achieved under a BRAC-like authority.

With Vision 21 on hold and future BRAC legislation uncertain, it is unclear at this time to what extent DOD will attempt to consolidate and restructure its RDT&E infrastructure and how it might proceed. The DRI report briefly discusses the RDT&E issue but provides no further information on how DOD will deal with infrastructure reduction. It states that each military department will review its RDT&E facilities to identify restructuring opportunities. As we stated in our report, we believe the extent to which DOD's Vision 21 effort proceeds may be largely dependent on continuing congressional support for reductions. Moreover, DOD agreed with our conclusion that an independent BRAC-like authority, such as that provided by the Vision 21 legislative package, is needed to reduce DOD's RDT&E infrastructure.

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### Navy Regional Maintenance Program May Not Meet Its Goals

For fiscal year 1996, the Navy applied more than \$8.5 billion of its resources to maintenance programs in support of fleet ships and aircraft. In response to force structure reductions since the 1980s and subsequent defense planning guidance to reduce excess maintenance infrastructure, the Chief of Naval Operations, early in 1993, tasked the commanders of the Atlantic and Pacific Fleets to develop a strategy for streamlining and consolidating their ship and aircraft maintenance functions. This led to the

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Navy establishing the Regional Maintenance (RM) program in March 1994. In addition to reducing infrastructure and saving money, the RM program is designed to improve maintenance processes, integrate supply support and maintenance functions, and provide compatible data systems for the different maintenance functions. The program was to be implemented in three overlapping phases during fiscal years 1995-99 and was expected to save substantial amounts of money. In its 1995 program review, for example, the Navy decreased its planned operations and maintenance budgets for fiscal years 1995-99 by about \$1.28 billion in anticipation of such savings.

As of November 1997, the Navy had focused its efforts on establishing a management structure and process for realigning and reducing its maintenance infrastructure at eight Navy regions. It has also developed RM business plans, including initiatives and estimates of savings to be achieved. These estimates predict that the Navy will save about \$944 million for 102 projects to be implemented between fiscal years 1994-2001.

In a recent report on the RM program,<sup>17</sup> we reported that the Navy had made substantial progress in establishing a structured RM Program but savings had not materialized as anticipated. Further, the accuracy of savings that had been claimed by the Navy were questionable because they are not tracked and verified. Consequently, the Navy's actual savings may be far less than \$944 million and may not be achieved as soon as expected. Because reductions had already been made to spending plans in anticipation of these savings, we reported that maintenance programs, the overall material readiness of ships and aircraft, or future fleet readiness could be negatively affected. For example, Navy officials told us they have thus far been able to absorb the reductions with no impact on readiness by fixing specific problems rather than performing scheduled depot-level overhauls. They were concerned, however, that this approach might adversely affect the condition of ships over the long term.

Nevertheless, we reported that the Navy could still achieve significant savings by moving more quickly to implement the savings initiatives that had been identified and, where appropriate, implement other initiatives that could yield savings without affecting readiness. To do this, however, the Navy had to overcome parochial and institutional resistance to the RM program's objectives. These include resistance to efforts that might

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<sup>17</sup>Navy Regional Maintenance: Substantial Opportunities Exist to Build on Infrastructure Streamlining Progress ([GAO/NSIAD-98-4](#), Nov. 13, 1997).

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eliminate organizations, reduce jobs, and/or reduce a command's or an organization's control over resources. Other barriers that also had to be addressed were (1) the lack of management visibility over all maintenance-related costs; (2) multiple, unconnected management information systems that do not provide adequate data for regional maintenance planning and decision-making; and (3) significant differences in the number of shore duty intermediate-level maintenance positions needed to support the Navy's sea-to-shore rotation program and the number of personnel needed to perform the work. Although the Navy has established RM Program working groups and committees to address these issues, continued high-level commitment, cooperation, and coordination from the Chief of Naval Operations, the fleet, and type and systems commanders will be required to ensure that regional initiatives reach fruition and achieve the savings projected.

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## The Finance and Accounting Infrastructure—Potential for Further Reductions

The Defense Finance and Accounting Service (DFAS) was established in 1991 to consolidate and streamline DOD's finance and accounting operations. In May 1994, after several false starts, DOD announced that DFAS would begin consolidating the finance and accounting infrastructure in fiscal year 1995. At that time, the plan was to reduce the number of sites where finance and accounting activities were conducted from over 330 to 26. The 26 sites included the five existing large finance centers (Columbus, Cleveland, Denver, Indianapolis, and Kansas City) and 21 new sites called operating locations. As part of this consolidation, DFAS expected to reduce its staffing levels from about 27,000 to 23,000 people. As of September 30, 1997, DFAS told us it had reduced staffing to about 21,900 people and opened 18 of the planned 21 operating locations.<sup>18</sup>

We have issued several reports that questioned the need for 21 operating locations.<sup>19</sup> Our primary concern was that DOD used a flawed process to identify the size and location of its consolidated operations. Among other things, we reported that the planned infrastructure was larger than necessary, primarily because DOD had not considered the impact that future business improvements would have on the finance and accounting workload. As these business improvements are adopted, we argued that DFAS will have to consolidate its activities once again. We also pointed out

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<sup>18</sup>One of the 18 operating locations (Memphis, Tennessee) is under the control of the US Army Corps of Engineers and supports the Corps' accounting and finance operations.

<sup>19</sup>DOD Infrastructure: DOD's Planned Finance and Accounting Structure Is Not Well Justified (NSIAD-95-127, Sept. 18, 1995); DOD Infrastructure: DOD Is Opening Unneeded Finance and Accounting Offices (NSIAD-96-113, April 16, 1996); Defense Infrastructure: Budget Estimates for 1996-2001 Offer Little Savings for Modernization (NSIAD-96-131, Apr. 4, 1996).

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that an earlier DFAS analysis had concluded that the existing five finance centers and six operating locations was the optimum structure for conducting finance and accounting operations.

A recent DFAS analysis has concluded that the finance and accounting infrastructure does, in fact, need to be further consolidated. This analysis, which assessed each finance and accounting function carried out at operating locations (such as vendor pay, civilian pay, travel pay, and accounting), showed that DFAS will be able to reduce the number of personnel from about 21,400 in fiscal year 1998 to about 15,350 by the end of fiscal year 2003. These reductions would be realized, in part, by technology initiatives underway at DFAS and, if they occur, would leave DFAS with about 38 percent excess facility capacity.

The analysis did not translate this excess capacity into a specific number of locations that should be eliminated. Nevertheless, the DRI report stated that DFAS would continue its consolidation initiatives by eliminating 8 of its 26 finance and accounting facilities. DFAS is currently developing criteria to help it determine which locations should be eliminated. Once these criteria are approved, which is expected by May 1998, DFAS plans to take from 3 to 6 months to further study its infrastructure needs and select the sites that will be closed. At this point, DFAS does not expect to close more than eight facilities.

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## Defense Information Systems Agency—Status of Consolidating Its Megacenters

The DRI report calls for the Defense Information Systems Agency (DISA) to reduce its infrastructure from 16 to 6 large processing facilities. This initiative is a continuation of DOD efforts that began in 1990. Since that time, DISA was created and eventually consolidated many of DOD's computer operations by moving workload and equipment from 194 computer centers to 16 DISA megacenters. These actions were taken to better meet DOD's information processing needs at lower costs. The DISA megacenters operate as part of the defense working capital fund and bill their customers for the processing support they provide. We should note, Mr. Chairman, that the military services and defense agencies also operate many processing centers and, like DISA, have also consolidated some of their information processing facilities.

Our previous work on information processing center consolidations pointed out that although DOD had recognized the need to continue to reduce the cost of its computer center operations, it had not established

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an effective framework for making these decisions.<sup>20</sup> Such a framework would help DOD determine the number of processing centers needed, the way to consolidate the various computer operations, and the numbers and skill mix of staff needed to operate the consolidated centers. We believed this framework or plan was needed because our work documented that, although additional efficiencies could be realized, it was not clear whether these would be best achieved by further consolidations or outsourcing. DOD partially agreed with our point, stating that it would comply with the Clinger-Cohen Act<sup>21</sup> and develop a framework to determine whether processing centers should remain in-house or be considered for outsourcing studies.

The Defense Megacenter Business Strategy, dated October 1997, states that DISA's plan to reduce the 16 megacenters to 6 could result in annual savings of \$202 million starting in fiscal year 2003. Moreover, the strategy estimates that total savings over a 10-year period (fiscal year 1998 through 2007) will be approximately \$1.5 billion. We have not done any work to examine this strategy or substantiate these savings. If these savings occur, however, they should help DISA reduce its infrastructure costs and, thereby, result in lower prices to its customers. At your request Mr. Chairman, we are reviewing how DISA establishes the prices it charges its customers. In the future, we intend to review the cost of the consolidation effort and the impact it is having on customer service.

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## Implementing DRI Requires DOD to Address the Underlying Causes of Its Management Problems

As we have reviewed DOD programs and management initiatives over the years, we have made hundreds of recommendations to help DOD correct its problems. To its credit, DOD has taken actions to address many of these recommendations and has made some progress in implementing change throughout all areas of the Department. For example, in response to our recommendations, DOD implemented certain commercial practices in its inventory management area, such as relying on prime vendors to provide defense customers with medical and food items. However, even though this and other actions are very important, DOD has not yet addressed many of the underlying causes that have previously kept it from effectively implementing management reforms across the department. We identified these causes in our 1997 High-Risk Series Reports Involving DOD, and I would like to discuss them here because I think they are applicable to the

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<sup>20</sup>Defense IRM: Investments at Risk for DOD Computer Centers (AIMD-97-39, Apr.4, 1997).

<sup>21</sup>The Clinger-Cohen Act of 1996 (P.L. 104-106) requires that federal agencies establish performance measures that measure how well their information technology supports their missions and programs and that evaluations be made of the results achieved from its information technology investments.

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long-term success of the DRI. These underlying causes include the following:

- Cultural barriers and parochialism limit opportunities for change. Cultural resistance to change and service parochialism have contributed to the difficulty of implementing corrective actions to improve DOD's financial, infrastructure, inventory, and acquisition systems. Particularly problematic are corrective actions that require the development and use of common systems and processes across military service and organizational boundaries. Each of the services, for example, has its own way of doing business, its own budget and programmatic authority, and its own parochial interests in maintaining the status quo. Even if there is common agreement among the leadership of the department, management reform initiatives that involve up-front investments, the closure of installations, and the elimination of military and civilian jobs sometimes are not fully implemented unless they have wide-spread support throughout the services and defense agencies.
- Incentives for seeking and implementing change are lacking. DOD managers have few incentives to improve DOD's financial, acquisition, and infrastructure management approaches. For example, in DOD's culture, the success of a manager's career depends more often on moving programs and operations through the DOD process rather than on improving the process. We found this particularly evident in large weapon acquisition and information system development programs where overselling resulted in programs being started, funded, and eventually fielded. The fact that a given program costs more than estimated, takes longer to complete, and does not generate results or perform as promised is secondary to implementing the program.
- Management data are deficient. DOD decisionmakers are severely affected by the lack of comprehensive and reliable data for measuring program costs and results and making well-informed decisions. DOD, for example, has acknowledged fundamental problems with its ability to accumulate reliable cost data. DOD does not have accurate cost data for almost all its assets, such as inventories, equipment, aircraft, and missiles. In addition, DOD cannot accumulate reliable information on its business activities' costs or its critical operations, such as the cost associated with maintaining its weapons systems in a high state of readiness, or costs related to its contingency operations. This will be a serious problem in implementing any of the DRI reform initiatives because DOD will lack the data it needs to estimate baseline costs and track project implementation.
- Clear, results-oriented goals and performance measures are lacking in some cases. DOD's strategic goals and objectives are not linked to those of

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the military services and defense agencies, and DOD's guidance tends to lack specificity. Without this type of clear, hierarchically linked goals and performance measures, DOD managers lack straightforward road maps showing how their work contributes to attaining DOD's strategic goals. This increases the risk that these managers will operate autonomously rather than collectively. This is important in the DRI environment because each of the military services and defense agencies must assume part of the responsibility for meeting DOD's infrastructure and personnel reduction targets. They must also be responsible for monitoring the impacts of the reductions in terms of readiness and the ability to meet their fundamental mission requirements. Without these type of performance measures and goals, it is possible that personnel reductions and reduced operations and maintenance budgets will have either positive or negative impacts that are never fully understood.

- Management accountability and follow through have been inconsistent. Even when DOD develops organization goals and performance measures, it does not routinely link them to specific organizational units or individuals that have sufficient flexibility, discretion, and authority to accomplish the desired results. These linkages are important to fix accountability at both the organizational and managerial levels. Such accountability is particularly important at DOD because our past work and experience have shown that the DOD's top managers do not have a proactive, consistent, and continuing role in building capacity, creating incentives, and integrating daily operations. In 1994, for example, we reported that the median tenure of top political appointees in the Office of the Secretary of Defense was 1.7 years.<sup>22</sup> We also found that mean vacancy periods for top positions in the Departments of the Air Force and the Navy were 9 and 11 months, respectively. As a result, turnover among DOD political appointees has hindered long-term planning and follow-through activities.

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## Implementation Plans Are Needed

To attack these underlying causes, DOD needs to ensure that its implementation plans at all organizational levels establish results-oriented goals, performance measures, and time frames for completing corrective actions; identify organizations and individuals that are responsible for accomplishing specific goals; and provide sufficient information for the Defense Management Council to monitor progress. In developing these implementation plans, DOD should comply with the legislative requirements of the Chief Financial Officers Act, the Government Performance and Results Act, the Paperwork Reduction Act, and the

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<sup>22</sup>Political Appointees: Turnover Rates in Executive Schedule Positions Requiring Senate Confirmation (GAO/GGD-94-115FS, Apr.12, 1994).



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Clinger-Cohen Act. These acts provide important criteria for ensuring that DOD and other agencies focus their resources on the highest priority programs and develop sufficient management and financial information to know whether the programs are meeting their objectives.

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Mr. Chairman, in closing let me reiterate GAO's strong support for the Secretary's reform initiatives. Concerns that I have raised are based on our experience in examining some of the areas undergoing reform. Our intent is to indicate that too much should not be expected too soon. This is particularly the case as it relates to the historical pattern of claiming savings or reducing personnel levels prematurely, before the magnitude of savings are more fully known. Consequently, it will be important for DOD to carefully track implementation of these initiatives and make resource and other management decisions as necessary to avoid unintended adverse impacts on support and readiness activities.

This concludes my prepared comments. I will be glad to answer any questions that you or members of the subcommittee might have.

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# Electronic Commerce and Paperless Communications Initiatives

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The Defense Reform Initiatives (DRI) report states that, by January 1, 2000, all aspects of the contracting process for major weapon systems will be paper-free. Electronic commerce, however, is not new. In October 1993, a presidential memorandum established a government-wide goal of streamlining acquisition through the use of electronic commerce. Ninety-five percent of all government purchases under \$100,000 are expected to be made through electronic commerce by the year 2000.

The following initiatives, which are described in our recent report,<sup>1</sup> can help DOD reduce the amount of paper used in procurement and contract payment processes. It is not clear from the DRI report, however, how these initiatives will collectively eliminate the paper that is passed among the many DOD systems and it is not clear if, and to what extent, savings and productivity will be realized.

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## Electronic Document Management (EDM)

EDM is a technology initiative intended to convert paper copies of DOD contract payment documents to electronic images at the Defense Finance and Accounting Service (DFAS) Columbus Center. All paper documents received by the Center, such as contracts, invoices and receiving reports, will be scanned and converted to electronic images—similar to photographs—and stored in an EDM database at the Center. Once stored, these images can be retrieved and viewed by Center personnel. While the EDM program will help eliminate the need to handle paper documents after they are received and scanned, it will not reduce the amount of paper being sent to Columbus. Moreover, they cannot be electronically input into other systems. Center personnel must still manually enter the contract data into other systems such as contract payment and accounting systems. EDM is being developed under a 5-year contract awarded in September 1994. The program is expected to be completed by the end of fiscal year 1999. While the contract covers EDM applications for other DOD functions, the contract pay portion is expected to cost \$33 million.

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## Electronic Document Access (EDA)

EDA provides DOD users with electronic images of contracts, contract modifications, and related documents. Electronic document files created by the DOD acquisition community are stored in an EDA data base. Once stored, these documents can be accessed and viewed on DOD's computer network, the Non-Classified Interactive Processor Router Network (NIPRNET). The expanded use of EDA is expected to significantly reduce the

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<sup>1</sup>Financial Management: Seven DOD Initiatives That Affect the Contract Payment Process (AIMD-98-40, Jan. 30, 1998).

amount of time DOD spends mailing and distributing paper documents and eliminate document loss and mailing delays. The initiative began in April 1996, and it is scheduled for completion in December 1998. EDA, which is being funded by the EDM initiative, is expected to cost about \$2.7 million. As of December 1997, over 100,000 contracts were available in the EDA database. EDA will not eliminate all paper documents needed in the contract payment process. Documents such as receiving reports and invoices are not included in the EDA database and will have to be made available electronically by other initiatives. In addition, as with EDM, Center personnel must still manually enter contract data from the electronic images into contract payment and accounting systems.

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## **Electronic Data Interchange (Edi)**

EDI allows the computer-to-computer exchange of routine business information by requiring standardized data formats. The military services and the Defense Logistics Agency (DLA) are using EDI to support their procurement processes. They have about 76 nonstandard procurement systems generating contractual documents and have begun working with nine of the largest systems to provide the capability to convert and transmit their data in EDI formats. Likewise, DFAS is using EDI to support its procurement and payment processes. For EDI to work effectively, however, all of these systems must be able to electronically exchange data and ensure that the data conform to standard data formats for documents such as contracts, contract modifications, and invoices. As of September 30, 1997, about 80 DOD contractors were approved to use EDI to transmit invoices to DOD's primary contract payment system. However, only about 50 contractors were actually transmitting invoices using EDI. We do not have complete costs for the EDI initiative. However, we have documented that DFAS alone plans to spend \$47.1 million to develop and implement EDI for its operations between fiscal year 1995 and 1999.

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## **Standard Procurement System (SPS)**

SPS will be an automated procurement information system for preparing procurement contracts and supporting contract administration. As planned, it will replace DOD's manual procurement systems and the 76 unique automated procurement systems that are used to prepare contracts. SPS is also expected to standardize procurement business practices and data elements throughout DOD and provide users timely, accurate and integrated contract information. SPS will use EDI capability to share data with other systems. As part of the SPS design, contract and contract payment data will be entered once—at the source of the information—and will be stored in a "shared data warehouse." The SPS

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initiative began in January 1994. It is being managed by DLA. Initial SPS implementation began in May 1997. SPS development and implementation are expected to be completed by September 30, 2001, at a cost of about \$295 million.

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## **Defense Procurement Payment System (DPPS)**

DPPS is intended to be a single standard DOD system for calculating contract payments and posting the payment information to accounting records. This system, along with SPS, is to replace the current contract payment system—Mechanization of Contract Administration Services (MOCAS). DPPS is expected to (1) provide a single system which DFAS can use to validate funds availability, (2) reduce DFAS' reliance on hard copy documents, and (3) eliminate cumbersome manual processes for reconciling contract, payment, and accounting records. Like SPS, DPPS will use EDI capability to share data with other systems. The DPPS initiative began in September 1995. It is being managed by DFAS and is estimated to cost \$114 million. DPPS implementation is scheduled to be completed by April 15, 2002.

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## **Electronic Malls**

Simply stated, electronic malls are electronic versions of suppliers' catalogs that are available through the internet. These malls will eventually allow DOD customers to access a variety of electronic ordering systems or "stores". The stores usually specialize in commodity groups such as industrial products, office supply products, food, or textiles. DLA and each military service are developing an electronic mall for the inventory items they manage. DOD plans for users to eventually be able to move among the various electronic malls with relative ease. This capability does not yet exist. By April 1998, DLA's electronic mall is expected to offer more than 4 million items DLA manages as well as several hundred thousand commercial items in vendor catalogs to DOD customers. DLA's electronic mall is expected to provide the following information: descriptions of the products, weapon systems supported, types of payments accepted, ordering procedures, contractors' names, and contract numbers. According to DLA, electronic malls blend the benefits offered by the internet, government purchase cards, and the prime vendor program. This includes easy access, easy purchasing procedures, and readily available items at competitive prices.

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## **Government Purchase Card**

A government purchase card is essentially a credit card for small procurements (generally micropurchases under \$2,500) that allows the government to cut the red tape normally associated with the procurement

process. Using the card, for example, generally eliminates the need for procurement requests, receiving reports, and invoices. It also reduces the number of disbursements because a single payment is made to the card company rather than to each vendor. In fiscal year 1997, DOD's purchases using the card totaled \$321 million. This total involved about 567,000 transactions by about 115,000 card holders. The Army is leading other DOD components in use of the card. During fiscal year 1997, it made about 257,000 transactions totaling \$147 million, which was about 45 percent and 46 percent of DOD totals, respectively. Increased use of the purchase card by the military services and defense agencies has the potential to reduce both workloads and staffing levels. The Army estimated that use of the card would reduce the cost of a typical procurement action from about \$130 to about \$30. Likewise, use of the card will reduce DFAS' vendor pay workload and staffing.

Until recently, only one type of purchase card was available to DOD components—the International Merchants Purchase Authorization Card (IMPAC)—a visa credit card. In February, however, the General Services Administration awarded contracts to six credit card companies to provide credit cards to government agencies. DOD, like other federal agencies, will be able to negotiate with the contractors for the types of cards and services they want. In addition, under the contracts, DOD can negotiate special incentives, such as rebates.

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# Related GAO Products

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