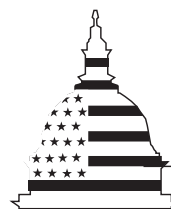September 1999

DEFENSE INVENTORY

Improved Management Framework Needed to Guide Army Best Practice Initiatives

G A O

Accountability ★ Integrity ★ Reliability

G A O

Accountability * Integrity * Reliability

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

National Security and
International Affairs Division

B-281458

September 14, 1999

Congressional Committees

Section 347 of the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 provides for the secretary of each military department to submit to the Congress a schedule for implementing best commercial inventory practices for the acquisition and distribution of secondary inventory items.[1] A best commercial inventory practice is defined as a practice that enables military departments to reduce inventory levels while improving the responsiveness of the supply system to user needs. Section 347 further requires that the schedule provide for implementation of such best practices to be completed within 5 years of enactment, or by October 17, 2003. The section also requires us to evaluate the extent to which the secretary of each military department has complied with the act's requirements.

In this report, we discuss our evaluation of the Army's best practices implementation schedule, which the Assistant Secretary of the Army for Acquisition, Logistics, and Technology submitted to the Congress on June 14, 1999. This report provides our evaluation of that schedule.[2] Specifically, we (1) evaluated the extent to which that schedule responds to the provisions of the act and (2) identified specific elements of a management framework needed for effective implementation and oversight of the Army's best practice initiatives.

Results in Brief

The Army's schedule is generally responsive to the act. Specifically, the schedule describes 18 initiatives that address the Army's inventory management functions, and for most of the initiatives, it provides for implementation to be completed within 5 years. The initiatives are primarily aimed at improving the Army's information management, maintenance, and acquisition processes and transferring logistics activities to the private sector. Specific time frames for full implementation of three

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[1] Secondary inventory includes spare parts, clothing, and medical supplies to support Department of Defense (DOD) operating forces worldwide.

[2] We are providing separate reports on the Army, Air Force, and Navy best practice implementation schedules.

GAO/NSIAD-99-217 Defense Inventory

of the initiatives were not included in the schedule. Therefore, we could not determine whether these initiatives are to be implemented within the required 5-year time frame.

Though generally responsive to the act's requirements, the schedule provides a management framework that lacks specific elements such as an overall strategy and outcome-oriented goals and performance measures. While the initiatives are generally guided by the Army's "Revolution in Military Logistics," there is no comprehensive strategy or plan that guides the efforts. Consequently, no detailed framework exists to increase the likelihood that the initiatives are coordinated and do not conflict or duplicate efforts. Also, there are no specific performance goals established to measure the overall results of the initiatives. In our prior work, we noted that the lack of a detailed management framework contributed to DOD's difficulty in implementing new initiatives. Without a more effective management framework, opportunities for oversight by the Congress and DOD managers would be limited since meaningful evaluations of progress and results would be impossible. The Government Performance and Results Act offers a model for developing an effective management framework to assess the results of the initiatives and improve the likelihood of successful implementation and assessment.

To make progress and results information available to the Congress and DOD managers, we are recommending that the Secretary of the Army develop a Results Act management framework for the initiatives in the schedule that includes an overall strategy and performance plan.

Background

To provide reparable parts for its aviation and ground equipment, the Army uses an extensive logistics system that is based on management processes, procedures, and concepts that have evolved over time. Reparable parts are expensive items that can be fixed and used again, such as hydraulic pumps, navigational computers, engines, and landing gear. The Army's logistics system, often referred to as a logistics pipeline or a supply chain, consists of a number of interrelated activities that provide reparable parts where and when they are needed.[3] These activities include the acquisition,

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[3] The Army also purchases, stores, and distributes consumable parts that are used extensively to fix reparable parts and aircraft. The Defense Logistics Agency provides most of the consumable parts that Army repair activities use and handles a large portion of the warehousing and distribution of reparable parts.

storage, repair, and distribution of parts, which together require billions of dollars of investments in personnel, equipment, facilities, and inventory. Figure 1 is a general illustration of the interrelationship of the major functions of the Army's logistics pipeline for secondary items.

Figure 1: Army's Logistics Pipeline for Secondary Items
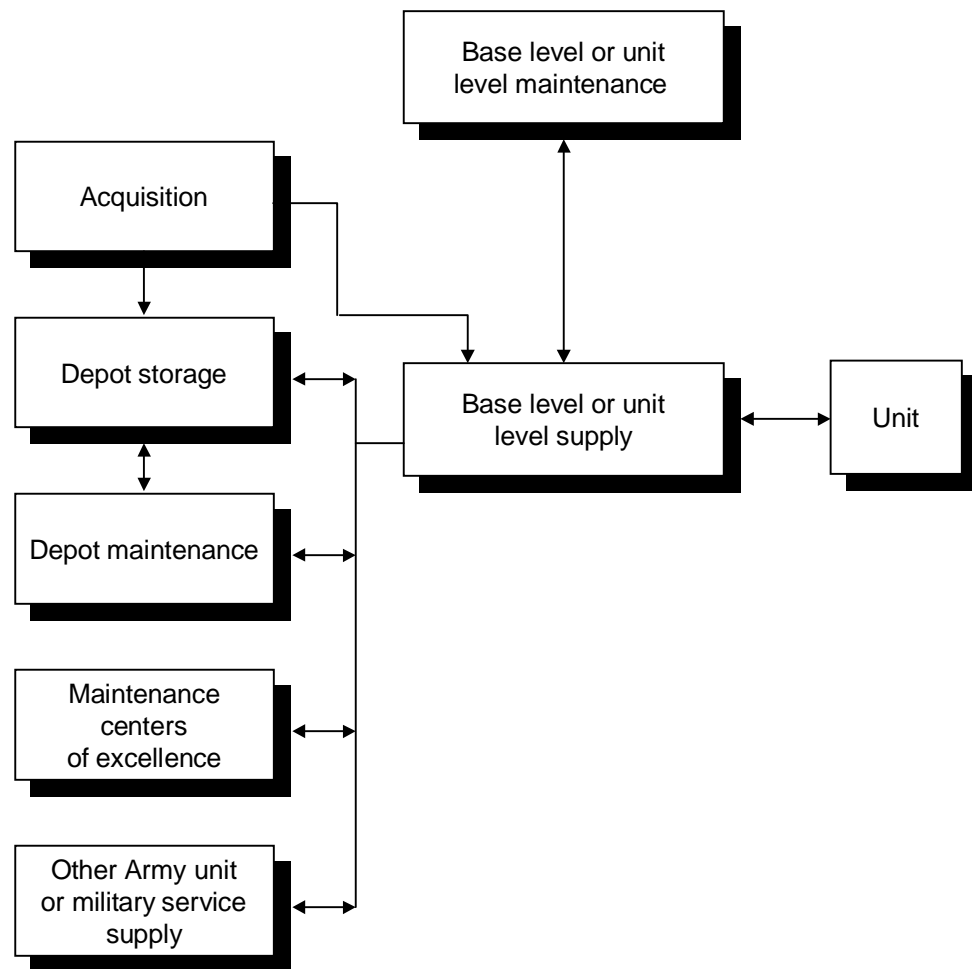
Source: Office of the Army Deputy Chief of Staff for Logistics.

Since 1990, we have identified DOD's management of secondary inventories as a high-risk area because levels of inventory were too high and management systems and procedures were ineffective.[4] In addition, our financial statement audits have identified continuing significant problems with the integrity of DOD's inventory data. For example, we reported that inaccurate inventory data resulted from weaknesses in DOD's procedures relied on to maintain visibility over, and conduct physical counts of, on-hand inventories. Until these problems are effectively resolved, DOD's ability to reliably measure and assess performance will continue to be impaired.[5] While DOD has made some improvements, these general conditions still exist, and this area remains on our high-risk list.[6] We have reported that adopting best business practices in inventory management and improving the reliability of financial management information are key steps toward solving these problems.

The Congress has recently taken specific actions to encourage DOD to adopt best commercial practices to improve its inventory management. The National Defense Authorization Act for Fiscal Year 1998 required the Director of the Defense Logistics Agency to develop and submit to the Congress a schedule for implementing best commercial practices for the acquisition and distribution of nine categories of consumable-type supplies. The act also required that the schedule provide for the implementation of such practices to be completed by November 2000. The Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 placed a similar requirement on the secretary of each military department. The military departments' schedules are to provide for the implementation of such best practices to be completed by October 17, 2003.

DOD is working to adopt best practices in its operations. In November 1997, the Secretary of Defense issued the Defense Reform Initiative report,

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[4]In 1990, we began a special effort to review and report on the federal program areas that we identified as high risk because of vulnerabilities to waste, fraud, abuse, and mismanagement. This effort, which was supported by the Senate Committee on Government Affairs and the House Committee on Government Reform, brought a much-needed focus to problems that were costing the government billions of dollars.

[5] Results Act: DOD's Annual Performance Plan for Fiscal Year 1999 (GAO/NSIAD-98-188R, June 5, 1998); DOD Financial Management: More Reliable Information Key to Assuring Accountability and Managing Defense Operations More Efficiently (GAO/ T-AIMD/NSIAD-99-145, Apr. 14, 1999); and Department of Defense: Status of Financial Management Weaknesses and Actions Needed to Correct Continuing Challenges (GAO/T-AIMD/NSIAD-99-171, May 4, 1999).

[6] Major Management Challenges and Program Risks: Department of Defense (GAO/OCG-99-4, Jan. 1999).

which called for a revolution in DOD's business affairs and identified a number of reengineering initiatives aimed at adopting modern business practices to achieve world-class standards of performance. In addition, the DOD performance plan for fiscal year 2000 notes that the inventory supply system is larger than required to support today's smaller force structure and outlined goals to reduce inventory levels and streamline infrastructure. In March 1999 testimony, the Under Secretary of Defense (Acquisition Reform) stated that DOD needed "a revolution in business affairs . . . one that embodies the best of modern business practices, the ability to access the full range and scope of technologies to meet the speed and agility demanded by the new battlespace, and an absolute commitment to finding the best, most efficient means of delivering goods and services to our warfighters."

Army's Schedule Generally Responds to the Act's Requirements

The Army's schedule is generally responsive to the requirements of the act. It contains 18 initiatives that address the acquisition and distribution of secondary inventory items the Army manages and, for most of the initiatives, it provides for implementation within 5 years (see table 1). The 18 initiatives are primarily aimed at improving the information management, maintenance, and acquisition processes and transferring logistics activities to the private sector. For example, the Logistics Integrated Data Base initiative will integrate 66 separate databases that will allow data to be stored once, yet be used in multiple applications. The Velocity Management initiative is intended to examine the entire Army logistics pipeline to speed up the distribution and repair of component parts and better utilize existing Army inventory.

Table 1: Army Initiatives and Projected Completion Date

Initiative category	Initiative	Projected completion date
Information management	Logistics Integrated Data Base	Dec. 2000.
	Virtual Integrated Materiel Management Center	Sept. 2001.
	Wholesale Logistics Modernization Program	Information not provided.
	Global Combat Support System—Army	Sept. 2002.
	Army Total Asset Visibility	Completed.
Maintenance	National Maintenance Program	Sept. 2003.
	Depot Repair Process Improvements	Dec. 2000.
	Electronic Sustainment Support Centers	Information not provided.
Acquisition	Lead Time Reduction	Fiscal year 2001.
	Modernization Through Spares	Information not provided.
	Paperless Contracting	Jan. 2000.
Outsourcing	Apache Prime Vendor Support	Fiscal year 2004.
	M109 Family of Vehicles Fleet Management	December 1999 contract award.
	Focused Sustainment	10-year contract awarded in 1998.
	Consolidated Contractor Life Cycle Support—Training Aids and Simulators	Completed.
Other initiatives	Velocity Management	Completed.
	Single Stock Fund	Sept. 2002.
	Lateral Redistribution	Completed.

For most of the initiatives, the schedule provides background information, an overview of each initiative's goals and objectives, implementation sites, funding requirements, projected savings, and projected dates for completion. However, for three of the initiatives, the schedule does not specify a planned completion date. Without this information, we cannot determine whether implementation will be completed within the required 5-year time frame. (See app. I for a description of each initiative.)

Management Framework Is Key to Implementing Initiatives

Though generally responsive to the act's requirements, the schedule provides a management framework that lacks an overall strategy and outcome-oriented goals and performance measures. Specifically, it does not have a comprehensive strategy or plan to ensure that the efforts are coordinated and do not conflict or duplicate efforts, nor does it establish specific performance goals to measure the overall results of the initiatives. The Government Performance and Results Act offers a model for developing an effective management framework to guide the implementation of the initiatives and provide the Congress and other decisionmakers with information on progress and results.

Schedule Provides a Limited Management Framework

In our past work, we reported that the lack of a management framework containing an overall strategy and outcome-oriented goals and performance measures contributed to DOD's difficulty in implementing new initiatives.[7] For example, we reported that DOD did not have an adequate management framework to clearly determine the progress being made in realizing the Total Asset Visibility initiative's goals and that the initiative's strategic and implementation plans were inadequate. As a result, DOD managers did not have a clear picture of the initiative's implementation status or know how various initiatives within each service contributed to achieving DOD's overall goals and objectives. We also reported that there was confusion over who would use the Total Asset Visibility system and how it would be used.

The Army's schedule represents a collection of best practice initiatives the Army plans to complete within the next 5 years to improve the acquisition and distribution of secondary supply items managed by the Army. The schedule describes the initiatives within the context of the Army's Strategic Logistics Plan and other DOD planning documents, but it does not contain a comprehensive strategy or overall outcome-oriented goals and performance measures. For most of the initiatives, the Army identified general goals and objectives, describing an end state that the Army hopes to achieve, such as "maximize repair capabilities and optimize the use of available resources," and "reduce asset inventories," but it did not establish specific performance measures for those goals.

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[7] Defense Inventory: DOD Could Improve Total Asset Visibility Initiative With Results Act Framework (GAO/NSIAD-99-40, Apr. 12, 1999).

In addition, the Army associated each schedule initiative with specific aspects of its "Revolution in Military Logistics," which is its overall process of changing logistics operations in support of DOD goals. However, the schedule does not define the way the individual initiatives will support these goals and objectives, the extent to which they may reduce the Army's $9.6 billion secondary inventory,[8] or the extent to which they will improve the responsiveness of the supply system to user needs. Without this information, it is impossible to determine the magnitude of impact these initiatives may have on the Army's overall logistics operations and objective information about implementation progress and whether the initiatives are achieving their desired outcomes may not be available to the Congress and DOD managers.

Results Act Management Framework

The Results Act framework generally consists of establishing strategic plans, performance plans, and mechanisms for measuring program progress and results. Such a framework includes (1) establishing broad general initiative goals and objectives, (2) linking these goals to DOD's overall goals and objectives, (3) establishing quantifiable performance measures to assess whether the initiatives are achieving desired results, (4) defining levels of accountability and responsibility for implementing the initiatives and identifying the resources that will be required to achieve goals, (5) establishing milestones to measure progress toward full implementation, and (6) defining an evaluation plan to periodically compare actual results to established goals and objectives. This information allows the Congress and DOD managers to measure initiative implementation progress and determine if the initiatives are achieving their desired results.

In addition to these potential benefits, considering the initiatives as interrelated efforts maximizes their systemwide improvement potential. Our prior work on best inventory management practices has shown that efforts to reengineer a logistics system are more successful when the various logistics activities are viewed as a series of interrelated processes rather than isolated functional areas.[9] For example, when one airline began changing the way it purchased parts from suppliers, it considered

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[8] Inventory value reported in the Department of Defense Supply System Inventory Report, Sept. 30, 1998. The Army Working Capitol Fund financial statements report this inventory value at $10.5 billion.

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

how the changes would affect mechanics in repair workshops. Additionally, airline officials described how a combination of supply chain improvements could lead to continuous improvements. They also described how culture changes, improved data accuracy, and more efficient processes lead to reductions in inventories and complexity of operations. These reductions can lead to further efficiencies and process improvements.

Conclusions

The Army's schedule generally meets the requirements of the act by providing information on 18 initiatives, most of which are scheduled to be completed within 5 years. Achieving the Army's goal of improved management of secondary items will depend on the successful implementation of these initiatives. Implementation of the initiatives is generally guided by processes the Army refers to as a "Revolution in Military Logistics." However, the processes set forth in that document are general in nature and implementation and assessment of initiatives of this magnitude and complexity would benefit from more specific guidance. The Results Act provides a framework for implementing and assessing the initiative results. Without a more effective management framework, opportunities for oversight by the Congress and DOD managers would be limited since meaningful evaluations of progress and results would be impossible.

Recommendation

To provide a mechanism to improve the potential for successfully implementing the Army initiatives and measure results, we recommend that the Secretary of the Army develop a management framework for implementing the 18 initiatives based on the principles embodied in the Results Act. Specifically, the management framework should include

- a comprehensive strategy that is directly linked to top-level DOD goals and objectives and that recognizes the interrelationship of the initiatives and the overall impact the initiatives will have on the Army's logistics pipeline, such as reducing pipeline time, improved customer service, and reductions in total inventory and
- a performance plan that includes clearly defined goals and objectives, defined levels of accountability, quantifiable performance measures, interim schedule milestones, and plans to periodically assess the overall impact the initiatives have achieved in reducing inventory levels while improving the responsiveness of the supply system to user needs.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD concurred with our recommendation and stated that the Army is revising its Strategic Logistics Plan to more clearly articulate the relationships, goals, objectives, and metrics of logistics initiatives. They will also provide regularly scheduled review and analysis to the Assistant Secretary of the Army (Acquisition, Logistics, and Technology). DOD further stated that approval of the revised Army Strategic Logistics Plan structure by the Assistant Secretary is anticipated during the first quarter of fiscal year 2000. DOD's comments are included in their entirety as appendix II.

DOD did express concern that the draft report implied that the current management framework for implementing the initiatives included in the schedule is inadequate. DOD stated that the Army's current management framework is guided by the Army's Revolution in Military Logistics and that each initiative supports an element of that process. Further, DOD cited results that have been achieved and asserted that such results would not have been possible without an adequate management framework. We did not conclude that the Army's framework was inadequate. However, we clearly believe it can be improved. We have revised our conclusion to more clearly reflect our position.

Scope and Methodology

We have evaluated the Army, Air Force and Navy best practice implementation schedules separately. This report summarizes our evaluation of the Army's schedule. Our analysis was based on the information contained in the schedule, discussions with Army officials, and our prior work comparing DOD and private sector logistics practices. We reviewed the schedule to determine the extent to which it responds to the act's requirements. Specifically, we evaluated the extent to which (1) the initiatives cover the acquisition and distribution of secondary inventory items and (2) the implementation of the initiatives will be completed within 5 years.

In addition to determining whether the schedule responds to the act's requirements, we identified areas in which it could be improved to guide initiative implementation and improve management of secondary inventory items. Specifically, we examined the schedule in terms of outcome-oriented Results Act principles to determine whether the schedule provides an overall strategy for adopting best practices and contains key management information to guide implementation. We did

not assess the merits of the initiatives or the initiatives' likelihood for success.

We interviewed officials and obtained information about ongoing and planned initiatives at Army Headquarters, Washington, D.C.; the Office of the Secretary of the Army for Research, Development and Acquisition and the Army Materiel Command, Arlington, Virginia; and the Combined Arms Support Command, Fort Lee, Virginia. We also discussed the results of implementing the initiatives, the impact on supply operations, and customer satisfaction with logistics personnel at Fort Bragg, North Carolina, and Fort Campbell, Kentucky. In addition, we used information from reports that we have issued since 1995 and are listed in GAO related products.

We conducted our review from November 1998 to June 1999 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the appropriate congressional committees; the Honorable William S. Cohen, Secretary of Defense; the Honorable Louis Caldera, Secretary of the Army; Lieutenant General Henry T. Glisson, Director, Defense Logistics Agency; and Jacob Lew, Director, Office of Management and Budget. We will also make copies available to others upon request.

Please contact me on (202) 512-8412 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix III.

David R. Warren, Director
Defense Management Issues

List of Congressional Committees

The Honorable John Warner
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Ted Stevens
Chairman
The Honorable Daniel K. Inouye
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Floyd Spence
Chairman
The Honorable Ike Skelton
Ranking Minority Member
Committee on Armed Services
House of Representatives

The Honorable Jerry Lewis
Chairman
The Honorable John P. Murtha
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

Contents

Abbreviations

DOD   Department of Defense

Summary of Army Initiatives

The Army's best practices implementation schedule lists 18 best practice initiatives. We have categorized the initiatives into information management, maintenance, acquisition, outsourcing, and other. This appendix summarizes the information contained in the schedule submitted to the Congress on June 14, 1999.

Information Management Initiatives

Five initiatives listed in the Army's implementation schedule involve replacing old or developing new logistics information management systems. For example, with the Logistics Integrated Data Base initiative, the Army plans to integrate over 60 databases into a single database. A new system being developed by the Army, the Global Combat Support System–Army, is intended to provide field commanders with a comprehensive logistics picture for their units.

Logistics Integrated Data Base

Under the Logistics Integrated Data Base initiative, the Army plans to reengineer the current structure of the databases within its Logistics Support Activity. This initiative is designed to integrate 66 databases into a single database that will allow data to be stored once and used in multiple applications, to use commercial off-the-shelf components, and to provide user friendly windows-like applications. This initiative began in August 1997, and it is scheduled for completion in December 2000. The data elements developed for this initiative are also intended to support the Global Combat Support–Army initiative.

Virtual Integrated Materiel Management Center

The Army intends to reduce costs and improve performance by integrating logistics life-cycle management functions into one virtual materiel management center with this initiative. These functions include weapon system sustainment and integration, readiness analysis, and management support. Under this initiative, the Army's geographically dispersed materiel management centers will operate in an integrated data environment, with the majority of life-cycle management data being stored in digital format. The Army began work on this initiative in September 1997, and it expects implementation to be completed by September 2001.

Wholesale Logistics Modernization Program

The Wholesale Logistics Modernization Program initiative is a program designed to ensure the Army's combat readiness by modernizing the Army's wholesale logistics processes. Under this program, the Army will rely on a

contractor to reengineer its business process and sustain a modernized software system, which will replace its 30-year old supply and depot management systems. The Army had planned to release the solicitation for this contract upon approval of an A-76 study[1] and award the contract 10 months later. On April 20, 1999, the Army waived the A-76 requirement for this initiative. The union representing the affected Army civilian employees has appealed the waiver, and the final determination of this issue is pending. As a result, we were unable to determine if this initiative will be completed by 2003.

Global Combat Support System–Army

The Global Combat Support System--Army initiative is a logistics information system that builds on the functions and processes of existing systems to generate data, integrate databases, and combine combat service support information from external sources as necessary to execute the Army's Revolution in Military Logistics. This initiative was begun in the second quarter of fiscal year 1997, and it is projected to be completed during the fourth quarter of fiscal year 2002. Initially, the system will integrate the functions in the Standard Army Management Information Systems into a single database with a common programming language and operating environment. Ultimately, the system is intended to integrate with joint systems to serve as the land force combat support system. The system is intended to provide field commanders with the full logistics picture. For example, once in place, this system will enable field commanders to quickly determine the status of all supply requests.

Army Total Asset Visibility

As we have reported,[2] the Army's Total Asset Visibility capability is an automated tool that is designed to improve the ability of soldiers, logisticians, and managers to obtain and act on information about the location, quantity, condition, and movement of assets through the Army's logistics pipeline. Fielding of the tool, completed in 1996, provides visibility of 99 percent of Army inventories across all classes of supply,

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[1] In 1966, the Office of Management and Budget issued Circular A-76, which established federal policy for the government's performance of commercial activities and set forth the procedures for studying them for potential contracting. The circular and its Supplemental Handbook provide guidance to federal agencies on procedures to be followed in determining whether commercial activities should be performed by in-house personnel, another federal agency through interservice support agreements, or the private sector.

[2] Defense Inventory: DOD Could Improve Total Asset Visibility Initiative With Results Act Framework (GAO/NSIAD-99-40, Apr. 12, 1999).

according to the Army. The Army believes that some key benefits include easier distribution of assets, reduced inventories and receipt processing time, and fewer duplicate requisitions due to improved asset tracking. This initiative, which the Army considers to be completed, will also support the Department of Defense's (DOD) Total Asset Visibility initiative.

Maintenance Initiatives

Three initiatives focus on improving maintenance operations. The National Maintenance Program and Depot Repair Process Improvements initiatives are designed to improve maintenance operations at the installation and depot levels. The depot improvement initiative is also intended to simplify how units obtain contractor services for the maintenance and logistics support of communication equipment. The Electronic Sustainment Support Center initiative relates to maintaining and providing logistics support of communication equipment.

National Maintenance Program

This Army-wide initiative is to maximize repair capabilities and optimize the use of available resources at all maintenance levels within the Army. The initiative centralizes the management of all Army sustainment maintenance programs while decentralizing the actual repair of the components and end items. The workload will be distributed across depot and installation activities, and repairs will be made based on the national need for an item. Implementation of this initiative began in February 1996, and its completion is projected by the end of September 2003.

Depot Repair Process Improvements

The Depot Repair Process Improvements initiative is intended to improve depot maintenance process efficiencies by meeting production schedules, decreasing production costs, reducing parts and asset inventories, and accelerating repair times. This initiative began in March 1996, and it is scheduled for completion by the end of December 2000.

Electronic Sustainment Support Centers

Under this initiative, the Army established Electronic Sustainment Support Centers to provide units with a single focal point for the maintenance and logistics support of communication equipment and systems. In turn, the centers work with the myriad of contractor and Army organizations that repair and provide logistics support for communication equipment and systems. The Army has regional centers at Fort Bragg, North Carolina, and Fort Hood, Texas, and plans to establish another center in Korea during the

third quarter of 1999. In its schedule, the Army described this initiative as ongoing, but the schedule did not provide for any further expansion beyond establishing a center in Korea. As a result, we could not determine if this initiative is planned to be completed within 5 years as required by the act.

Acquisition Initiatives

The three acquisition initiatives are intended to reduce the time involved in ordering and receiving supplies to replenish inventory, enhance the performance of spare parts through technology insertion, and reduce the paperwork required when ordering supplies.

Lead Time Reduction

This initiative is the Army's effort to reduce the time it takes to order and receive supplies to replenish inventory levels. By reducing lead time, the Army intends to reduce its inventory levels. This initiative began in fiscal year 1995, and it is planned to be completed in fiscal year 2001.

Modernization Through Spares

This initiative is intended to reduce operation and support costs and to be accomplished through the spare parts acquisition process. Under this initiative, suppliers will be given greater design and manufacturing flexibility to incorporate technology that the commercial marketplace uses into the spare parts they manufacture for the Army. The Army believes that replacement parts will last longer if they are equipped with state-of-the-art technology. This initiative is an ongoing program, and there were 10 projects underway as of June 1999. The projected completion date for this initiative, as indicated by the schedule, remains "to be determined." Therefore, we were unable to determine when this initiative will be completed.

Standard Retail Supply System Interface— Paperless Contracting

The Army's paperless contracting initiative is intended to reduce the amount of paperwork when local (Army units, installations, and depots) supply activities order items from local vendors. This project began in January 1999, and it is scheduled for completion in January 2000.

Outsourcing Initiatives

The Army included four outsourcing initiatives in its schedule. With two of the initiatives, Apache Prime Vendor Support and M109 Family of Vehicles Fleet Management, the Army hopes to outsource much of the weapon system logistics requirements for the Apache attack helicopter and the

Paladin mechanized field artillery. The Focused Sustainment initiative provides units with a means to obtain contractor logistics support for equipment ranging from tanks to rifles. The Army has outsourced logistics support for a large portion of its training equipment with the Consolidated Contractor Life Cycle Support initiative. We have reported on DOD efforts to outsource existing workloads.[3]

Apache Prime Vendor Support

This initiative is a contractor's proposal to use commercial practices to reengineer logistics support, improve readiness, reduce life-cycle costs, and provide savings that can be used to modernize the Apache aircraft. The prime vendor program is intended to rely on private-sector capital to upgrade Apache components in conjunction with its management of the parts pipeline. The initiative is being studied by the Army to address unresolved issues. The Army does not know when a decision will be made on whether the program will go forward.[4] According to the schedule, the initiative's projected completion date is fiscal year 2004.

M109 Family of Vehicles Fleet Management

This initiative is similar to the Apache Prime Vendor Support initiative in that logistics support is to be reengineered for self-propelled artillery to improve readiness and reduce life-cycle costs (supply and maintenance expenditures). The schedule projects a December 1999 contract award; however, the Army is studying the initiative, and it is unknown when a decision will be made on whether the initiative will go forward. As a result, we were not able to determine when this initiative is planned to be completed.

Focused Sustainment

The Focused Sustainment initiative consists of a group of six contracts that provide sustainment services, such as maintenance, diagnostics, training, and parts supply, for all Tank and Automotive Command weapon systems. These services are available to all Army customers, anywhere in the world. The Command manages over 3,000 weapon systems, including tanks,

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[3] Defense Depot Maintenance: DOD Shifting More Workload for New Weapon Systems to Private Sector (GAO/NSIAD-98-8, Mar. 31, 1998) and Outsourcing DOD Logistics: Savings Available but Defense Science Board Projections Are Overstated (GAO/NSIAD-98-48, Dec. 8, 1997) cover a variety of outsourcing issues.

[4] Army Logistics: Status of Proposed Support Plan for Apache Helicopter (GAO/NSIAD 99-140, July 1, 1999) examines many of the issues the Army must address before the Apache Prime Vendor Support contract can be awarded.

trucks, trains, boats, rifles, and machine guns. Contracts were awarded in October 1998, and they will be in effect for 10 years.

Consolidated Contractor Life Cycle Support— Training Aids and Simulators

This initiative, which is completed, has resulted in the Army outsourcing 95 percent of the life-cycle sustainment for its training aids, simulators, and simulations. The contracts awarded provide worldwide on-site supply and maintenance support for a variety of systems, such as flight simulators and battle simulation systems. According to Army documentation, these contracts have produced savings of 30 to 50 percent. The Army began this contracting practice in May 1990.

Other Initiatives

The Army plans to implement several other initiatives to improve its logistics pipeline, integrate two separately managed levels of inventory, and share its excess inventory with the other services.

Velocity Management

In September 1995, the Army established its Velocity Management program to develop a faster, more flexible, and more efficient logistics pipeline. The program's goals, concept, and top management support parallel improvement efforts in private sector companies. The program's overall goal is to eliminate unnecessary steps in the logistics pipeline that delay the flow of supplies through the system. The program consists of Army-wide process improvement teams for the following four areas: ordering and shipping of supplies, repair cycle, inventory levels and locations (also known as stockage determination), and financial management. Velocity Management is an ongoing program.

Single Stock Fund

The Single Stock Fund initiative will integrate separately managed wholesale and installation inventories into a single entity. This initiative will improve the acquisition and distribution of supply items by eliminating numerous inefficiencies (e.g., multiple points of sale, multiple billing ledgers, and duplicative automated systems, all used to manage the same inventory). By October 2000, stock-funded supplies owned and managed by installations and corps are expected to become wholesale assets to be managed by the Army Materiel Command. In addition, division-level stock funded supplies are expected to become wholesale assets by October 2001. The Army projects completion of this program by September 2002.

Lateral Redistribution

DOD's Lateral Redistribution Program improves national inventory managers' stewardship of resources by providing the ability to redistribute assets within DOD, both intraservice and interservice, to fill backorders and offset repair and procurement decisions. These actions are accomplished through the transfer of assets from the Army's, and other services', retail and wholesale systems. As part of this program, the Army has automated the redistribution process for secondary items. With lateral redistribution, the Army and the other services expect to reduce excess inventories and the number of requisitions on the services' wholesale systems. The program is an ongoing initiative that began in fiscal year 1996.

Comments From the Department of Defense

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ACQUISITION AND
TECHNOLOGY

Mr. David R. Warren
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National Security and International
 Affairs Division
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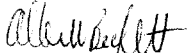
Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office
(GAO) draft report, GAO/NSIAD-99-217, "BEST PRACTICES: Management Framework
Needed to Guide Implementation of Army Initiatives," dated July 16, 1999 (GAO Code
709381/OSD Case 1862). The DoD generally concurs with the draft report.

The DoD agrees with the draft report's conclusion that the Army's schedule generally
meets the requirements of Section 347 of the Strom Thurmond National Defense
Authorization Act for Fiscal Year 1999. However, the DoD is concerned with the draft
report's implication that the current management framework for implementing the initiatives
included in that schedule is inadequate.

As stated in the Army schedule and cited in the draft report, the current management
framework is being guided by the Revolution in Military Logistics. Each reported initiative
supports an element of the Revolution in Military Logistics. Initiatives are subject to review
within existing chains of command and at appropriate levels. This structure has already
produced notable results. In recent years, Army has reduced its order ship times by over 50
percent, reduced wholesale acquisition lead times by more than 395 days, achieved 99
percent asset visibility, and reduced inventory levels below the Fiscal Year 2003 goal
established by the Office of the Secretary of Defense. These successes would not have been
achieved without adequate management. The DoD does agree with the thrust of the draft
report recommendations that Army's existing management framework for implementing the
initiatives outlined in the schedule could be institutionalized in a more formal process.
Detailed comments on the recommendations are included in the attachment. The DoD
appreciates the opportunity to comment on the draft report.

Sincerely,

Roger W. Kallock
Deputy Under Secretary
 of Defense (Logistics)

Attachment

Now on p. 9.

GAO DRAFT REPORT - DATED JULY 16, 1999
GAO CODE 709381/OSD CASE 1862

**"BEST PRACTICES: MANAGEMENT FRAMEWORK NEEDED TO GUIDE
IMPLEMENTATION OF ARMY INITIATIVES"**

DEPARTMENT OF DEFENSE COMMENTS TO THE RECOMMENDATIONS

RECOMMENDATION : The GAO recommended that the Secretary of the Army develop a management framework for implementing the 18 initiatives based on the principles embodied in th Results Act which should include:

(1) a comprehensive strategy that is directly linked to top-level DoD goals and objectives and that recognizes the interrelationshuip of the initiatives and the overall impact the initiatives will have on the Army's logistics pipeline, such as reducing pipeline time, improved customer service, and reductions in total inventory; and

(2) a performance plan that includes clearly defined goals and objectives, defined levels of accountability, quantifiable performance measures, interim schedule milestones, and plans to periodically assess the overall impact the initiatives have achieved in reducing inventory levels while improveming the responsivness of the supply system to user needs. (pp. 10-11/GAO Draft Report)

DOD RESPONSE: Concur. The Army is revising the Army Strategic Logistics Plan, which is the tool to implement the Revolution in Military Logistics. The Army Strategic Logistics Plan is being expanded to more clearly articulate the relationships, goals, objectives, and metrics of logistics initiatives and to provide regularly scheduled review and analysis to the Assistant Secretary of the Army (Acquisition, Logistics, and Technology). Approval of the expanded Army Strategic Logistics Plan structure by the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) is anticipated during the first quarter of Fiscal Year 2000.

GAO Contacts and Staff Acknowledgments

GAO Contacts

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Robert Malpass, and William Woods made key contributions
to this report.

Related GAO Products

Inventory Management: More Information Needed to Assess DLA's Best Practice Initiatives (GAO/NSIAD-98-218, Sept. 2, 1998).

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

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

Inventory Management: Greater Use of Best Practices Could Reduce DOD's Logistics Costs (GAO/T-NSIAD-97-214, July 24, 1997).

Inventory Management: The Army Could Reduce Logistics Costs for Aviation Parts by Adopting Best Practices (GAO/NSIAD-97-82, Apr. 15, 1997).

Defense Inventory Management: Problems, Progress, and Additional Actions Needed (GAO/T-NSIAD-97-109, Mar. 20, 1997).

Inventory Management: Adopting Best Practices Could Enhance Navy Efforts to Achieve Efficiencies and Savings (GAO/NSIAD-96-156, July12, 1996).

Best Management Practices: Reengineering the Air Force's Logistics System Can Yield Substantial Savings (GAO/NSIAD-96-5, Feb. 21, 1996).

Inventory Management: DOD Can Build on Progress in Using Best Practices to Achieve Substantial Savings (GAO/NSIAD-95-142, Aug. 4, 1995).

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