

GAO

Report to the Honorable
William V. Roth, Jr., U.S. Senate

December 1990

ACQUISITION REFORM

Defense Management Report Savings Initiatives



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National Security and
International Affairs Division

B-241756

December 4, 1990

The Honorable William V. Roth, Jr.
United States Senate

Dear Senator Roth:

The 1986 report by the President's Blue Ribbon Commission on Defense Management (commonly known as the Packard Commission) made many recommendations to improve the management and organization of the Department of Defense (DOD). In February 1989, the President directed the Secretary of Defense to develop a plan to fully implement the Commission's recommendations, as well as to substantially improve defense management overall. In July 1989, the President approved and the Secretary issued the Defense Management Report (DMR) which outlined actions needed to improve DOD management. In January 1990, DOD issued a status report on DMR implementation that contained specific management improvement initiatives intended to (1) save an estimated \$39 billion in program costs and (2) eliminate an estimated 42,900 civilian and military positions over fiscal years 1991-95.

As you requested, we have evaluated DOD's implementation of several of the DMR savings initiatives. Our specific objectives were to (1) determine the status of those initiatives, (2) evaluate the savings estimated to result from implementing some major (high dollar) initiatives, and (3) determine whether the services have reduced the number of acquisition personnel since the Packard Commission's 1986 recommendation.

Results in Brief

DOD has implemented a number of DMR savings initiatives and has begun to realize some savings, but the larger, more complex initiatives are still in the planning stages. To fully implement the initiatives and achieve the DMR savings goals, continued management support will be needed.

Although the DMR initiatives were estimated to save about \$39 billion over fiscal years 1991-95, these estimates were not always based on cost analyses supported by historical facts or empirical cost data. Our review of \$24.5 billion in estimated savings showed that about 82 percent of such savings were based primarily on management judgments. While this does not mean the estimated savings will not be achieved, it does indicate that the reliability of the estimates may vary. DOD has reflected these savings in budget documents for fiscal years 1991-95 and officials have stated that current budget negotiations and changes in the world

environment, including Operation Desert Shield, will not delay the implementation of the efficiencies to generate these savings.

Since the Packard Commission's 1986 recommendation to streamline and reduce the acquisition work force, no reductions had been made as of June 1990. The number of acquisition personnel actually increased slightly. The DMR contains initiatives that DOD estimates will result in acquisition work force reductions of 23,900 civilians and 1,981 military personnel over fiscal years 1991-95. The fiscal year 1991 National Defense Authorization Act requires much deeper cuts in acquisition and headquarters personnel.

Background

The Packard Commission's 1986 report on defense management recommended changes in national security planning, military organization and command, acquisition organization and procedures, and government-industry accountability. As we reported in November 1988 and 1989, prior to the DMR, many of these recommendations had not been fully implemented.¹

To fully implement the Commission's recommendations and to improve overall defense management and the acquisition organization, the Secretary of Defense issued 66 DMR initiatives in January 1990. Many of these initiatives were based on previous recommendations by the DOD Inspector General, service Inspectors General, and us. For example, we issued reports on controlling various aspects of supply system costs as well as other logistics issues, such as the need for adequate controls and accountability over inventories. We also commented on the need for consolidating functions within DOD and encouraged DOD to develop standard automated information systems. Many of our reports focused on the need to streamline and improve the acquisition process. We also testified on the need to improve the accounting for contracted advisory and assistance services. These concerns are being addressed in the DMR initiatives.

Along with the savings initiatives such as changes to the logistics system and improvements in automated support and information systems, the DMR also generated several other management changes. For example, according to an official from the Office of the Secretary of

¹Defense Management: Status of Recommendations by Blue Ribbon Commission on Defense Management (GAO/NSIAD-89-19FS, Nov. 1988). Acquisition Reform: DOD's Efforts to Streamline Its Acquisition System and Reduce Personnel (GAO/NSIAD-90-21, Nov. 1989).

Defense (OSD), DOD has completed a review of its regulatory requirements. This project will consolidate, streamline, or delete DOD directives and instructions and procurement and contracting guidance. A review of military specifications and standards is scheduled for completion by 1992. Also, DOD has submitted a package of legislative proposals to the Congress, on which we have testified,² and a report to the President on the relationship between DOD and the Congress.

In January 1990, the Secretary of Defense released a progress report with more details on the DMR initiatives and the associated budget savings. According to an OSD official, a second progress report is currently being prepared and OSD has begun a second round of cost savings initiatives by asking the military services to generate new initiatives and efficiencies.

DMR Initiatives Are in Various Implementation Stages

According to OSD officials, DOD's efforts to implement the DMR initiatives are in various stages. Some initiatives, such as the effort to reduce transportation costs, are already underway and have generated savings. Other initiatives are planned for implementation in the near term. For example, the stock funding of reparable is scheduled to begin in early fiscal year 1991. Some of the more complex initiatives are undergoing extensive planning or study for implementation at a later time. The initiative to standardize and improve automated data processing systems, for instance, is scheduled for implementation over the next several years.

A few of the initiatives have been combined with other budget reduction efforts, which could either delay or speed up their implementation. For example, assigning some military support functions to civilian personnel has been included in overall force reductions, which are still in the planning stages. Also, to streamline Army Materiel Command headquarters and its subordinate commands, personnel reductions were planned over a 5-year period. According to an OSD official, this effort may be accelerated to accommodate budget requirements in fiscal year 1991.

²GAO Comments on the Defense Management Improvement Act (GAO/T-NSIAD-90-41, May 1990).

Estimated Savings From DMR Initiatives Were Often Based on Management Judgments

Although the DMR and follow-up budget documents estimated that the 66 DMR initiatives would save about \$39 billion over fiscal years 1991-95, at least one-half of the estimated savings were based on management judgments rather than detailed cost analyses. In reviewing \$24.5 billion (about 60 percent) of the \$39 billion total estimated savings, we found that \$20.17 billion was based primarily on management judgments. For example, some of the estimates were generated by assigning a savings target, such as 3 percent annually, to a particular area. Other estimates were based on professional experience of DOD officials. In some instances, the services had concerns about the level of savings they were expected to achieve. This does not mean savings will not be achieved; however, it indicates that the reliability of these estimates may vary.

An OSD official stated that the main goal of the DMR initiatives was to create efficiencies and better management and that the savings were a by-product of that goal. The estimated savings are significant and have been included in DOD's budget estimates for fiscal years 1991-95. As indicated in table 1, a reduction of \$2.3 billion has already been included in the President's fiscal year 1991 budget proposals, and, according to OSD officials, the remaining savings are reflected in budget plans for fiscal years 1992-95. Table 2 shows the total DMR savings estimate by broad initiatives area.

Table 1: Estimated Savings Reflected in Budget Plans

Dollars in billions	
Fiscal year	Savings
1991	\$2.3
1992	5.9
1993	8.2
1994	10.6
1995	12.1
Total	\$39.1

Table 2: Estimated Savings by Initiative Area

Dollars in billions	
Initiative area	Savings
Logistics	\$21.0
Consolidation studies	5.6
Automated support and information systems	4.3
Administration	4.3
Finance, procurement, and contract management	3.9
Base operations and facility management	^a
Total	\$39.1

^aLess than \$50 million.

According to OSD officials, they tried to be conservative in estimating DMR savings to reflect anticipated reductions in budget authority and work load. Also, it was their view that these initiatives for management improvement were preferable to additional reductions in force levels or in essential programs. They said that if the savings estimates prove to be overly optimistic, DOD will have to find other efficiencies or reduce programs and operations. According to an OSD official, DOD is establishing a system to track the savings attributable to the initiatives separately from budget-cutting efforts. However, because some DMR initiatives may be impacted by force level changes or other factors, the DMR specific savings may be difficult to track.

We have reviewed the savings estimates for several specific initiatives in most of the areas shown in table 2. Information on these estimates is presented in appendix I.

Future Acquisition Personnel Reductions Cannot Be Determined

We found that the acquisition work force as defined by the Packard Commission in 1986 has slightly increased as of June 1990.³ Between December 1986 and June 1990, DOD and the services experienced an increase in their civilian acquisition personnel spaces and most experienced a decrease in military spaces. As shown in table 3, these changes resulted in an increase of 5,136 in the total acquisition work force.

³We used the Packard Commission's definition of "acquisition work force." That is, several skills, such as contracting and weapon system program management, are always considered acquisition skills, no matter where the individual is assigned, and skills, such as engineering, are considered acquisition skills only if the person is assigned to an acquisition command. In contrast, the DMR defined the acquisition work force as employees in all occupational fields, both military and civilian, at the service buying commands. Therefore, DMR's estimate of approximately 580,000 employees differs considerably from our acquisition work force data.

Table 3: DOD Acquisition Work Force Changes

Service/agency	September 1986	June 1990	Increase or (decrease)	Percent increase (decrease)
Army:				
Civilian	48,301	52,106	3,805	7.9
Military	2,155	1,787	(368)	(17.1)
Air Force:				
Civilian	42,941	41,289	(1,652)	(3.8)
Military	8,801	8,467	(334)	(3.8)
Navy:				
Civilian	63,105	61,301	(1,804)	(2.9)
Military	2,905	2,864	(41)	(1.4)
Marines:				
Civilian	377	417	40	10.6
Military	133	15	(118)	(88.7)
Other DOD:				
Civilian	26,346	31,954	5,608	21.3
Total civilian	181,070	187,067	5,997	3.3
Total military	13,994	13,133	(861)	(6.2)
Total	195,064	200,200	5,136	2.6

Past efforts to streamline the acquisition process and substantially reduce the number of acquisition personnel have failed.⁴ According to several DOD officials, the reason for the failures in the past have been because most of the streamlining initiatives had been imposed on DOD rather than generated from within the Department. As a result, the commitment to make the necessary changes was lacking. The officials expect the DMR to have a greater impact on work force reductions because it was generated by DOD and the services and has support at the OSD level.

DOD projects that the DMR initiatives will eliminate a total of about 42,900 personnel spaces—37,800 civilian and 5,100 military. However, a DMR initiative to replace military support function positions with civilians will result in 19,500 new civilian positions replacing a like number of military positions. This initiative will reduce total civilian reductions to 18,300 (37,800 reduced, 19,500 added) and increase military reductions to 24,600 (5,100 + 19,500 reduced). According to DMR officials, about 23,900 civilian spaces and 1,981 military spaces will come from

⁴DOD's Defense Acquisition Improvement Program: A Status Report (GAO/NSIAD-86-148, July 23, 1986). Acquisition Reform: DOD's Efforts to Streamline Its Acquisition System and Reduce Personnel (GAO/NSIAD-90-21, Nov. 1, 1989).

the acquisition work force. These spaces will come in part from reductions to some acquisition commands. The Army Materiel Command plans to reduce its personnel by 8,600 of which about 300 will be from headquarters. The Air Force Systems Command plans to reduce its personnel by 4,800 of which 300 are headquarters staff. The Air Force Logistics Command will reduce its personnel by 7,500 during fiscal years 1991-95.

The fiscal year 1991 National Defense Authorization Act requires deeper cuts in acquisition and headquarters personnel. The act directs DOD to cut the acquisition work force by 4 percent a year over the next 5 years. This reduction applies to the DMR's definition of the acquisition work force. Using this definition, the 580,000 acquisition work force would be reduced by about 107,000 over the 5-year period. The act also mandates a 4-percent reduction in all DOD headquarters personnel over the same period.

Scope and Methodology

In evaluating the implementation of the DMR initiatives, we reviewed reports from the Congressional Research Service, DOD, and our Office. We also interviewed OSD, Army, Navy, and Air Force officials responsible for developing and implementing the DMR initiatives and for monitoring their implementation. To evaluate the savings estimates, we selected several of the larger dollar amounts, which together represent over 60 percent of the savings, and discussed with OSD officials the methodology used to calculate these estimates.

We obtained personnel data from the Office of Productivity and Civilian Requirements, OSD, to determine whether the services had reduced their acquisition work force. We analyzed these data for selected time frames in 1986 and 1990 to update the information presented in our November 1989 report. We did not validate these data.

We performed our review between October 1989 and July 1990 in accordance with generally accepted government auditing standards. A list of our other ongoing work related to DMR initiatives is provided in appendix II.

We did not obtain written agency comments on this report. However, a draft of this report was provided to DOD officials and we have incorporated their views where appropriate.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Secretary of Defense and interested parties and make copies available to others upon request.

This report was prepared under the direction of Paul F. Math, Director, Research, Development, Acquisition, and Procurement Issues, who may be reached on (202) 275-8400 if you or your staff have any questions. Other major contributors to this report are listed in appendix III.

Sincerely yours,

A handwritten signature in black ink that reads "Frank C. Conahan". The signature is written in a cursive style with a large initial "F".

Frank C. Conahan
Assistant Comptroller General

Contents

Letter		1
Appendix I		12
Savings Estimates and Status of Specific Defense Management Report Initiatives	Logistics Initiatives	12
	Consolidation Initiatives	14
	Automated Support and Information Systems Initiatives	14
	Administration Initiatives	15
	Finance, Procurement, and Contract Management Initiatives	16
Appendix II		17
Other Ongoing GAO Reviews of the Defense Management Report		
Appendix III		18
Major Contributors to This Report		
Tables		
	Table 1: Estimated Savings Reflected in Budget Plans	4
	Table 2: Estimated Savings by Initiative Area	5
	Table 3: DOD Acquisition Work Force Changes	6
	Table I.1: DMR Savings Estimates	12

Abbreviations

ADP	automated data processing
CAAS	contracted advisory and assistance services
DMR	Defense Management Report
DOD	Department of Defense
GAO	General Accounting Office
OSD	Office of the Secretary of Defense

Savings Estimates and Status of Specific Defense Management Report Initiatives

This appendix discusses the savings estimates and status of implementation for several of the DMR initiatives. At least one-half of the savings estimates for these initiatives are based primarily on management judgments in the absence of empirical cost data. The following table shows the DMR categories, the savings estimates we reviewed, and the amounts we found were based on management judgment.

Table I.1: DMR Savings Estimates

Dollars in billions

	DMR estimated savings	Saving estimates reviewed by GAO	Estimates reviewed based on management judgment
Logistics	\$21.0	\$12.284	\$10.142
Consolidation studies	5.6	5.6	5.6
Automated support and information systems	4.3	4.343	2.178
Administration	4.3	1.148	1.148
Finance, procurement, and contract management	3.9	1.099	1.099
Base operations and facility management	^a	.	.
Total	\$39.1	\$24.475	\$20.167

^aLess than \$50 million.

Logistics Initiatives

DMR's logistics initiatives are expected to improve logistics management and reduce costs by \$21 billion. Included in this category are DOD-wide initiatives to reduce supply, repair parts, and transportation costs, as well as several service-specific logistics initiatives. We reviewed \$12.28 billion of the estimated \$21 billion savings and found that the \$10.14 billion attributable to the initiative for reducing supply costs was based on management judgment. The \$2.14 billion in estimated savings from transferring the cost of reparable parts to the Stock Fund was based on previous experience.

Reducing Supply Cost

This initiative is expected to save an estimated \$10.1 billion in the services' overall costs for supplies. The services will have budget authority to transfer supply costs to a Stock Fund, an account that finances the purchase and resale of materials to the military services and other authorized customers. According to an OSD official, this change is expected to provide more visibility and control over the cost of supplies. Because all the cost associated with the procurement of supplies will be

charged to a single account, managers will know all the costs associated with the supply system and make spending decisions based on the most efficient, economical way to manage that system. Also, the users will be charged the full cost of the supplies.

According to OSD officials, the \$10.1 billion savings for this initiative was estimated by reducing the services' supply costs by 3 percent each year for fiscal years 1991-95. The 3-percent figure is a savings goal that OSD officials believe is reasonable. However, the services expressed concern that the initiative would not achieve a 3-percent supply cost reduction per year. OSD officials stated that they were comfortable with the calculation and that the Departments have agreed that savings of this magnitude in supply system costs can be achieved.

Transferring Costs of Reparable Parts to the Stock Fund

This initiative is expected to save \$2.14 billion by transferring the costs of reparable parts to a Stock Fund. Users will have to pay for new repair parts which previously have been issued without charge to the user. This initiative will give users an incentive and option to repair rather than purchase new parts.

According to OSD officials, the savings estimate was based on Army and Air Force savings of 10 percent per year through improved management of reparable parts. The Navy has been managing the cost of reposables through a Stock Fund since fiscal year 1982 and, according to these officials, has realized a savings of over 20 percent. OSD did not expect the Army and Air Force to initially achieve the same 20-percent savings. However, OSD did believe a 10-percent savings was reasonable. Again, the Army and Air Force expressed concerns about meeting this goal. This effort is scheduled to begin in fiscal year 1991.

Reducing Transportation Costs

The DMR initiative to reduce transportation costs is expected to save \$988 million through such policy changes as

- establishing regional freight consolidation centers which will consolidate small shipments into larger shipments,
- allowing DOD to ship priority material to a requisitioner by a cheaper mode unless the requisitioner requires faster delivery, and
- conducting DOD audits of bills before payment to permit overbillings or erroneous charges.

This initiative is already underway and, according to an OSD official, has already generated savings in shipping costs.

Other Logistics Initiatives

Other logistics initiatives with total expected savings of over \$7.7 billion are summarized as follows:

- Studies of contracting services for Army ammunition plants and Navy shipbuilding and repair are scheduled for completion on January 31, 1991. Implementation decisions will be made sometime after that date.
- An effort is underway to reduce the costs of clothing and textiles by limiting clothing purchases, using more commercial specifications, consolidating specification development, and changing the policy for new clothing introduction.
- Various service-specific initiatives include improvements to the Army logistics system and operating cost reductions at the naval aviation depots. According to an OSD official, some of these initiatives are underway, while others are in the planning stage.

Consolidation Initiatives

These initiatives, with expected savings of \$5.6 billion, called for studying the possible consolidation of supply depots, inventory control points, maintenance depots, automatic data processing (ADP) design centers and operations, accounting operations and finance centers, and research and development laboratories and test facilities. Our review of the savings found that management estimated the savings based on previous consolidation proposals. According to an OSD official, the savings estimate was revised downward to be conservative.

Implementation decisions have been announced in four of the six areas—supply depots, inventory control points, maintenance depots, and finance centers. Decisions are still pending in the two others. The consolidation of supply depots has begun with five depots in the San Francisco Bay area.

Automated Support and Information Systems Initiatives

Two initiatives to standardize and consolidate ADP systems and implement computer-aided logistics support are expected to save \$4.34 billion. Of this \$4.34 billion, \$2.18 billion from the consolidation of ADP systems is based on management judgment by OSD and \$2.16 billion from the computer-aided logistics support initiative is based on experience within the Navy.

The initiative to develop standard and consolidated ADP systems throughout DOD—referred to as Corporate Information Management—is estimated to generate a net savings of \$2.18 billion during fiscal years 1991-95. An OSD Deputy Comptroller explained that this initiative, involving about 200 people full time, is expected to save 10 percent of the ADP development and modernization budget or about \$3.6 billion over the 5-year period. However, approximately \$1.42 billion of this savings will be used to develop and implement single business systems in such areas as personnel, payroll, distribution, and so forth. According to OSD officials, the savings were based on OSD management judgment, the knowledge that many service business systems are duplicative and the certainty that ADP technology exists to permit development and implementation of single systems to serve the entire Department.

This effort is to be implemented over the next several years. Study groups have formed to establish requirements and develop implementation plans for eight areas. However, these plans are not expected for 6 to 18 months, depending on the complexity of the subject area. After the plans are completed, the systems will be designed and implemented.

The second initiative is a Navy effort using the DMR to accelerate an ongoing project—computer aided logistics support. This initiative is estimated to save \$2.16 billion¹ over fiscal years 1991-95. This program consists of 10 initiatives grouped into 3 categories: technical documentation, shipyard work procedures, and procurement.

Administration Initiatives

Some DMR initiatives are underway to streamline headquarters operations and create other efficiencies that would lead to personnel reductions. The DMR administration initiative which is expected to save the most money—\$1.1 billion—calls for more efficient management of defense agencies, such as the Defense Logistics Agency and Defense Mapping Agency. The savings estimate is based on management judgment. According to an OSD official, the initiative does not identify specific efforts. Instead agencies were given savings targets to meet, either by creating efficiencies or managing to budget reductions, of 5 percent in fiscal year 1991, 10 percent in fiscal year 1992, and 15 percent in fiscal year 1993.

¹Due to an arithmetic error by the Navy in developing the savings estimate, the individual categories comprising this initiative total \$18 million less than the \$2.16 billion cited by DOD.

Finance, Procurement, and Contract Management Initiatives

The DMR identified six initiatives which are expected to generate economic benefits by more closely scrutinizing specific managerial oversight responsibilities related to financial monitoring, by consolidating DOD contract management, and by reducing the use of consultants by DOD. These initiatives are expected to save a total of \$3.9 billion.

One of these initiatives, expected to save about \$1.1 billion over 5 years, calls for reducing spending on contracted advisory and assistance services (CAAS), such as contracts for individual experts and consultants; studies, analyses, and evaluations; management support services; and engineering and technical services. An OSD official explained that the savings were based on a management judgment that CAAS spending could be reduced by 10 percent a year over 5 years. OSD Office of the Comptroller officials stated that the 10-percent assessment was determined to be reasonable.

Another initiative is to consolidate contract management services within the Defense Logistics Agency, which is expected to save \$255 million. According to an OSD official, the Defense Logistics Agency has the structure in place to absorb this function, and all resources for this effort, including funding, have now been transferred from the services to the Logistics Agency. We did not review this savings estimate.

Other Ongoing GAO Reviews of the Defense Management Report

We have underway several evaluations of individual DMR initiatives, including the

- services' strategies for incorporating the costs of reparable parts into the Stock Fund,
- consolidated information management effort,
- automation of inventory systems,
- the initiative on computer-aided logistics support,
- consolidation of supply depots,
- effort to increase inventory visibility,
- Navy's efforts to improve its supply systems, and
- streamlining of the acquisition management structure.

Additional reviews will be planned as the initiatives are implemented.

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