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DEFENSE MANAGEMENT

Consolidation of Printing

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Mr. Chairman and Members of the Joint Committee:

We are here today to present our views on the Department of Defense's (DOD) efforts to consolidate the military services' and the Defense Logistics Agency's (DLA) printing and duplicating functions under the Navy's centrally managed and industrially funded Navy Publishing and Printing Service--now called the Defense Printing Service (DPS). Our testimony focuses on (1) providing the current status of these efforts, (2) identifying the areas where DPS anticipates future savings will be achieved, and (3) commenting on conditions that will affect the assumptions on which the future savings estimate is based. Our observations present some nationwide data to the extent possible and available information from the recently completed Southern Area Test.

BACKGROUND

On February 28, 1992, a Joint Committee on Printing Resolution was passed which, among other things, allowed DOD to consolidate, nationwide, the management structure of the military services' and DLA's printing and duplicating functions under the Navy, effective April 6, 1992. The resolution prohibited DOD from consolidating nationwide operationally--that is, making changes such as downgrading or consolidating facilities, and transferring personnel--until DOD had completed an operational test of consolidation in its Southern Area plants and obtained approval from the Committee to do so.¹ A May 19, 1992, letter from the Joint Committee on Printing to the Secretary of Defense, also specifically prohibited DOD from purchasing equipment until after the Committee had evaluated results of the Southern Area Test and approved the nationwide operational consolidation.

The Resolution stated that the test results in the Southern Area would assist the Committee in determining if the consolidation will achieve (1) the goals of improving DOD's printing and duplicating functions and (2) the estimated dollar savings.

On April 6, 1992, DOD began consolidating its printing and duplicating activities nationwide--both managerially and operationally--and began its test in the Southern Area. This nationwide operational consolidation is contrary to the Resolution and subsequent correspondence from this Committee.

¹DOD anticipates savings from this consolidation of \$13.7 million in fiscal year 1993 and \$35.2 million annually beginning in fiscal year 1994. They have stated that approximately \$8.2 million of that \$35.2 million will come from the Southern Area plants.

RESULTS IN BRIEF

The consolidation of printing and duplicating functions, as with most consolidations, presents opportunities for savings. However, it is very early in this consolidation and little progress toward the DPS anticipated savings and efficiencies has been achieved. Currently, DPS nationwide is reporting losses for the 3 months ending June 30, 1992, of about \$2 million. These losses are occurring even though a 10-percent increase was included in the 1992 prices to cover the cost of purchasing equipment. However, in compliance with the Committee's direction, DPS officials told us that they have not yet bought any equipment. Such initial operating losses were anticipated by DPS, and are expected to be eliminated by March 1993.

The consolidation has resulted in little change in customer service because the same people, equipment, and facilities are being used. However, it has brought much concern over the cost of printing because bills have not been provided to customers since inception of the consolidation in April 1992. Customers indicated that they did not know how much they were being charged or how to budget for future printing requirements without these bills.

The Resolution, which stipulates that all commercial printing and duplicating be provided directly through the Government Printing Office (GPO) to avoid delays and secondary processing costs, has not been adopted by DOD. Currently, procurements for commercial printing are going from the customer through DPS to GPO. GPO adds a 6-percent surcharge to the contractor's bills for administration fees and then DPS adds on its fee for handling such procurements--generally the fee is 5.5 percent. Officials from the Army, Air Force, and DLA believe this unnecessarily increases their printing costs. We agree that the combined DPS and GPO surcharges are excessive. DPS officials stated that they need to manage and control such procurements to achieve the overall success of the consolidation.

Although the amount of savings to be realized from each of the actions in their Southern Area implementation plan has not been identified, DPS officials told us that they expect most of their savings and efficiencies will come through equipment modernization. In addition, they believe most of the savings resulting from these modernizations will likely result in greater personnel reductions than DPS originally estimated.

Printing demand is expected to shrink over the next several years due to (1) defense force reductions of at least 25 percent; (2) industrial funding that reduces marginal or unnecessary printing requirements because the customer is billed for services provided instead of obtaining them free of charge; and (3) recent GPO findings that could direct substantially more defense printing through GPO.

Major reductions in printing demand within DOD could lead to excess printing capacity, higher unit costs could result, and would make achieving the future cost reductions anticipated through equipment modernization more challenging. We recognize the challenge faced by DPS to substantially reduce capacity. However, we are concerned that the temptation will be to preserve excess capacity by keeping work "in house" that could and should be contracted out through GPO at lower costs and by seeking printing work from other agencies.

CONSOLIDATION RESULTS TO DATE

According to preliminary data supplied by the DPS Comptroller,² DPS nationwide has experienced a loss of approximately \$2 million for the first 3 months of the consolidation--April through June 30, 1992. DPS, however, had a net operating gain of approximately \$4.6 million for the 6 months prior to the consolidation that offset these losses. Consequently, at the end of June 1992, DPS nationwide showed a net operating gain of \$2.6 million.

According to DPS officials, the losses they incurred were \$4.5 million less than originally anticipated for the 3 months ending June 1992. They stated that \$2.6 million of this \$4.5 million was attributable to labor savings resulting from reductions in the work force through attrition. DPS officials, however, were unable to provide specific reasons for the remaining \$1.9 million.

The \$2 million loss incurred during the first 3 months of the consolidation resulted despite a 10-percent increase³ in prices in 1992 to finance the cost of equipment. To date, according to DPS officials, they have not purchased any new equipment. As a result, DPS has not incurred the cost of such purchases even though they are generating revenue from the price increase. If the revenue associated with this price increase were excluded, the loss during the first 3 months of the consolidation would have been even greater.

²We were provided with preliminary financial data that excluded military personnel costs and corrected financial statements were not completed during the course of our review.

³The total 1992 price increase, according to the DPS Comptroller, included 5 percent for depreciation, 5 percent for inflation, and 5 percent for new equipment associated with the consolidated activities. He further told us that the latter amount also included a small amount for base operating support. While documentation for this breakdown has been requested, it has not yet been provided.

DPS officials expected to have losses in the first year and a half of the consolidation. Normally, under an industrially funded concept, an activity that loses money in one year increases prices in the next year to cover those losses. DPS officials told us that their prices will increase in 1993, but the increase is not to cover any of their anticipated losses. According to the DPS Comptroller, there will be a 5-percent increase for depreciation, a 5-percent increase for inflation, a 5-percent increase for base operating support, and a 1-percent reduction directed by the Office of Management and Budget and the Office of the Secretary of Defense for a total increase over 1992 prices of 14 percent. Documentation detailing this price increase was recently requested but has not yet been provided to us.

CUSTOMER SERVICE AND TRANSITIONAL PROBLEMS

Based on our interviews with some DPS customers, the consolidation has brought little change in the quality, and in some cases, the timeliness of printing since the same people in the same plants are providing the services.

The consolidation has, however, raised concerns over the cost of printing. Some customers expressed concern that the Navy pricing manual that DPS uses to price out their work was not provided to them so they could price their own jobs and budget more accurately. The pricing manual is categorized "For Official Use Only." Customers have been told that they did not have a "need-to-know," and probably would not be able to do the pricing if they did have the list because it was so complex. A DPS official stated that they provided guidance to their activities in May to furnish pricing lists--not the manual--to customers at their plants. The customers, we interviewed had not received such a list. Some customers expressed concern that under the industrially funded concept, they now have to pay for printing, but are not being provided the Navy pricing manual or tools to price their own work.

In addition, bills have not been provided to customers for the 3 months since inception of the consolidation because of the incompatibility of DPS billing system and that of the Defense Finance and Accounting Service. Customers indicated that without these bills they did not know how much they were being charged or how to budget for future printing requirements.

PROCUREMENT DIRECTION IN RESOLUTION NOT FOLLOWED

The Senate Appropriations Committee's Report on Defense Appropriations for fiscal year 1992 directed DOD to "send printing and duplicating jobs that will not be done in in-house facilities directly from the service initiating the job to the GPO." The Conference Committee Report for the 1992 Defense Appropriations supported the Senate Appropriations Committee's direction. The

Joint Committee on Printing's February 1992 Resolution stated that DOD procure all commercial printing and duplicating through the GPO to avoid delays and secondary processing costs.

Currently, procurements for commercial printing are going through DPS to GPO. Once contractors send out their bills, GPO adds a 6-percent surcharge to these bills for administration fees and then DPS adds on its fee that is generally 5.5 percent.

The DPS surcharge, according to DPS officials, covers the salaries and benefits for personnel associated with field procurement-- 3.0 percent and an amount for overhead at the DPS headquarters management office--approximately 2.5 percent. Officials from the Army, Air Force, and DLA believe this unnecessarily increases their printing costs. We agree that the combined DPS and GPO surcharges are excessive.

DPS officials still assert that they need to manage and control all printing--including commercial printing--and that it is an essential ingredient to the overall success of the consolidated organization. They stated that to schedule, prioritize, correlate, and otherwise manage overall printing needs effectively and efficiently, the new managers must have access to and control over total printing requirements--both in-house and commercially procured. They further stated that, otherwise, the activities could divert work load from the organization and defeat the purposes of consolidation.

REDUCING COST OF ACQUIRED ACTIVITIES DEPENDENT ON EQUIPMENT PURCHASES

The DPS Southern Area Management Action Plan shows the goals and actions it plans to take to achieve the annual savings⁴ expected in that area. This plan included such actions as acquiring new productivity enhancing equipment and reducing facility and space cost. However, the plan did not identify how much savings would come from each of the actions. For the most part, DPS officials told us that decisions regarding which facility to close, what equipment to purchase, and what personnel are needed in each of the Southern Area plants was based on management judgment instead of in-depth analyses.

DPS officials said, however, that most of their savings and efficiencies were expected to come from equipment modernization. These officials stated that a lot of old plant technology was left in some of the acquired activities and their plans are to move

⁴Based upon our review, the initial savings estimate of \$8.2 million for the Southern Area was overstated by approximately \$300,000 because of a typographical error. Savings for the area are, therefore, approximately \$7.9 million.

these plants from offset equipment to electrostatic duplicating. DPS officials stated that moving from printing to duplicating is less labor intensive and therefore, such equipment could be operated by GS-3s and GS-4s instead of the higher cost wage grade employees. They further stated that most of these modernization changes will also result in personnel reductions--more personnel reductions than was originally estimated. According to these officials agreements were established with the services before the consolidation that no reductions in forces would occur in fiscal year 1992. However, to meet targeted plant production standards and efficiencies, DPS officials told us that some of the managers may resort to reductions in forces in 1993.

THE EXTENT SAVINGS WILL BE
ACHIEVED IS DEPENDENT ON DEMAND

The DPS annual savings estimate was based on a level of demand that will not be achieved. The consolidation savings estimate assumes that the same number of units will be produced at a lower cost than was produced in the Army, Air Force, Marine Corps, and DLA printing activities. The total annual production units, however, will be substantially less than initially planned.

Annual Production Reduced

As stated earlier, the demand for printing will be substantially reduced because of (1) the 25-percent drawdown in forces, (2) the impacts of industrial funding on marginal requirements, and (3) potentially more work being contracted out through the GPO as authorized under title 44 U.S.C.

Drawdown in Forces

According to the Southern Area Management Action Plan, printing operations will be reduced in proportion to force cuts. DPS officials told us that their annual savings estimate did not account for such a reduction since, they did not know, at the time they prepared the estimate, if a reduction in forces would result in proportional reductions in demand. They state that they still do not know what reductions should be made.

Industrial Funding

Since industrially funded operations identify the cost for services provided and require the user to pay the full cost of such services, the demand for printing is often reduced. The Navy has documented cases in areas other than printing that such funding arrangements have reduced demand by as much as 20 percent. During recent visits to some Southern Area printing plants, we were told of reductions in printing demand due to industrial funding. Some customers and plant officials told us that there were noticeable reductions in some printing requirements that used to be sent to

the plants, for example, training documents that were thrown away after use in one class are now reused instead of printing new documents for subsequent classes. In addition, they stated that there were some noticeable increases in the use of office copier machines for work that should be sent to the printing plants.

Contracting out

In accordance with the Resolution, GPO conducted a work load analysis in 38 of the 49 printing plants in the DPS Southern Area. The GPO teams reported that a substantial amount of the printing and duplicating work that is being performed in-house in the Southern Area plants could and should be contracted out through GPO. Their report stated that substantial savings would be achieved by directing much of this work to private industry through existing GPO contracts or through the creation of additional contracts.

DPS officials told us that they believed there were opportunities to contract out more printing to the commercial sector through GPO. However, they stated that the GPO work load analysis also included duplicating orders which they believe are not covered under the requirements of Title 44. They acknowledged that congressional resolutions, reports and correspondence have been written which direct DOD to send more duplicating to the private sector through GPO. However, they stated that there is no legislative or legal requirement that requires them to do so.

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DPS savings estimate assumes that DPS can get the higher cost Army, Air Force, Marine Corps, and DLA printing plants down to their standard costs. However, significant printing demand reductions could lead to excess capacity, which in turn could increase unit costs because there are less units over which to distribute fixed costs and, therefore, make achieving the future cost reductions anticipated through equipment modernization more challenging.

The temptation will be to preserve capacity by keeping work in house that could and should be contracted out through GPO, which we reported as a major concern to Defense Printing Service in Washington, D.C.,⁵ and by seeking printing work from other agencies--a current practice which DPS believes is allowed under their Navy Industrial Fund Charter. Since DPS managers are rated on their plant's cost and efficiency indexes in the DPS financial system such practices may increase under these circumstances.

⁵GAO/NSIAD-91-268, Defense Management: DOD's Plans to Consolidate Printing August 1, 1991.

Mr. Chairman, this concludes my prepared statement. We will be pleased to answer any questions you or the other members of the Committee may have at this time.

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