

March 1988

MANAGEMENT REVIEW

Follow-Up on the Review

041701



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

National Security and
International Affairs Division

B-221701

March 28, 1988

The Honorable Frank C. Carlucci
The Secretary of Defense

Dear Mr. Secretary:

This report discusses the results of our follow-up review on GAO's April 7, 1986, report, Management Review: Progress and Challenges at the Defense Logistics Agency (GAO/NSIAD-86-64). Our follow-up review was made to assess the status of actions taken in response to our prior report and to identify additional opportunities to strengthen the Defense Logistics Agency's management processes and overall effectiveness.

This report contains recommendations to you on pages 14 and 21. As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement of actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We would appreciate receiving copies of these statements.

We are sending copies of this report to the Chairmen, House and Senate Committees on Armed Services; the Director, Office of Management and Budget; the Secretaries of the Army, Navy, and Air Force; and the Director of the Defense Logistics Agency.

Sincerely yours,

Frank C. Conahan
Assistant Comptroller General

GAO's Analysis

Planning and Related Functions

DLA has taken a number of actions to address the planning problems GAO previously found, but some additional steps are needed. For example:

- Progress has been made toward integrating DLA's strategic, mid- and short-range plans. The goals, objectives, and specific actions contained in the mid- and short-range plans support the achievement of strategic goals and objectives. Progress in accomplishing specific tasks is monitored; however, the resources needed to accomplish them are not identified and linked to the budget process.
- DLA's mobilization plans are being revised to broaden their scope and base them on more complete requirements data. However, DLA and the military services disagree over the types of items that should be included in mobilization requirements. Consequently, little progress has been made toward finalizing these plans.

Management Controls Over Programs

GAO's follow-up work to assess DLA progress in addressing management control problems shows that improvements are underway in the areas of contract administration, inventory management, automatic data processing costs, and audit follow-up. However, further actions are needed. GAO found:

- Improved controls over payments to contractors have been established; however, they have not been effectively implemented. For example, field activity reports of potential overpayments to contractors, submitted during 1987, contained incomplete data.
- A goal has been established to measure DLA's effectiveness in reducing the growth of nonstandard parts in the DOD inventory. However, data needed to assess whether the goal is being achieved is not being provided to managers.
- An ADP capacity management program has been established. A significant challenge facing DLA management is its program to modernize the agency's management information systems—the Logistics Systems Modernization Program, which is estimated to cost \$2.7 billion. However, DLA lacks actual cost data for its existing automated data processing operations. The data are essential to making the appropriate cost/benefit and other financial decisions related to DLA's modernization program.
- Procedures for verifying the completion of corrective actions to audit recommendations have been developed.

Agency Comments

With one exception, which relates to the responsibilities of DLA's internal review group, DOD generally concurred with GAO's findings and recommendations (see app. I). DOD also cited numerous actions to address the issues discussed in GAO's report such as improvements to planning and information management resources activities.

Appendix

Appendix I: Comments From the Assistant Secretary of
Defense (Production and Logistics)

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Abbreviations

ADP	Automated data processing
DCASR	Defense Contract Administration Services Region
DLA	Defense Logistics Agency
DOD	Department of Defense
GAO	General Accounting Office
IRM	Information Resources Management
LSMP	Logistics Systems Modernization Program
MILSCAP	Military Standard Contract Administration Procedures
OSD	Office of the Secretary of Defense
ULO	Unliquidated obligation

reviewed; however, in those areas where problems were identified, we assessed whether internal control improvements were needed.

not providing comprehensive mobilization requirements data. We recommended that the Secretary of Defense ensure that the services make the appropriate data available to DLA.

Our current work shows that DLA's mobilization plans are being revised to broaden their scope and base them on more complete requirements data. However, the services are still not providing the needed data. To obtain the data needed, in March 1987 DLA asked the services to provide, over a 3-year period, the data on their mobilization requirements for

- subsistence items, petroleum, oils, and lubricants, and spare parts on the Commander in Chief's list of critical items (to have been provided in 1987);
- clothing and textiles items, medical supplies, and spare parts for major weapon systems other than those on the critical-item list (to be provided in 1988); and
- construction supplies and all other spare parts (to be provided in 1989).

DLA and the services met three times between March and September 1987 to discuss this request. The services disagreed on what data should be provided, according to a DLA mobilization planning official. The Navy and the Marine Corps said that they would provide only their war reserve requirements. War reserve requirements exclude many initial issue items that will be needed during mobilization, such as duffel bags, construction supplies, or food other than field rations, according to a DLA planning official. The Army and the Air Force said they will work with DLA to provide the appropriate data. However, they have reservations about whether they can provide the detailed information DLA is requesting.

Automated Information Resources Planning

At the time of our 1986 report, DLA was developing a long-range plan for modernizing its automated data processing (ADP) systems. We found that DLA has made progress in planning for its systems modernization. We also found that, because of changes in long-range plans, logistical requirements, and technological advances, DLA is now developing a longer range plan, the Logistics Systems Modernization Program (LSMP). This plan extends the previous 5-year plan to 2010 with an estimated program cost of about \$2.7 billion. On October 22, 1987, we discussed specific aspects of this program in our report ADP Modernization: Status of Proposed Enhancements to Defense Logistics Agency Systems (GAO/IMTEC-88-4FS).

for personnel gains and losses, improved access to the personnel data bank, and established staffing goals.

In May 1986, using uniform data, DLA's Office of Civilian Personnel issued its first quarterly Staffing Statistics Report. The report summarizes data by field activity for such categories as personnel losses and gains and staffing efficiency broken down by job series and includes a narrative analysis of causes of significant changes in statistical categories. DLA also has improved its automated personnel system by providing access to the field activities and by adding 24 new data elements and new on-line programs that will provide data such as personnel turnover and internal and external recruitment.

Budget Formulation

DLA has separate budget formulation processes for its appropriated fund budget and its stock fund budget. The appropriated fund budget consists principally of the funds for personnel and other costs incident to day-to-day operations. The stock fund budget includes funds for supply inventories needed to respond to requests by DLA customers.

In 1986 we recommended that the Director of DLA improve the process and underlying assumptions used to prepare these two budgets by using more systematic and comprehensive data on DLA work force characteristics and by continuing initiatives to obtain better data from the services on weapon systems spare parts. DLA has taken several actions in response to our recommendations.

To improve the accuracy of budget decision-making data, DLA has automated its data on work force characteristics and made the data available to both field and headquarters analysts. The automated process was started in October 1986 at the depots and Defense Contract Administration Services Region (DCASR) offices and will be extended to DLA's supply centers next. This process will be further improved by adding an on-line appropriation accounting subsystem to the Automated Payroll, Cost, and Personnel System. According to DOD this action was accomplished in October 1987. This subsystem is intended to improve the quality of financial and work force characteristics data the field activities maintain and to improve the timeliness of reporting.

Conclusions

Overall, DLA has completed a number of actions and has others underway in response to our 1986 planning-related recommendations. However, the resources to accomplish the mid-and short-range management

Management Controls Over Programs

In 1986 we identified five areas in need of improved management controls: (1) contract administration, (2) receipt of material from contractors, (3) inventory management, (4) ADP costs, and (5) audit follow-up. Improvements to management controls are underway in each area. However, more needs to be done, including adding new control measures and better implementing those that exist.

Accounting Inaccuracies

In 1986 we noted that for many years DLA's Defense Contract Administration Services Region Offices sometimes recorded accounting data for contracts inaccurately and made incorrect payments to contractors. These errors were primarily the result of manual data entry and the use of nonstandard contract data and forms. The Military Standard Contract Administration Procedures (MILSCAP), which DOD believes will solve these problems, have been in development for many years. DOD stated that these procedures had not been fully implemented because acquisition of a modern automated system that could effectively use these procedures had been slow. To improve accounting accuracy, we recommended that

- the Secretary of Defense pursue greater standardization of contract data by mandating full implementation of the MILSCAP (or an equivalent system) and find ways to achieve greater uniformity of contract forms and
- the Director, DLA, place greater emphasis on improving the quality of accounting data produced by DCASRs by directing them to review those transactions for which contractors appeared to have been overpaid¹ and testing the adequacy of controls over contractor payments.

Currently, the Office of the Secretary of Defense and DLA have efforts underway to improve the quality of accounting data for contracts. These efforts focus on fully implementing MILSCAP and changing the way DLA collects and processes contractual data.

The status of MILSCAP implementation was recently evaluated by the responsible OSD office and new objectives and milestones were established that set completion in fiscal year 1991. Also, DLA is redesigning its automated contract administration services system to reduce manual entry of accounting data and fully automate the contract payment process. The effort is scheduled for completion in December 1989. DLA also

¹These transactions, which are classified as negative unliquidated obligations, occur when total funds disbursed exceed recorded obligations. They occur for such reasons as contractor overpayments, incorrectly recorded payments, and contract price reductions.

Since our 1986 report was issued, DLA has implemented several management initiatives to better control in-transit materials, reduce large ULO balances, and improve the accuracy of inventory records. These initiatives include new procedures for processing material receipts, reconciling overaged ULOs and improving the accuracy of its inventory records. We have completed² or have underway several detailed reviews that will, among other subjects, comment on the effectiveness of these initiatives and address

- inventory accuracy and causative research into inventory errors.
- confirmation that materials are received, and
- fast pay procedures for contractor materials.

Parts Control and Inactive Item Programs: More Progress Needed

DLA has two programs that aim at lowering supply costs by reducing the size of DLA's inventory: the DOD Parts Control Program and the Defense Inactive Item Program. The Parts Control Program's objective is to prevent unnecessary items from entering the supply system by ensuring that standard military parts are used, where possible, to construct new equipment. The Inactive Item Program's objective is to eliminate items from the supply inventory by periodically reviewing current needs. Reviews are made of all items that have been in the inventory for over 7 years and have had no demands in the most recent 2 years. In 1986 we reported that neither program was functioning as intended. Defense contractors were not implementing a large portion of DLA's recommendation to use standard military parts, and the services were not effectively evaluating inactive items to identify those that were unneeded. We recommended that

- the Director, DLA, establish a goal for the percentage of DLA's recommendations that the services are to accept as a gauge of program effectiveness and
- the Secretary of Defense direct DLA and the military services to work together to make timely and effective reviews of inactive items.

Parts Control Screening

DLA established a goal of 90-percent acceptance by the services of its recommendations to use standard military parts. However, DLA is unable to determine whether this goal is being met because the services do not

²Inventory Management: Defense Logistics Agency Inventory Accuracy Problems (GAO/NSIAD-88-39), Dec. 1987, and DOD Inventory Management: Revised Policies Needed (GAO/NSIAD-88-75), Jan. 1988.

Controls Over ADP Costs and Measurement of Computer Performance

In 1986 we reported that DLA did not have adequate visibility and control over its ADP and telecommunications costs. Information on computer systems operating efficiencies was limited, and estimates of future computer capacity requirements were unreliable. DLA officials told us that these conditions occurred mainly because a computer capacity management program had not been fully implemented. We were concerned that without a capacity management program and adequate financial management information, DLA would not be able to conduct a cost-effective and efficient ADP modernization program. We recommended that the Director, DLA, complete the comprehensive computer capacity and evaluation program.

Improvement and Remaining Concerns

DLA implemented its capacity management program by the close of calendar year 1986; however, concerns about the adequacy of visibility and control over ADP costs remain. The capacity management program has made substantial information systems performance data available, which provides DLA with a better basis for assessing how effectively its current systems are being used and what additional capacity is needed.

DLA still does not have actual cost information for its automated information systems operations. It monitors operating costs for some of its larger information systems by tracking budget obligations. Actual costs would provide a better basis for determining how effectively current information resources are being used and for identifying requirements for additional capacity. For example, DLA is experiencing difficulty in responding to OSD's reviews of enhancements to its ADP computer capacity because it does not have adequate cost and benefit data to demonstrate that the enhancements are needed.

Audit Follow-Up and Evaluation

We previously reported that DLA was developing an automated data base to include information on audit findings, complaints, special investigations, and internal control findings. This system was to be used to help identify management problems. We found that DLA was not making selective on-site, follow-up audits to verify that corrective actions had been taken on reported deficiencies. We recommended that the Director, DLA, increase the coverage of the planned automated data system for compiling audit findings to include findings from other in-house review and evaluation groups and issue procedures to ensure that actions on audit recommendations are verified.

Recommendations

We recommend that the Secretary of Defense

- ensure that DLA's regional offices make accurate and complete reports about possible overpayments to contractors,
- revise the existing DOD instruction to require that program offices provide information on the disposition of all DLA's recommendations for the use of standard military parts that are not accepted and establish management controls that ensure complete reporting, and
- develop a system that will allow DLA to identify the costs of its ADP operations on a system-by-system basis.

Agency Comments and Our Evaluation

DOD concurred with our findings and recommendations and cited a number of specific efforts that DLA has underway.

With respect to our recommendation on accounting inaccuracies, DOD stated that DLA has implemented two mechanized programs to detect overpayments to contractors. One program compares newly received invoices to the invoice history file to detect duplicate invoices, while the other program compares contractor payments to the payment history file to detect duplicate payments. DLA modified its quarterly report of negative balance reconciliations to include the reasons for credit amounts. Also, DLA has begun a project to redesign its system for making contractor payments to allow for up-front validation of transactions entering the system. We believe these actions represent improvements to DLA's management controls. However, DOD did not comment on the actions it will take to improve the completeness of the regional office quarterly reports. This area needs additional management actions.

DOD indicated that the Parts Control Program Instruction (DOD-I 4120.19) is being revised to clarify the program manager's feedback requirement on DLA parts recommendations. The revision will require the services to notify DLA only when recommended replacements for nonstandard parts are not accepted.

With regard to controls over ADP costs, DLA plans to expand its existing accounting system to accommodate the LSMP's cost-tracking requirements. This modification is expected to be completed by June 1988.

Our draft report contained a proposal that milestones be established for completing and implementing procedures to verify reported corrective actions to audit recommendations. DOD concurred with our proposal and

Organizational Structure

In 1986 we addressed two areas in which we believed DLA could improve its organizational structure: information resource management and internal review activities. Actions have been taken in these areas; however, we are concerned about the management organization for DLA's Logistics Systems Modernization Program.

Centralized Control Over Information Resources

In 1986 we reported that for many years DLA has been trying to modernize its ADP resources without having the centralized organizational control needed to effectively manage this effort. We concluded that DLA could improve management control over its information resource assets by reorganizing its Office of Telecommunication and Information Systems, which manages its information resources, and by updating applicable DLA regulations to reflect current ADP management responsibilities. We also concluded that DLA needed to evaluate its ADP policy and regulations to clarify roles, responsibilities, and procedures for managing ADP resources.

DLA has taken several steps toward establishing centralized control and improving management of its ADP resources. DLA contracted for an evaluation of its Information Resources Management (IRM) program and the development of an agency IRM plan (both were completed in February 1986). As a result of the evaluation, DLA

- updated several regulations dealing with information resource management to more clearly define responsibilities for such areas as planning, control, and direction;
- established an executive management steering committee to address policy issues on information management;
- reorganized the Office of Telecommunication and Information Systems;
- established field activity contacts to coordinate the management of information resources at the headquarters and field levels; and
- established a headquarters IRM Policy and Plans branch to coordinate information resource matters with the LSMP office.

LSMP Organization

In July 1986 DLA established a program office to manage its LSMP. We made a limited review of this office's management controls, which raised concerns about whether the program manager can maintain adequate accountability and control of the program.

In November 1986 the DOD council responsible for reviewing and approving automated information system acquisitions suggested that

LSMP program manager's position has been filled by a senior executive service member who is experienced in information systems program management.

Our past work indicates that adequate staffing in terms of numbers and skills is important to the success of these types of programs. At the time of our work, 15 personnel were authorized for the program office but only 11 personnel were assigned. DOD also stated that DLA expects to have all 15 personnel on-board in early 1988 and is currently assessing requirements for fiscal year 1988.

Internal Review Capability

In 1986 we raised concerns about whether DLA's internal audit coverage was sufficient. DLA had internal review groups at most field activities but had no DLA-wide internal review group reporting to the Director, although DOD regulations allow the Director to establish such a capability. We noted that should the Director decide to establish such a group at DLA headquarters, it should be independent from headquarters activities used to carry out DLA programs and should monitor the results of field activities operations.

DLA's internal review organization has not changed since our prior review. DLA has internal review groups located at 25 field activities, which report to their cognizant field commanders. The scope of their reviews does not include DLA headquarters organizations. However, if a field review group determines that problems are the result of actions of headquarters activities, for example, policy guidance needs to be revised, it recommends that the appropriate field-level office request that its corresponding organization headquarters take corrective action. This procedure is used because field-level internal review groups do not have the authority to make recommendations to headquarters-level activities. According to DLA headquarters internal review officials, the field internal review groups are responsible for following up on such recommendations.

DLA has a small internal review staff at headquarters within the Comptroller's office that provides guidance to the field staffs and coordinates requests by headquarters managers for reviews at field activities. This group does not perform any reviews of headquarters activities.

Direction of Operations

Our 1986 report contained recommendations directed at improving DLA's operations in two areas: weapon system support and the productivity program. DLA has completed some actions that address our recommendations and has others underway.

Weapon System Support

DLA's Weapon System Support program is intended to provide the spare parts and other supplies necessary to maintain priority weapon systems, such as tanks and aircraft, in a combat-ready condition. These items range in sophistication from nuts and bolts to microcircuits. The program has grown substantially since 1981, from about 234,000 items used in 128 weapon systems in October 1981 to about 842,000 items used in 1,060 weapon systems by July 1987. Continued growth is anticipated as new weapon systems come into use.

Our 1986 report observed that, although DLA was able to satisfy requests for weapon system support items over 90 percent of the time, program management effectiveness was constrained because DLA was not receiving adequate data on item essentiality (the degree to which failure of a part affects a system's ability to perform as intended). DLA needs this information to determine the priority that requested items will receive and what quantities to stock. We also noted that in July 1985 the Secretary of Defense issued a concept paper requiring the military services and DLA to develop a wide range of enhanced weapon system supply support capabilities. Capabilities required by this document would ensure that DLA receives the data needed to optimize weapon system support. The military services and DLA are required to develop plans for implementing the new weapon system management concept. Implementation will be on a phased-in basis extending into the 21st century.

We recommended that the Secretary of Defense

- review the status and progress of weapon system support to ensure that its growth is justified and that it is accomplishing its intended purpose and
- ensure that the military services provide DLA with complete essentiality data.

OSD and DLA currently have several actions in progress to address these recommendations. For example:

- The Defense Inspector General, at the request of the Assistant Secretary of Defense for Production and Logistics, is reviewing the efforts of the

Work Force Quality

In 1986 we observed that DLA managers had identified key occupations for which employee recruiting, retention, and training were problems that needed to be addressed but did not regularly and systematically report personnel turnover and other data by occupations. We concluded that more systematic collection and analysis of personnel turnover and related data were necessary to appropriately set recruiting and retention goals.

Our 1986 report also noted that DLA was experiencing a training backlog because training slots and travel funds were unavailable and because scheduled participants were canceling training. DLA acknowledged these problems and mentioned several training actions that it had underway. We concluded that DLA should continue these initiatives.

Our current work shows that DLA has standardized the reporting of personnel turnover and related data. As a result, DLA should be able to collect and analyze personnel data systematically and to set more appropriate recruiting and retention goals. Further, during fiscal year 1986, DLA reduced its acquisition training backlog for DCASRS from about 5,300 to about 2,600. It accomplished this by

- raising the management level at which cancellations are approved, thus reducing the cancellation rate for service school training from about 25 percent to 2 percent in fiscal year 1985 and to 5.5 percent in fiscal year 1986;
- using private contractors to provide mandatory acquisition training to about 2,000 personnel in fiscal year 1985; and
- using the Army Logistics Management Center's satellite training program to train about 400 DLA personnel during fiscal years 1985 and 1986.

Conclusions

The actions that OSD and DLA have underway, when fully implemented, should address our prior recommendations. The Weapon System Support program will be implemented over a long period of time and will require periodic evaluation to ensure effective implementation. Likewise, building product and process quality into productivity programs and developing work force quality is a continuous process that must be monitored to ensure that these goals are reached.

Agency Comments

DOD concurred with our findings relating to the direction of their DLA operations.

GAO DRAFT REPORT - DATED NOVEMBER 6, 1987
(GAO CODE 391582) OSD CASE 7457

"MANAGEMENT REVIEW: FOLLOW-UP ON THE MANAGEMENT
REVIEW OF THE DEFENSE LOGISTICS AGENCY"

DEPARTMENT OF DEFENSE COMMENTS

FINDINGS

FINDING A: Background. The GAO discusses actions taken by the Defense Logistics Agency (DLA) in response to the prior GAO Report, "MANAGEMENT REVIEW: Progress and Challenges at the Defense Logistics Agency" dated April 7, 1986 (OSD Case 6882). The GAO noted that the prior report contained a number of recommendations to the Secretary of Defense and the Director, DLA, to improve the management of DLA operations. The areas addressed in the prior reports included how the DLA plans, organizes, directs and controls its operations. (p. 1, pp. 9-11/GAO Draft Report)

DoD RESPONSE: Concur.

FINDING B: Planning and Related Functions. The 1986 GAO report addressed five areas where the DLA planning processes could be improved--i.e, strategic, mobilization, automated information resources, staff needs, and budget formulation. Based on its followup review, the GAO concluded that overall, the DLA has completed a number of actions, and has others underway, in response to the 1986 report. For example, the GAO reported that the DLA has (1) improved its personnel data collection system, (2) developed a comprehensive plan for its logistics system modernization programs and (3) improved its budget data. The GAO concluded, however, that additional action is needed in some areas.

- Strategic Planning. According to the GAO, the DLA strategic planning process projects the operating capabilities that will be needed to support the Military Services and Defense Agencies 25 years in the future. The GAO observed that this process should integrate general agency objectives (long-range objectives), planning and specific objectives (mid-range objectives), and management objectives (short-range objectives), producing the Strategic Integrated Logistics Plan. According to the GAO, the mid-and short-range objectives should be directly linked with the

Enclosure

Now on pp 2.8-9

longer-range plan (the Logistics Systems Modernization Program), which extends the previous 5-year plan to 2010. The GAO noted that the program cost is estimated to be about \$2.7 billion. (The GAO is currently examining specific aspects of this modernization program, which will be addressed in a separate report). The GAO found that, in November 1986, the DoD Council responsible for review and approval of automated information system acquisitions expressed concern that additional action was needed to (1) refine the planning focus, (2) validate cost and benefit data, and (3) ensure that the program management structure will work. The DoD Council recommended that the DLA accelerate portions of the program to meet near-term operational needs for increased computer capacity and critical mission enhancements. The GAO observed that the DLA has revised the modernization program regulation to implement the DoD Council's suggestions, but that the program implementation schedule is not being accelerated due to the magnitude and nature of the tasks involved.

- Staff Needs Planning. The GAO reported that the DLA has developed standard definitions for personnel gains and losses, improved access to the personnel data bank and established staffing goals. According to the GAO, in May 1986, the DLA Office of Civilian Personnel issued its first quarterly staffing Statistics Report, using uniform data, summarizing data by field activity for such categories as personnel losses and gains and staffing efficiency broken down by job series, and a narrative analysis of causes of significant changes in statistical categories. The GAO also reported that the DLA has improved its automated personnel system by providing access to the field activities and by adding 24 new data elements and new on-line programs that will provide such data as personnel turnover, and internal and external recruitment.

- Budget Formulation. The GAO found that the DLA has automated its data on work force characteristics and has made this data available to both field and headquarters analysts. According to the GAO, the automated process was started in October 1986, at the depots and Defense Contract Administration Services Regional Offices (DCASR) and will next be extended to the DLA Supply Centers. The GAO observed that this effort will be further enhanced in FY 1988, by adding an on-line appropriation accounting sub-system to the Automated Payroll, Cost, and Personnel System, (APCAPS) which will (1) improve the quality of financial and work force characteristics data the field activities maintain and (2) improve the timeliness of reporting. (pp. 1-2, pp. 11-12/GAO Draft Report)

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limitations on the amount of acceleration feasible for the LSMP.

2. PROGRESS ON THE REVISED LSMP EFFORT. An accelerated effort is in progress to define functional requirements through a series of structured analyses being conducted by the DLA logistics processes and the automated systems that support those processes. The initial phase of that effort includes the use of a business information planning methodology as an aid in formulating functional requirements and a functional architecture for the LSMP. The functional requirements document for the Concept Phase will provide sufficient and appropriate detail to further design and implement technical strategies. The documentation will incorporate the results of the business analyses. Estimated Completion Date: March 1988.

The business area analysis process is structured to build the functional architecture based on an analysis of functional interfaces, functions/processes, and subject areas/entities. This analysis provides a vertical and horizontal view of logistics processes which could influence automated systems content structure or suggest consolidation of data bases of information for Agency use. Estimated completion Date: March 1988.

The refinement of the DLA target information and systems architecture is in process. This strategy will include data, applications, hardware, support systems, and communications which directly relate to functional requirements. The technical architecture strategy will be based on Open System Interconnect (OSI) standards. Currently, technical prototype research is being conducted in software engineering (Ada language), networking, data base machines, fiberoptics, and artificial intelligence. Estimated Completion Date: May 1988.

The transition strategy will encompass functional architecture changes as well as software and hardware plans. The critical baseline enhancements will establish the baseline for transitioning to the LSMP. Estimated Completion Date: May 1988.

The DLA has made substantial progress in refining the LSMP acquisition strategy. The overall objective of the DLA LSMP acquisition strategy is to manage risk by involving the private sector as much as possible while taking advantage of advanced technology and skills in the private sector. A support contractor has been acquired to consolidate the various initiatives in this area. Estimated Completion Date: May 1988.

3. COST AND BENEFIT DATA. The LSMP cost analysis will be revised based on functional requirements. Contract support is

initiatives to better control in-transit material, reduce large unliquidated obligation balances, and improve inventory record accuracy. The GAO observed that these initiatives include new procedures for processing material receipts, reconciling overaged unliquidated obligations, and improving the accuracy of inventory records. The GAO noted that there are several detailed congressionally requested comprehensive reviews underway which, among other things, will comment on the effectiveness of these initiatives. The specific areas being reviewed are:

- inventory accuracy and causative research into inventory errors;
 - confirmation that material is received; and
 - fast pay procedures for contractor materials.
- Parts Control and Inactive Item Programs. The GAO reported that, although the DLA has a goal of 90 percent acceptance by the Services of its recommendations to use standard military parts, the DLA has been unable to determine whether this goal is being met since the Services do not always inform the DLA as to whether DLA recommendations have been accepted. The GAO found that, in FY 1986, the DLA recommended about 108,000 standard parts as substitutes for nonstandard parts that defense contractors had proposed. The GAO further found, however, that the Services notified the DLA on whether the recommended replacement was accepted or rejected for only about 30,000 (27 percent) of these recommendations. The GAO concluded that the low notification rate can be attributed to incomplete DoD guidance. According to the GAO, in August 1987, the Office of the Secretary of Defense (OSD), the DLA, and the Services agreed to use an exception system to report actions on Parts Control Program recommendations and, as a result, the Services will notify the DLA only when they reject recommendations. The GAO noted that the DoD instruction is being revised to reflect this change. The GAO also reported that the DLA and Services have made system improvements, revised the procedures manual, and increased management visibility and surveillance over policy implementation in the inactive item area. The GAO observed that the Inactive Item Program software improvements were completed in July 1985. As a result, about 85 percent of the needed corrections were made. According to the GAO, the number of inactive items referred to the Services by the DLA for evaluation increased from 492,000 to 618,000 (26 percent) between FY 1984 and FY 1986; however, the percentage of items deleted only increased by about 1 percent (8 percent

o Audit Followup and Evaluation - Concur with the intent of the finding. The initial GAO report was correct in saying that verification procedures had not been instituted by the DLA as of 1985. Preceding the followup review, however, the DLA had taken actions to establish verification policy and related procedures in the verification area. (In view of Department guidelines and in-house resources, verification of actions is performed on a selective random sample basis). To implement this policy, a change was made in January 1987 to the Internal Review Audit Manual, DLAM 7000.7. This change established procedures for the selection of items, criteria for closure, and audit verification procedures. In addition, the DLA has revised its regulation, "Followup on Audit, Inspection, Hotline, and Internal Review Reports," DLAR 7600.11, to further describe the verification process. The regulation will be published in January 1988, with implementation scheduled for July 1988.

The Department is in agreement over the statement that DLA is currently working on replacing the existing data base, and that in the interim, the current data base has been and will continually be restructured to more fully accommodate the GAO concerns. An ongoing action to enhance the versatility of the existing data base will a) allow analysts to retrieve records by more specific areas of functional responsibility, b) reflect more detailed monetary savings by dollars or workyears, and c) track activities visited, contacted or affected by corrective actions. Although the present system performs these functions to a degree, the improvement will increase the DLA ability to analyze and evaluate audit data.

FINDING D: Organizational Structure. The GAO found that the DLA has taken actions on the organizational issues in the Information Resource Management (IRM) and internal review areas, as addressed in the 1986 GAO report. The GAO concluded, however, that additional improvements are needed.

- Centralized Control Over Information Resources. The GAO reported that the DLA has taken action to establish centralized control over its ADP resources. The GAO noted that the DLA has contracted for an evaluation of its IRM Program and the development of an agency IRM Program and an IRM Plan, both of which were completed in February 1986. According to the GAO, the DLA took several actions in response to the evaluation recommendations and the plan. The GAO reported that the DLA has also updated several regulations dealing with information resources management to more clearly define responsibilities for planning, control, and direction, and has established an executive management steering committee to address policy issues on

Appendix I
Comments From the Assistant Secretary of
Defense (Production and Logistics)

Information Systems concerning the evaluation and development of the IRM Program and IRM Plan. The DLA has strengthened the program manager's role in the LSMP in the following manner:

PROGRAM MANAGEMENT. The Program Manager (PM) is structured to respond directly to the Director, DLA, as a Principal Staff Element (PSE) and has ultimate approval authority and responsibility for all products prepared by the matrix organization. The PM's Charter and the LSMP regulation clearly delineate the PM's responsibilities and establish the authority for controlling and implementing DLA's modernization program. The products are assigned by the PM based on mission responsibilities within the matrix structure identified in DLA Regulation 4730.8, DLA Logistics Systems Modernization Program (DLSMP). This regulation established policy, responsibilities, and management relationships relevant to the LSMP. In order to control, direct, and coordinate all LSMP efforts, the PM acquired a Program Management Support System (PMSS) in September 1986. This PMSS provides the tools necessary for logically aligning work plans, scheduling final deliverables, and constructing an overall program execution plan that considers products and resources. Personnel resources within the matrix are the responsibility of designated PSEs; however, the Director, DLA, has established LSMP as a priority effort with PSE Heads accountable for plans to be executed in the LSMP.

The Program Management Office (PMO) will ensure program momentum, central managerial control, and integration of all activities being performed by the matrix organization. There are 11 employees in the PMO and current progress on recruitment actions indicate that the first year authorization of 15 employees will be on board by January 1988. The DLA is evaluating total requirements for FY 88. The responsibilities of the PMO are supplemented by program management support contractor personnel obtained with the PMSS. These employees have expertise in costing, configuration management, quality assurance, and project planning. A systems integrator is also being acquired to assist the PMO in Technical and Functional Planning and integration. Contracted efforts are also in process to provide assistance to the PM in special areas of concern.

The PM is establishing functions and recruiting qualified personnel to support cost analyses, system integration, and quality control. An operations research analyst and cost analyst will be hired to support the PMO along with support from the Operations Research Office and contractor cost analyst personnel. The systems integration acquisition is being accomplished by PMO computer specialists with assistance from the matrix organization and contracted support. Quality control

- Productivity Program. The GAO observed that the DLA is developing two new programs--Gain Sharing and Pay-For-Knowledge--which will emphasize the use of standards to measure both product and process quality. The Pay-for-Knowledge Program, which is being tested at several DLA field activities, involves basing employees compensation on the ability to perform more than one job effectively. The GAO also observed that, in order to improve the accuracy and timeliness of data reported in the Labor and Production Effectiveness Reporting System, the DLA is focusing on ways to eliminate unneeded data and automating the input of data into the system by reducing the quantity of data reported and manually inputted.

- Workforce Quality. The GAO found that the DLA has standardized reporting personnel turnover and related data. The GAO concluded that, as a result, the DLA should be able to collect and analyze personnel data systematically, so it can set more appropriate recruiting and retention goals. The GAO reported that, during FY 1986, the DLA was able to reduce its acquisition training backlog by half--from about 6,600 to about 3,200. According to the GAO, this was accomplished by:
 - raising the management level at which cancellations are approved, thus reducing the cancellation rate for service school training;

 - using private contractors to provide mandatory acquisition training; and

 - using the Army Logistics Management Center satellite training program. (pp. 5-6; pp. 38-43/GAO Draft Report)

Now on pp. 4, 29.

DoD RESPONSE:

- o Weapon System Support - Concur.
- o Productivity Program - Concur.
- o Workforce Quality - Concur.

RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense require the Director of DLA to identify the resources

Appendix I
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October 31, 1987, to include the major reasons for the credit amounts. This provides visibility to enable corrective actions to be taken.

The DLA also has a project underway to redesign the payment system utilized by the DCASRs into an on-line, interactive data base that includes the up-front validation of transactions entering the system. This project is in the design and programming stage and is projected to be operational at the first DCASR by mid-1989, and at all DCASRs by the end of 1989.

RECOMMENDATION 4: The GAO recommended that the Secretary of Defense direct that action be taken to revise the existing Defense instruction to require that program offices provide information on the disposition of all DLA recommendations for the use of standard military parts which are not accepted and ensure that management controls exist to ensure complete reporting. (p. 6, p. 30/GAO Draft Report)

Now on pp. 4, 21-22.

DoD RESPONSE: Concur. Action is underway to revise, by November 1988, DoD Instruction 4120.19, "DoD Parts Control Program" to clarify the program manager's feedback requirement on the DLA Military Parts Control Advisory Groups (MPCAG) non-standard part recommendations. The revision will reflect the agreed method of using the exception system and the Services will notify the MPCAGs only when they override the MPCAG recommendations.

RECOMMENDATION 5: The GAO recommended that the Secretary of Defense direct that action be taken to develop a system, which will allow the DLA to identify costs associated with its ADP operations on a system-by-system basis. (p. 6, p. 30/GAO Draft Report)

Now on pp. 4, 21-22.

DoD RESPONSE: Concur. Currently, the DLA has a system for capturing system-specific operational costs. The basic cost code structure is contained in the DLA's Accounting and Finance Manual, DLAM 7000.1 Within this accounting system, Automated Information System costs are accumulated on a memorandum account basis. The ability to account for the full system costs will be especially important as the DLA moves toward the modernization of its systems. As now envisioned, the existing accounting system will be expanded, by June 1988, to accommodate the cost tracking requirements of the Logistic System Modernization Program. The modified system will provide the support necessary to meet the needs of the Department's oversight elements and serve as the basis for the development of cost and benefits analysis. The Department will continually monitor progress to ensure that these requirements are incorporated into the revised accounting system.

The following are GAO's comments on DOD's letter dated January 28, 1988.

GAO Comments

1. After considering DOD's comment on DLA's internal review capability, we have deleted our proposal, because we believe that such an action could result in a duplication of audit effort.
2. DOD concurred with our proposal and issued a regulation with a July 1988 milestone for implementation. DOD's actions satisfy the intent of our proposal; therefore, we are not making a recommendation.