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Report to the Chairman, Subcommittee on Military Readiness, Committee on Armed Services, House of Representatives

December 1999

DEFENSE TRANSPORTATION

Process Reengineering Could Be Enhanced by Performance Measures

GAO

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GAO/NSIAD-00-7

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

National Security and
International Affairs Division

B-283486

December 20, 1999

The Honorable Herbert H. Bateman
Chairman, Subcommittee on Military Readiness
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

A number of studies since the late 1940s have cited the defense traffic management organizational structure as costly and inefficient. This structure consists of multiple transportation agencies each with separate service and modal responsibilities. In 1996, we reported that the fragmentation and duplication inherent to this structure led to higher transportation costs for defense customers, and recommended that the Department of Defense address the organizational structure as it reengineers the transportation processes to achieve the full benefits of the Department's reengineering efforts.[1] In response, the Department stated it would implement several initiatives, including reengineering transportation financial management processes, and then it would assess the infrastructure required to support the reengineered processes.

This report responds to your request concerning improving the efficiency and effectiveness of the defense transportation financial management processes. Specifically, our objectives were to determine (1) progress in reengineering defense transportation financial management processes, (2) challenges associated with implementing these reengineered processes agencywide, and (3) the extent to which the Department is assessing the infrastructure required to support the reengineered processes.

Results in Brief

Progress has been made in reengineering defense transportation financial management processes through a reform initiative. The goal of this initiative is to reduce costs, eliminate government-unique documentation, reduce data requirements, improve accuracy, and adapt best commercial

[1] *Defense Transportation: Streamlining of the U.S. Transportation Command Is Needed* (GAO/NSIAD-96-60, Feb. 22, 1996).

practices. The Department has proposed two separate efforts to accomplish the initiative: (1) use an electronic payment system, referred to as PowerTrack, that would also eliminate the use of government-unique documentation and/or (2) use contractors (through contracting out to third-party logistics providers) to perform traffic management functions, including transportation payment, to achieve cost savings and other benefits. The electronic payment system facilitates the replacement of cumbersome government-unique documentation with simplified commercial documentation, and the Department has already begun using the electronic payment system at 69 military installations as of September 1, 1999. The benefits of electronically paying and reconciling transportation bills include quicker carrier payment, reduced billing documentation, easier and more reliable reconciliation of billing disputes, reduced workload, and some savings from a reduction in the number of transactions processed by the Defense Finance and Accounting Service. Regarding the second effort, the Department plans to test whether the payment function, plus other transportation functions, can be contracted to a third-party logistics provider to reduce infrastructure and achieve cost efficiencies. Although the electronic payment system is being implemented now, the commercial contract initiative has not yet begun the prototype testing phase.

The Department faces challenges in implementing the electronic payment system agencywide. The most significant challenge will be the need to modify the system to accommodate the existing unique interagency billing process, which is plagued with data accuracy and reliability problems. In addition, transportation costs may increase because the electronic system imposes a fee on carriers that may be passed on to defense customers through higher transportation rates. The challenges associated with contracting out transportation functions have not yet been identified, but agency officials have acknowledged the need to determine if a commercial contract with a third-party logistics provider can meet Department contingency and surge requirements.

While the Department has addressed the infrastructure required to support the reengineered financial management processes for the PowerTrack effort, it could not estimate the infrastructure reductions for the contracting out effort because, according to Department officials, such reductions cannot be estimated until completion of the prototype testing. We are concerned, however, that the Department has no plans to comparatively assess the cost and benefits of the two approaches to determine whether PowerTrack or the third-party logistics provider could more effectively achieve its goals, such as reducing costs and improving quality, in reengineering the transportation financial management processes. Finally, although DOD's Government Performance and Results Act of 1993 (Results Act)[2] Performance Plan for fiscal year 2000 identifies general goals for its financial management initiative, there are no specific savings targets or overall performance-oriented measures that relate to such things as cost reductions and other improvements. We are recommending that the Department comparatively assess the cost and benefits of the two approaches and include in future Results Act Performance Plans performance-oriented measures and specific savings targets so that it can measure the success of the reform efforts.

Background

The major defense transportation reengineering initiative is being implemented under Management Reform Memorandum 15. This memorandum, issued by the Deputy Secretary of Defense on July 7, 1997, directs the complete reengineering of defense transportation documentation and financial processes. The reengineering initiative has been incorporated in the Department of Defense's (DOD) Defense Reform Initiatives, which are a series of initiatives designed to achieve a revolution in DOD's business and support operations by identifying and adopting the best business practices from the private sector. This effort is being managed by the Office of the Assistant Deputy Under Secretary of Defense for Transportation Policy. The defense transportation reengineering initiatives' key objectives are to reduce infrastructure costs, eliminate government-unique documentation and processes, reduce data requirements and improve accuracy, increase use of electronic commerce,

[2] The Results Act requires federal agencies (including DOD) to set strategic goals, measure performance, and report on the degree to which goals were met. Its intent is to focus agencies more on results, service delivery, and program outcomes. This is expected to provide the Congress and other decisionmakers with objective information on the relative effectiveness and efficiency of federal programs.

and employ best commercial practices. To meet its objectives, DOD officials proposed using commercial documentation and credit cards as the cornerstones of the financial management reengineering initiative and conducted short-term pilot tests of these features. In February 1998, DOD concluded that the pilot tests produced favorable results. They recommended that, because of the tests' limited scope and use of manual procedures, the concepts be prototyped in the airlift, sealift, and express delivery business areas. The information from the prototypes would be used to address concerns before agencywide implementation.

The Department established four prototype tests to continue evaluating the use of commercial documentation and credit cards. The airlift prototype test, begun in July 1998, used credit cards for interagency billings, expanding on the earlier pilot tests. The sealift prototype, begun in September 1998, was designed to broaden the scope of the pilot test and automate the processes that had been administered manually. Key processes tested included use of credit cards for both commercial carrier and interagency payments and use of simplified commercial documentation. The surface and express prototypes began in April 1998. This testing was broader in scope than the pilot test, involving the Army, the Air Force, the Navy, and the Marine Corps as well as a number of depots. The initial service prototypes primarily tested the use of credit cards, while the Defense Logistics Agency and a few service sites tested the use of the "PowerTrack" electronic payment and reconciliation system. PowerTrack is a commercially owned online database accessible via the Internet, Electronic Data Interchange, and telephone. All shipment information is submitted electronically to PowerTrack and stored in its central database. Both DOD and carriers have access to the database for instant approval and payment of invoices and for online payment dispute resolution. The goal is to pay carriers within 3 days using PowerTrack versus 30 to 90 days under the existing systems.

In February 1999, the Deputy Secretary of Defense directed the DOD-wide implementation of the defense transportation financial management reform initiative. Specifically, he directed the elimination of government-unique documentation, such as government bills of lading; the use of PowerTrack for commercial transportation payment, certification, and reconciliation; and the development of PowerTrack for interagency billing. DOD also decided to conduct a 1-year regional prototype test of the use of a contractor (third-party logistics provider), to provide domestic freight transportation services, including financial management and payment

functions, in a selected geographic area. The test is planned to begin in mid calendar year 2000.

DOD estimated total investment costs for both of its defense transportation reengineering initiatives of about $41.4 million for fiscal years 1997 through 2000. This amount included $8.4 million for the pilot and prototype efforts, $25 million for Defense Logistics Agency and service system hardware and software changes, $5.9 million for contractor support, and $2.1 million for an administrative office to implement PowerTrack.

Progress Made in Implementing Reforms

DOD has made progress in reforming its transportation system through initiatives planned or under way to reengineer its financial management processes. Specifically, DOD is implementing the PowerTrack electronic payment and reconciliation system agencywide. In conjunction with PowerTrack, DOD is also using commercial documentation, thereby reducing or eliminating cumbersome government-unique documents. In addition, DOD is planning to test the use of a third-party logistics contractor to perform in-house transportation functions to determine whether cost savings and other benefits can be achieved.

DOD was using the PowerTrack system at 69 installations as of September 1, 1999. The system has shown that it has the capability of providing quicker payments to carriers and can help to resolve billing disputes more quickly. On delivery of a shipment, PowerTrack can pay a carrier automatically within 3 days if the carrier's electronic bill matches the expected service cost. Under the old system, carrier payment could take as long as 60 to 90 days. If the bill and cost of service amounts do not match (for example, when the shipment weight varies or delivery requirements are changed), PowerTrack allows for on-line reconciliation, essentially through the use of e-mail within the PowerTrack system. Some carriers believe that PowerTrack will ultimately enable them to reduce staff, particularly staff currently involved in handling government bills of lading. Most importantly, PowerTrack enables transportation officers to verify receipt of the shipment prior to authorizing payment to the carrier. This feature is a significant improvement over the current system.

As part of the reform efforts and implementation of PowerTrack, DOD has eliminated some government-unique documentation and is using commercial transportation documentation. For example, the Department is eliminating requirements for the government bill of lading for U.S. cargo and replacing them with simplified commercial documents. DOD estimates

it will eliminate about 1 million government bills of lading, which carrier and defense and industry officials have told us are extremely time consuming to create, process, and store.

The planned initiative to contract out some transportation functions may also demonstrate potential cost benefits. Beginning in mid 2000, DOD plans to conduct a 1-year prototype test of the use of an outside contractor to perform transportation functions, including documentation and payment functions. A March 1998 report prepared by Coopers & Lybrand for DOD discusses the use of a contractor to support reengineering of the transportation financial management processes. Specifically, the report entitled, *Report of the Department of Defense Reengineering Task Force: Reengineering Transportation Documentation and Financial Processes, Best Commercial Practices*, cites the benefits of using commercial companies to perform some in-house transportation services because it would be cost-effective as well as responsive to DOD's transportation requirements. The report notes that any evaluation of using a third-party logistics provider to perform in-house transportation functions, however, would require a thorough analysis of a contractor's capability to satisfy contingency requirements.

Challenges in Implementing the PowerTrack Electronic Payment and Reconciliation System

In moving forward with agencywide PowerTrack implementation, DOD is working to resolve many issues. PowerTrack can provide substantial benefits. However, DOD faces challenges in modifying PowerTrack to operate with DOD systems. In particular, they need to develop a way to accommodate the existing unique interagency billing and payment process for the airlift and sealift business areas. Further, the interagency billing and payment process is plagued with data accuracy and reliability problems. In addition, PowerTrack is not widely used in the commercial transportation industry, and some carriers are concerned about the impact of the carrier fee in the low-profit margin freight business. These carriers believe the use of PowerTrack could ultimately result in increased freight rates to DOD.

Further Tests to Resolve Issues Related to Interagency Billing Are Planned

The Department faces challenges in implementing PowerTrack in its interagency billing and payment process. DOD did not test PowerTrack in accomplishing this process, and the PowerTrack system must be modified to accommodate it. Implementing PowerTrack with the existing interagency billing system will be a difficult process because, as we reported previously, the DOD shipper is often billed by many defense agencies for reimbursement of a single shipment. Further, customers are

often billed without adequate supporting data so they have difficulty determining if they have been billed accurately. Additional testing of using PowerTrack to make interagency payments is planned before proceeding with full implementation of this process. Prototyping PowerTrack for sealift interagency payments began in September, and the airlift interagency prototype began in November 1999.

In addition, current plans to use PowerTrack for interagency billing and payment will encounter an interagency reimbursement system that is plagued with data accuracy and reliability problems. PowerTrack cannot correct the systemic data accuracy and reliability problems in existing systems and requires accurate input data for automatic reconciliation. However, agency officials believe that PowerTrack, with its feedback and correction capabilities, may provide a means to help address some of the systemic data problems. According to agency officials, PowerTrack will need modifications in order to work with the interagency reimbursement process.

PowerTrack Is Not Widely Used in the Transportation Industry

PowerTrack is not widely used by commercial companies and has only been available since April 1998. Electronic Data Interchange, which does not require that carriers pay a fee as PowerTrack does, is widely used in industry, and it is also used by the Defense Finance and Accounting Service with many of DOD's largest carriers. Electronic Data Interchange is the business-to-business electronic exchange of documents using standard formats that are widely recognized both nationally and internationally. The use of standard data formats allows organizations to exchange common business documents without having to customize their hardware or software for each organization they do business with. Some large carriers, who have made substantial investments in systems and equipment in order to use Electronic Data Interchange, have expressed satisfaction with it and are less inclined to favor PowerTrack. For example, one large carrier representative told us that his company is already getting paid in 7 days with Electronic Data Interchange and electronic payment under the current system, and he does not see enough advantage to using PowerTrack to get payment in as few as 3 days. However, many small carriers have not made investments in Electronic Data Interchange technology; a Defense Finance and Accounting Service official stated that he believes PowerTrack will be a less costly alternative for them. Although PowerTrack offers carriers the ability to use Electronic Data Interchange, carriers do not need substantial investments in associated technology to use the PowerTrack system. Further, DOD has had only limited experience with PowerTrack, having

first started prototype testing with the system in April 1998. DOD does not expect to complete agencywide implementation of PowerTrack until September 2000.

Transportation Costs May Increase Because of Carrier Fees

PowerTrack fees could result in higher transportation costs for DOD shippers at military installations that use defense transportation services. PowerTrack charges carriers a transaction fee, similar to credit card fees in the commercial world. Carrier fees generally range from about 1 to 2 percent of the transaction amount, gradually decreasing to the minimum 1 percent as the transaction amount increases. Other than start-up and modification costs, the government will not incur transaction fees or other PowerTrack costs. However, transportation costs could increase if carriers pass the PowerTrack fee to defense shippers in the form of higher-priced negotiated freight contracts.

Some carriers oppose the PowerTrack transaction fees and DOD's plan to make participation in PowerTrack mandatory in order to bid for future freight business. While some carriers believe quicker payments justify the carrier fee, others believe the time value of money does not offset the fee. Moreover, some carriers are concerned about the negative impact of the fee in their low margin businesses: the American Trucking Association, for example, has expressed concerns about the PowerTrack fee and its cost impact on member trucking firms.

Overall Results of the Reform Efforts Need to Be Measured

The Department has not addressed how it would comparatively assess the cost and benefits of the two efforts–using PowerTrack and/or a third-party logistics provider–to achieve its goals, particularly in terms of reducing costs and infrastructure. While the Department has addressed the infrastructure required to support the reengineered financial management processes for the PowerTrack effort, such reductions, according to Department officials, cannot be determined for using a contractor to provide transportation functions until prototype testing is completed. However, as noted previously in this report, a recent study cites potential cost and efficiency benefits from doing so. In addition, as we reported in 1996, process fragmentation, duplication, and organizational overlap are major factors driving up defense transportation costs. For example, as many as five separate units' actions within two component commands may be required to handle a single overseas shipment. These separate organizations require separate staffs and separate supporting infrastructures, the costs of which are ultimately included in customer charges. We noted that waiting to address long-standing organizational issues until process improvements are made would likely represent a significant barrier to achieving the full benefits of reengineering efforts.[3]

Three-quarters of the estimated $11.2 million annual savings resulting from PowerTrack implementation is expected to be derived from a significant reduction in the number of transactions processed by the Defense Finance and Accounting Service and a concomitant reduction in revenue since it charges a fee for each transaction. Although the Defense Finance and Accounting Service has identified 250 positions that could be eliminated under PowerTrack implementation, it cannot eliminate the transportation payment function at the Finance and Accounting Service because it also handles household goods payments that are not covered under the PowerTrack electronic system.

DOD has not identified the potential organizational implications of the contracting out effort or projected any infrastructure reductions that could result from this effort. DOD officials told us they must wait for the prototype test of the contract concept that is scheduled to begin in mid 2000 and be completed 1 year later. DOD officials told us they cannot wait to complete the prototype for contracting transportation functions before

[3] *Defense Transportation: Streamlining of the U.S. Transportation Command Is Needed* (GAO/NSIAD-96-60, Feb. 22, 1996).

proceeding with the electronic system. They point out that the two efforts are not mutually exclusive, and they would like to use PowerTrack in conjunction with contracting out.

Reform Effort Lacks Quantitative Performance Measures in the Results Act Performance Plan

Although DOD has established general goals for its financial management initiative, it has not identified specific savings targets or expected outcomes for the initiative for its fiscal year 2000 Government Performance and Results Act Performance Plan. The Results Act requires agencies to establish annual performance plans and include performance goals defining the level of performance to be achieved by a program activity. The Results Act further requires agencies to establish performance indicators to measure or assess the outcomes of each program activity and provide a basis for comparing actual program results with the established performance goals. DOD's fiscal year 2000 performance plan provides a qualitative performance indicator for its defense transportation financial management initiative and cites the goals of increasing transportation efficiency and reducing infrastructure costs. The plan outlines broad strategies for accomplishing these goals, but does not provide quantitative measures by which to judge the relative success of the initiative in reducing infrastructure costs and improving operating efficiencies. For example, although DOD cites "reducing data requirements" as a strategy for achieving its broad goals, it does not provide a quantitative indicator or target by which to measure the success of this effort in reducing costs and improving efficiencies.

Conclusions

The Department of Defense has made progress in reforming the defense transportation system. We support these ongoing efforts to reengineer costly processes. However, we are concerned that the Department has no plans to comparatively assess the costs and benefits of reengineering transportation financial management processes through PowerTrack or through contracting to a third-party logistics provider. Finally, the Department has not included its savings targets or expected performance outcomes in its fiscal year 2000 Results Act Performance Plan.

Recommendations

We recommend that the Secretary of Defense comparatively assess the cost and benefits of using PowerTrack or contracting out the function to a third-party logistics provider to reengineer the transportation financial management process. In addition, we recommend that the Secretary of

Defense include the specific savings targets and overall performance-oriented measures in future Results Act Performance Plans to enable a clear assessment and comparison of the extent to which these or other efforts could achieve the goals of the transportation reform initiative.

Agency Comments and Our Evaluation

The Department of Defense provided comments on a draft of this report (see app. I). The Department disagreed with the draft report recommendations because it believes it (1) has already addressed infrastructure reductions to the extent possible and (2) is using metrics to measure the success of the reform efforts.

As we discussed in our draft report, we agree that the Department has cited cost reductions resulting from reengineering its transportation financial management processes for the PowerTrack effort. Also, as noted in the draft report, DOD believes it is premature to estimate savings from the use of a third–party logistics provider until prototype testing is completed. The intent of our recommendation was for DOD to comparatively assess the cost and benefits of the two approaches—using PowerTrack and/or a third-party logistics provider—to determine the best approach for improving the process and achieving cost reductions. Accordingly, we clarified our final recommendation to reflect that position.

With respect to our recommendation to develop performance measures with quantifiable goals, the Department stated that it has developed several key metrics to measure success of its electronic payment initiative. In response, DOD provided information on metrics it is using for PowerTrack and other metrics it is planning to develop for the third-party logistics effort. While we agree that the Department has identified metrics, or is in the process of developing them, our concern is that the measures are not linked to the overall reform initiative and are not included in the Results Act Performance Plans. For example, to a make a comparison between PowerTrack and the contractor initiative, performance-oriented measures related to the overall initiative, such as cost reductions and service improvements to DOD customers, are needed. As we stated in the report, the current (fiscal year 2000) performance plan contains no specific goals and does not refer to any metrics. Including performance indicators in future years performance plans would help to provide a means to measure the success of reforming the transportation financial management process. We clarified our recommendation in this regard.

DOD also provided some technical comments that we have incorporated as appropriate.

Scope and Methodology

To determine DOD's progress and challenges in implementing the defense transportation reengineering initiatives and to determine if DOD is assessing the infrastructure necessary to support the reengineered processes, we obtained and reviewed relevant DOD documents and contractor reports. In addition, we interviewed cognizant officials at the Office of the Assistant Deputy Under Secretary of Defense for Transportation Policy, Washington, D.C. We also obtained relevant information and interviewed officials at the Defense Logistics Agency Headquarters, Fort Belvoir, Virginia; Defense Distribution Center Headquarters, New Cumberland, Pennsylvania; U.S. Transportation Command, Scott Air Force Base, Illinois—and from two component commands—the Air Mobility Command and the Military Traffic Management Command. To obtain additional information on potential savings, we interviewed officials at the Defense Finance and Accounting Service located in Arlington, Virginia.

To obtain industry perspective on the defense transportation reengineering initiatives, we interviewed various defense transportation system commercial cargo carriers, including representatives of six motor carrier and two ocean carrier companies. We also interviewed officials of three third-party logistics companies.

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

We are sending copies of this report to the Honorable William S. Cohen, Secretary of Defense; General Charles T. Robertson, Jr., Commander in Chief of the U.S. Transportation Command; the Honorable Louis Caldera, Secretary of the Army; the Honorable Richard J. Danzig, Secretary of the Navy; the Honorable F. Whitten Peters, Secretary of the Air Force; the Honorable Jacob J. Lew, Director, Office of Management and Budget; and other interested congressional committees.

If you have any questions regarding this letter, please contact me at (202) 512-8412. Major contributors to this report are Nomi Taslitt, Greg Symons, Nora Landgraf, and John Wiethop.

Sincerely yours,

David R. Warren, Director
Defense Management Issues

Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

OFFICE OF THE UNDER SECRETARY OF DEFENSE

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ACQUISITION AND TECHNOLOGY

25 OCT 1999

Mr. David R. Warren
Director, Defense Management Issues
National Security and International
Affairs Division
U. S. General Accounting Office
Washington, DC 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "DEFENSE TRANSPORTATION: Process Reengineering Could Be Enhanced by Performance Measures," dated September 10, 1999 (GAO Code 709362/OSD Case 1890). The DoD nonconcurs with the draft report recommendations.

The detailed DoD comments addressing the recommendations are provided in enclosure 1. Enclosure 2 contains suggested technical changes. The DoD appreciates the opportunity to comment on the GAO draft report.

Sincerely,

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

Enclosures

GAO DRAFT REPORT DATED SEPTEMBER 10, 1999
(GAO CODE 709362) OSD CASE 1890

"DEFENSE TRANSPORTATION: PROCESS REENGINEERING COULD BE ENHANCED BY PERFORMANCE MEASURES"

DEPARTMENT OF DEFENSE COMMENTS TO THE GAO RECOMMENDATIONS

Now on p. 10.

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense assess and identify the infrastructure required to support the reengineered financial management processes, particularly the infrastructure implications associated with implementing the commercial payment system and/or outsourcing the same payment function. (P. 10/GAO Draft Report)

DOD RESPONSE: Nonconcur. The DoD has identified the infrastructure associated with implementing U.S. Bank's PowerTrack commercial transportation payment system,, and is implementing a prototype to determine if third party logistics providers (3PLs) can meet DoD transportation requirements. It is premature to determine the extent that the use of 3PLs can reduce DoD infrastructure until it is determined if the use of 3PLs can meet DoD transportation requirements.

See comment 1.

The DoD is reengineering defense transportation documentation and financial processes as directed by Management Reform Memorandum #15 (MRM #15). On March 31, 1999, the Deputy Secretary of Defense directed a fundamental change in the way that the DoD documents and pays for transportation services, to include elimination of the use of government-unique documentation for transportation movement (Government Bills of Lading for freight movements and the military manifest for commercial sealift liner movements), and the implementation of PowerTrack to pay for transportation services. The Deputy Secretary of Defense also directed that the DoD conduct a prototype to assess the use of a 3PL to meet specific DoD transportation requirements. The outsourcing of commercial payment functions using PowerTrack and the 3PL prototype are not mutually exclusive initiatives.

See comment 2.

The DoD has identified $11.2 million annually in infrastructure savings associated with eliminating the use of government-unique transportation documentation and implementing PowerTrack throughout the DoD to pay commercial carriers for domestic freight, sealift liner, and express carrier movements, as well as Transportation Working Capital Fund payments. Approximately $8.2 million in infrastructure reductions will occur at the Defense Finance and Accounting Service (DFAS). It is anticipated that the DFAS payment workload associated with processing domestic freight Government Bills of Lading will decrease from close to 1 million transportation-unique transactions annually to processing approximately 108,000 commercial pay invoice lines, and DFAS workload associated with processing commercial sealift liner invoices will decrease from 258,000 invoices annually to 12 commercial invoices. A process change in transportation working capital fund sealift billing will decrease DFAS workload from 624,000 transactions annually to approximately 139,000 transactions. DFAS is adjusting its infrastructure to meet the change in the transportation payment workload as the PowerTrack payment system is being implemented.

See comment 3.

The remaining $3 million in annual savings is derived from a decrease in documentation and financial processing of both commercial and transportation working capital fund sealift transactions at U.S. Transportation Command (USTRANSCOM). Approximately 624,000 fewer documents will be processed at military ports annually, and approximately 214,000 fewer invoices will need to be certified by USTRANSCOM personnel. These savings are contingent on the successful completion of the PowerTrack sealift prototype, which started in September 1999, and the PowerTrack Transportation Working Capital Fund prototype which is scheduled to begin in November 1999. Infrastructure adjustments will be made when PowerTrack is implemented in these business areas.

See comment 4.

The use of 3PLs is a best business practice among many commercial vendors and shippers. The objective of this prototype is to evaluate 3PL practices and capabilities to meet DoD domestic peacetime and wartime freight transportation requirements by assessing readiness and surge responsiveness, cost effectiveness, customer satisfaction, risk, interoperability with DoD transportation and financial systems, and use of small business. Outsourcing of transportation payment is not a primary focus of the 3PL prototype. The Request for Proposal and Statement of Work for this prototype are being finalized, and the DoD currently plans to use PowerTrack in the 3PL process.

See comment 5.

Based on DoD requirements and 3PL capabilities, if the prototype is successful, the use of 3PLs will likely be limited to a segment of the freight movement business. An assessment of 3PL capabilities indicates that 3PLs do not normally handle some types of cargo routinely moved by the DoD, including munitions, bulk fuels, and oversize, over weight, and over dimensional shipments. The DoD will assess and identify the infrastructure required under the 3PL concept if the DoD determines that 3PLs can effectively meet specific DoD transportation requirements.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense develop performance measures with quantifiable goals to enable a clear assessment of the extent to which the efforts reform the defense transportation system. (P. 10/GAO Draft Report)

Now on pp. 10-11.

DOD RESPONSE: Nonconcur. The DoD has established metrics to measure the success of implementing the use of commercial documentation and PowerTrack for commercial payments, and has developed metrics to measure the ability of 3PLs to meet DoD transportation requirements. The goals of MRM #15 are to reduce infrastructure costs associated with defense transportation documentation and financial processes for both DoD and commercial carriers, to create a win-win for DoD and commercial carriers by substantially decreasing the timeliness of payment to commercial carriers for providing transportation services to the DoD, and to enhance and bring consistency to the transportation documentation and payment process across transportation modes.

MRM#15 implementation performance success is being measured through several key metrics using data from U.S. Bank, DFAS, and the Military Traffic Management Command. The key metrics measure the decrease in workload at DFAS associated with the implementation of the PowerTrack payment process, the timeliness of payments to commercial carriers after carrier submission of notice of delivery or cargo lift for sealift, and the timeliness of payments to U.S. Bank. The measurement of transportation-related payment workload at DFAS is linked to the goal

of reducing infrastructure. The target is to reduce transportation-related payments at DFAS for all commercial domestic freight, worldwide express, and sealift liner payments from the FY 97 baseline of 1,250,000, to less than 108,000 commercial invoice payments made by DFAS to U.S. Bank. From February 1999 through September 1999, since initiating implementation of PowerTrack, the DoD decreased payments from 325,087 to 3,691 for shipments processed through PowerTrack. The measure of the timeliness of payments to U.S. Bank measures additional infrastructure savings garnered from either not paying interest or receiving a rebate for rapid invoice payment from the bank.

The carrier payment metric measures how well the DoD is meeting the goal of substantially decreasing the timeliness of payment to commercial carriers for providing transportation services to the DoD. The target is payment in 3 business days after the carrier notifies the DoD that service has been completed, significantly below the 30 – 90 day FY 97 baseline for carrier payment timeliness. In September 1999, carriers processing shipments for payment through PowerTrack were paid within three business days 87% of the time by dollar value of the shipments and 95% of the time by number of shipments processed.

By establishing a process in which commercial domestic transportation, sealift liner movements, express airlift, and transportation working capital fund payments are all processed and paid using the PowerTrack system, the DoD will have met its goal of bringing consistency to the transportation documentation and payment process across all modes of transportation.

Metrics are identified to measure the success of the 3PL prototype which will measure DoD costs and projected savings, 3PL service and responsiveness, and the ability of 3PLs to meet DoD transportation requirements. As part of the prototype, the DoD will determine whether the implementation of the use of 3PLs in segments of the DoD transportation business will meet the objective of reducing infrastructure costs.

The following are GAO's comments on the Department of Defense's (DOD) letter dated October 25, 1999.

GAO Comments

1. We acknowledge in the report that DOD believes it is premature to determine the extent that the use of contracting out can reduce DOD infrastructure until it is determined whether contracting out can meet its requirements. However, the goal setting process can still continue. DOD does not have a sound basis for assessing how well third-party logistics providers will or will not meet its needs unless it can set infrastructure reduction goals prior to implementing the prototype testing effort. As stated in the report, a prior DOD study indicates substantial infrastructure savings associated with contracting out some transportation functions.

2. The Department stated that it had identified $11.2 million in infrastructure savings using the electronic payment system, referred to as PowerTrack in our report. About $8.2 million of the $11.2 million that DOD cites in estimated savings is based on Finance Service transaction billings, not on actual reductions of infrastructure or personnel. Although DOD notes that the Finance Service is adjusting its infrastructure to meet changes in workload as PowerTrack is being implemented, no substantial personnel reductions have yet occurred. As our report notes, Finance Service personnel cannot be totally eliminated until the household goods portion of transportation payment is reengineered or included under the PowerTrack electronic system. Further, unless the Finance Service actually eliminates personnel, the infrastructure savings will not accrue, and billings for the remaining services could potentially increase.

3. DOD notes in its response that the remaining $3 million of the $11.2 million in estimated savings is contingent on the successful completion of the interagency prototypes, further stating that infrastructure adjustments will be made when PowerTrack is implemented in these business areas. However, implementation of PowerTrack in the interagency process has not yet been determined; therefore, the associated infrastructure reductions may or may not occur. The interagency portion of PowerTrack, as noted in the report, is a major challenge to successful implementation of the reengineered system.

4. Regarding DOD's comment that the transportation payment process is not a primary focus of the test to evaluate the use of contracting out some transportation functions, our point is that many third-party logistics providers already offer payment and reconciliation services. While DOD

identified possible savings through the electronic system, the opportunity for potentially greater savings and elimination of unnecessary infrastructure may be possible through the contracting effort. However, absent this type of comparative analysis, DOD will not have the opportunity to compare the two types of approaches to reengineer the transportation payment function.

5. DOD added that, even if the prototype is successful, the use of third-party logistics providers to perform the transportation payment and other functions will be applicable to only a segment of the domestic surface freight movement business because outside contractors do not normally handle some types of cargo routinely moved by DOD, which include munitions, bulk fuels, and oversize shipments. While we recognize that contracting out may not be appropriate for some shipments, it need not be overly restrictive during the prototype effort and should allow for testing the full range of capabilities of third-party logistics providers. Moreover, DOD states that it plans to use PowerTrack in the third-party logistics process and does not consider the payment function a primary focus of that effort. By doing so, we believe DOD is missing an opportunity to comparatively assess the potential benefits and cost reductions that may be achieved by contracting out the transportation payment and reconciliation process. In addition, it should be noted that DOD has included both initiatives under its reform effort to reengineer the transportation financial management processes.

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