

DEFENSE MANAGEMENT

Defense-Wide Working Capital Fund Agencies Apply Most Key Operating Principles but Should Improve Pricing Transparency

Why GAO Did This Study

As DOD continues to focus its resources on improving military readiness and modernizing its forces, it seeks to minimize costs associated with its business operations. DFAS, DISA, and DLA are financed through the Defense-Wide Working Capital Fund (DWWCF). Collectively, they provide shared services and goods to their customers, including finance and accounting services; information technology services; and fuel provision and inventory management.

Senate Report 115-262, accompanying a bill for the National Defense Authorization Act for Fiscal Year 2019, includes a provision that GAO evaluate the activities DWWCF agencies fund through overhead charges and fees collected from customers. This report evaluates the extent to which DFAS, DISA, and DLA (1) have a process for setting rates to recover costs and provide transparent pricing to customers and (2) clearly delineate roles and responsibilities, measure performance, and assess resource requirements and customer needs. GAO reviewed relevant sections of DOD's *Financial Management Regulation* and agency documentation and interviewed officials from DFAS, DISA, and DLA and the military departments in comparing the agencies' management practices to the key operating principles for effective management of working capital funds.

What GAO Recommends

GAO recommends that DFAS, DISA, and DLA provide more complete information to customers on their rate-setting methodologies. DOD concurred with GAO's recommendations.

What GAO Found

The Defense Finance and Accounting Service (DFAS), Defense Information Systems Agency (DISA), and Defense Logistics Agency (DLA) use a combination of approaches to set rates that are intended to recover their costs and equitably allocate costs to customers. However, DFAS, DISA, and DLA have not provided transparent pricing to the military departments, which are their largest customers. Each agency annually develops budget proposals designed to recover projected costs and account for gains or losses from prior years. DFAS, DISA, and DLA have taken steps intended to establish an equitable pricing methodology. For example, DLA changed its pricing method for distribution services to align the rates customers pay with DLA's costs of providing the service. However, customers from the military departments said they lack visibility into the factors that determine their overall costs at one or more of the three defense agencies, including how indirect costs are allocated and included in the rates they are charged. GAO's review of cost and rate documentation provided to the military departments also found that they provide high-level information, such as the rates and estimated workloads, and did not include details about the types of costs included or how they are calculated. Specifically,

- DFAS informational briefings do not describe the types of costs included in rates and how those costs are calculated and allocated. As a result, customers from the Army and Navy said they were confused about why declines in their use of DFAS's services have not resulted in reduced costs.
- DISA does not include in its documentation the methodology it uses to calculate its rates, making it difficult for officials from the Air Force to determine how they can manage their costs with DISA.
- DLA does not provide detailed information on the costs included in its rates, making it difficult for customers from the Navy and Air Force to determine how to lower their costs or, in the case of the Air Force, understand the cost implications of DLA's newly announced pricing initiative.

Because DFAS, DISA, and DLA share only high-level information on their rate-setting methodologies, the military departments have been limited in their abilities to understand and manage the costs they pay for the services they obtain. By providing more complete information on rate setting, including the calculation and use of costs, DFAS, DISA, and DLA could help their customers better manage their costs and make more informed budgeting decisions. Improved transparency could also help customers anticipate how potential changes to the assumptions underlying rates could affect future costs.

GAO also found that DFAS, DISA, and DLA clearly delineate roles and responsibilities, measure performance, and assess resource requirements and customer needs for goods and services, as called for by the three remaining key operating principles for effective working capital fund management. As a result, these agencies are positioned to promote a clear understanding of who will be held accountable for specific tasks or duties, reduce the risk of mismanaged funds, measure their operational performance and identify opportunities to improve performance, and use resources most effectively.