

September 22, 2021

Congressional Committees

COVID-19: Defense-Wide Working Capital Fund Cash Management and Defense Logistics Agency Pandemic Response

The Coronavirus Disease 2019 (COVID-19) pandemic caused a global surge in demand for medical supplies and personal protective equipment (PPE), even as it disrupted global supply chains for these and other items. The Department of Health and Human Services (HHS) and the Federal Emergency Management Agency (FEMA) have led the federal response to COVID-19 through a coordination group established by the federal government's COVID-19 response plan. This group's efforts have included, among other things, managing the medical supply chain; increasing testing capacity; and developing, manufacturing, and distributing COVID-19 vaccines and therapeutics.

The Department of Defense (DOD) has provided support to both HHS and FEMA during the pandemic, including helping HHS develop plans for the distribution and administration of vaccines. DOD's Defense Logistics Agency (DLA) manages DOD's global supply chain, including contracting for, purchasing, storing, and distributing most consumable items used by DOD's components, including fuel and medical items. DLA assisted HHS, FEMA, and other federal agencies to acquire medical materials, including PPE and testing supplies.¹

This report responds to a request from the Readiness Subcommittee of the House Armed Services Committee that we review DOD's management of the Defense-Wide Working Capital Fund's (DWWCF) cash balance and DLA's response to the COVID-19 pandemic, and is also part of our body of work in response to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).² We briefed congressional committees on our work in July, August, and September 2021. See enclosure I for briefing slides with information on the results of our review.

¹We previously reported that DOD had established a Joint Acquisition Task Force in March 2020 to support the acquisition needs of federal agencies in their public health response activities, and that this became the Defense Assisted Acquisition Cell in September 2020. See GAO, *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, GAO-21-191 (Washington, D.C.: Nov. 30, 2020). During the current review, DLA officials told us that they worked closely with the Joint Acquisition Task Force and the Defense Assisted Acquisition Cell, and that requests from other federal agencies to DLA were coordinated initially through the White House COVID-19 Response Supply Chain Task Force, and later through the Defense Assisted Acquisition Cell.

²Pub. L. No. 116-136 (2020). We regularly issue government-wide reports on the federal response to COVID-19. For the latest report, see GAO, *COVID-19: Continued Attention Needed to Enhance Federal Preparedness, Response, Service Delivery, and Program Integrity*, GAO-21-551 (Washington, D.C.: July 19, 2021). Our next government-wide report will be issued in October 2021 and will be available on GAO's website at <https://www.gao.gov/coronavirus>.

This report and the included briefing slides provide information on the following four objectives: (1) actions DOD took from October 2018 through March 2021 to maintain the DWWCF cash balance between its targeted upper and lower cash requirements; (2) the effects of the pandemic on DLA's supply chain management activity, including medical supplies, starting in March 2020; (3) DLA's planning to support a pandemic event and tracking of its performance in meeting customer needs from March 2020 through June 2021; and (4) changes in DLA's contracting activity, by type of product and individual vendor, from March 2019–February 2020 and March 2020–February 2021.

To address our first objective, we compared DWWCF cash balances from October 2018 through March 2021 with the targeted upper and lower cash requirements. We discussed our analysis with officials from DLA and the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) to identify causes for changes in DWWCF cash balances. We assessed the reliability of the data by comparing the data with DOD accounting reports and by interviewing knowledgeable officials. We determined that the data were sufficiently reliable for our purposes.

To address our second objective, we reviewed DWWCF budget estimate documents from Fiscal Year (FY) 2021 and FY2022 and other DLA documentation to identify any changes in customer demand over the FY2019 through FY2020 time period and to identify the effects of demand changes on DLA. Specifically, we reviewed actual prior-year data contained in these budget estimate documents. We also interviewed DLA officials to determine what changes were made to DLA's supply chain processes in response to the pandemic, and we reviewed DLA documentation on its responses to the pandemic. Because the most significant changes we identified were in the medical supply chain area, we focused on this area in particular.

To address our third objective, we reviewed DLA documents related to planning and performance assessment, including medical readiness risk assessment reports, medical supply chain performance assessments, and other documentation from FY2019 through FY2021. We interviewed officials from the military departments and from DLA's largest non-DOD customers during the pandemic (from March 2020, when the national emergency was declared, through June 2021), to obtain their perspectives on DLA's performance. In determining which customers to interview, we selected DOD's primary customers under typical conditions—the military departments—as well as the two agencies leading the response to the pandemic, HHS and FEMA, which were also DLA's largest customers for COVID-19-related supplies. This did not constitute a generalizable sample of DLA customers. We interviewed DLA officials and reviewed DLA documentation on lessons learned to determine how DLA sought to mitigate challenges it faced during the pandemic.

To address our fourth objective, we compared Federal Procurement Data System (FPDS) contract data from March 2020 through February 2021 (the latest month for which there were data available at the time of our analysis) with FPDS contract data from a comparable 12-month period, March 2019 through February 2020, to identify changes in DLA contracting volume by product area and vendor type (including small business, small disadvantaged business, women-owned business, and minority-owned business) between the two time periods. We compared the period during the pandemic with the 12-month period in 2019 because it was the most recent comparable time period. We determined that the data were sufficiently reliable for our purposes by reviewing DOD documents relating to the reliability of the data and by conducting checks on the data. We also reviewed DLA documentation and interviewed DLA officials.

We conducted this performance audit from November 2020 through September 2021 in accordance with generally accepted government auditing standards. Those standards require

that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

DLA, the Defense Information Systems Agency, and the Defense Finance and Accounting Service all use the DWWCF to finance their operations. These DOD components provide customers—generally other DOD components, but also non-DOD federal agencies—with finance and accounting services, parts and supply management, inventory and fuel provision, and information technology services, among others. The DWWCF consists of five activity groups that are managed by DOD components. DLA manages three of the five activity groups.³

Each DWWCF agency is responsible for maintaining positive cash balances sufficient to allow its operations to continue uninterrupted. DOD revised its cash management policy to require a positive cash balance throughout the year and an adequate ending balance to support continuing operations into the subsequent year.⁴ The revised policy has given DOD additional discretion in setting the cash requirements for working capital funds to take into consideration the additional cash needed to cover the day-to-day volatility in the cash balance. DOD has subsequently broadened the range of the targeted upper and lower cash requirements.

In setting cash requirements for working capital funds, DOD agencies are to consider the following four elements:

1. the rate of disbursement, which is the average amount disbursed between collection cycles;
2. the range of operations, or the difference between the highest and lowest expected cash levels based on budget assumptions and past experience;
3. risk mitigation, which requires some amount of cash beyond the range of operations to mitigate the inherent risk of unplanned and uncontrollable events; and
4. reserves, which are cash amounts held for future known requirements.

³DLA manages the Supply Chain Management, Energy Management, and Document Services activity groups. Supply chain management manages materiel, from initial acquisition to storage and distribution to, finally, reutilization or disposal. Energy management provides worldwide energy solutions for the military services and other authorized users. Document services provides printing and digital services.

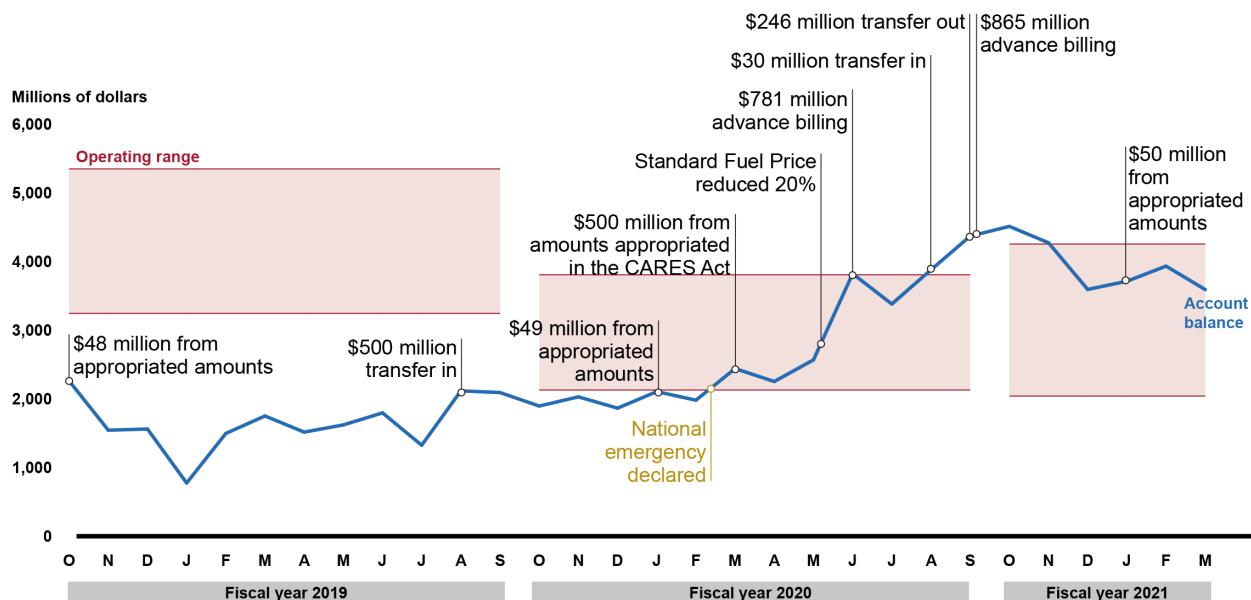
⁴See DOD 7000.14-R, *Financial Management Regulation*, vol. 2B, chap. 9 (July 2017 Draft). Although the update has not yet been officially published, the DWWCF is implementing the cash management policies in the draft regulation, as instructed by the Office of the Under Secretary of Defense (Comptroller).

Summary

DOD Actions Helped Maintain DWWCF Balances within Targeted Ranges

DOD took a number of actions during the pandemic that helped maintain DWWCF cash balances within targeted operating ranges, as shown in figure 1.

Figure 1: Defense-wide Working Capital Fund—Reported Cash Balances Compared with Targeted Operating Ranges, by Month (October 2018–March 2021)



Source: GAO analysis of U.S. Treasury and Department of Defense data. | GAO-21-104590

Note: DOD presents its initially targeted upper and lower cash requirements in its annual budget request. The next year, these targeted upper and lower cash requirements are revised based on actual data and then published, according to officials in the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)). We used the revised targeted upper and lower cash requirement for fiscal year (FY) 2019, FY2020, and FY2021. According to OUSD(C) officials, the FY2019 targeted upper and lower cash requirements were higher than those for prior and subsequent years to accommodate readiness investments made by the Defense Logistics Agency (DLA) in support of the FY2018 National Defense Strategy.

As shown in figure 1, several transactions increased the DWWCF cash balances. In particular, of lump sum amounts appropriated to defense working capital funds, DOD allotted nearly \$600 million to the DWWCF from January 2020 through January 2021: \$500 million from the CARES Act and \$99 million from regular appropriations.⁵ In August 2020, DOD transferred \$30 million appropriated to the Defense Health Program through the CARES Act to the DWWCF. DLA received \$2 billion in advance billings from HHS and FEMA from April 2020 through September 2020.⁶ Two of the largest advance billings during this period were \$781 million for the purchase of PPE for the Strategic National Stockpile and \$865 million for the purchase of COVID-19 test kits.

⁵DLA receives an allotment from regular appropriations every year for disposition services. This funding pays for disposal costs that are not covered by the military services.

⁶Advance billing refers to billing a DOD working capital fund customer for the cost of goods or services before the goods or services are received. DOD working capital funds are authorized to advance bill under specific circumstances. 10 U.S.C. § 2208(l).

Officials told us they also took actions that had the effect of mitigating the extent to which DWWCF cash balances exceeded the targeted upper cash requirement. From the DWWCF, DOD transferred \$241 million to the Navy and Air Force working capital funds, and \$5 million to the Office of the Under Secretary of Defense for Acquisition and Sustainment related to the Indian Incentive Program.⁷ Also, the standard fuel price DLA charges its customers was reduced by 20 percent (from \$124.32 per barrel to \$99.12 per barrel). Moving forward, DLA officials stated that they expect the relatively high DWWCF cash balance—\$3.6 billion as of March 2021—to decline as advance-billed orders are filled and fuel prices recover along with the economy.

DLA Responded to a Surge in Medical Materials Demand during the Pandemic

DLA responded to a surge in demand for medical materials from both DOD and non-DOD customers during the pandemic. From March 2020 through May 2021, DLA executed about 31,000 contract actions marked as COVID-19-related worth \$3.67 billion, according to DLA documentation on its COVID-19 response. The vast majority of DLA's COVID-19-related orders came from non-DOD customers. DLA officials said that FEMA and HHS became DLA's largest customers for COVID-19-related items during the pandemic. DLA's COVID-19-related procurements included test kits, gloves, N95 respirators, hand sanitizers, surgical masks, ventilators, and protective gowns, among other items.

DLA officials told us that demand for PPE items in the medical supply chain increased significantly at the onset of the pandemic and demand for material in some of the non-medical supply chains decreased during the early part of the pandemic. Military service officials from the Army and Air Force said that reduced training and operations due to COVID-19 restrictions decreased demand in some categories of supply. However, despite the reduction in demand in some areas, DLA supply chain management total new orders increased from \$29.5 billion in FY19 to \$32.4 billion in FY2020.⁸

DLA Did Not Plan for Pandemic Support, but It Tracked Performance and Identified Lessons Learned

The *National Response Framework* identifies roles and responsibilities of federal agencies under different emergency scenarios beyond those assigned to HHS and FEMA. DOD resources may be committed when requested by another federal agency and approved by the Secretary of Defense, or when directed by the President. When DOD resources are authorized to support civil authorities, command of those forces remains with the Secretary of Defense.⁹ Based on the *National Response Framework*, the more specific COVID-19 response plan identified a number of potential DOD support activities, including the provision of logistics and distribution assistance.¹⁰ DLA officials told us that they were not tasked with planning to support civilian agencies in a pandemic, and that they had not developed plans prior to the declaration

⁷As authorized in 25 U.S.C. § 1544, the Indian Incentive Program provides incentives to government contractors that use Indian organizations and Indian-owned economic enterprises as subcontractors.

⁸Total new orders include orders from DOD components and other federal agencies, among others.

⁹Dept. of Homeland Security, *National Response Framework*, 4th ed. (Oct. 28, 2019).

¹⁰Dept. of Health and Human Services, *PanCAP Adapted U.S. Government COVID-19 Response Plan* (Mar. 13, 2020).

of emergency concerning the COVID-19 outbreak on March 13, 2020. DLA officials added that it is not part of DLA's mission to plan for pandemic support.¹¹

DLA studies its medical material requirements for military support as part of its routine readiness assessments. DLA officials told us that in 2016 they purchased a limited amount of PPE following a medical material requirements study conducted in response to the West African Ebola outbreak. Subsequently, DLA's annual readiness assessments in FY2019 and FY2020 identified shortfalls in the amount of PPE expected to be available for medical contingency requirements due to an increase in the need for such PPE. As a result of these assessments, DLA officials told us that they were seeking to increase contract coverage for these items, but that the pandemic conditions made it difficult to do so, as vendors were focused on meeting current needs.

DLA continued to monitor and measure its medical supply chain performance during the pandemic, using measures it had previously established, such as filled and unfilled orders. DLA's measures showed that its performance decreased somewhat during the pandemic. Officials from DLA and those from its customer agencies attributed this decrease to difficulties experienced by vendors in responding to medical material demand during the global pandemic.

DOD and non-DOD customers we spoke with had a variety of views on DLA's performance, but customers generally told us that the supply challenges they experienced were largely due to the extreme circumstances posed by the pandemic and were outside of DLA's control.¹²

In a May 2020 briefing to senior DLA leaders, DLA officials identified lessons learned from the pandemic in the areas of procurement, policy, and coordination. For example, DLA is the executive agent for various supply classes, but it noted that some military services and DOD agencies did not coordinate with it on the procurement of these materials during the pandemic. DLA recommended that DOD emphasize its role as supply chain and procurement manager.

DLA Increased Medical Contracting and Reduced Contracting in Some Other Areas

Our analysis found that DLA obligated \$40.1 billion on contracts from March 2020 through February 2021 (the latest month for which data were available at the time of our analysis), which reflects a decrease of more than \$2.0 billion (4.8 percent) as compared with the same 12-month period prior to the pandemic.¹³ DLA obligations increased in 64 of 134 product service groups, with the largest increases occurring in the following product service groups: medical, dental, and veterinary equipment and supplies; firefighting, rescue, and safety equipment, and environmental protection equipment and materials; and instruments and laboratory equipment. DLA obligations decreased in 69 of 134 product service groups, with the largest decreases

¹¹We have previously reported on DOD's efforts to protect servicemembers' health during the COVID-19 pandemic, and on DOD's prior planning for pandemic response, including support to civil authorities. See GAO, *COVID-19: DOD Has Focused on Strategy and Oversight to Protect Military Servicemember Health*, GAO-21-321 (Washington, D.C.: June 3, 2021); and GAO, *Defense Civil Support: DOD, HHS, and DHS Should Use Existing Coordination Mechanisms to Improve Their Pandemic Preparedness*, GAO-17-150 (Washington, D.C.: Feb. 10, 2017).

¹²As noted previously, in determining which customers to meet with, we selected DOD's primary customers under typical conditions—the military departments—as well as the two agencies leading civilian support during the COVID-19 pandemic, HHS and FEMA, which were the largest customers for COVID-19-related supplies.

¹³An obligation is a definite commitment that creates a legal liability of the government for payment of goods and services ordered or received. We reviewed and compared DLA-reported FPDS data from a period prior to the pandemic, March 2019–February 2020, with an equivalent pandemic period, March 2020–February 2021.

occurring in the fuels, lubricants, oils and waxes, and aerospace craft components and accessories product service groups.

Of the universe of 11,832 DLA vendors used during this period, we found that DLA obligations related to 6,208 (52.5 percent) of them decreased, 4,960 (41.9 percent) increased, and 664 (5.6 percent) had no change.¹⁴ DLA obligations related to vendors providing medical, dental, and veterinary equipment and supplies had the largest increase in contract values, and obligations for those providing fuels, lubricants, oils and waxes, and aerospace components had the largest decrease. Of the 4,960 vendors for which DLA contract amounts increased during the pandemic, 36 saw increases of between \$50 million and \$1.18 billion. DLA obligations related to 12 of these vendors increased by more than 400 percent as compared with the prior 12-month period. Of the vendors for which DLA contract amounts decreased, 49 saw decreases of between \$50 million and \$548.9 million. DLA obligations related to 21 of these vendors decreased by more than 70 percent. Despite the overall decrease in DLA's contracting obligations, small business obligations increased from 33 percent to 37 percent of the total, and the proportion of DLA contract obligations for vendors in three primary socioeconomic groups (small disadvantaged businesses, women-owned businesses, and minority-owned businesses) remained roughly the same, according to FPDS data.

Agency Comments

We provided a draft of this report to DOD, HHS, and the Department of Homeland Security (which includes FEMA) for review and comment. None of the three agencies provided an official response to the report. DOD provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional addressees and to the Secretary of Defense, the Secretary of Health and Human Services, and the Administrator of FEMA. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff members have any questions about this report, please contact Elizabeth Field at (202) 512-2775 or fieldel1@gao.gov. Contact points for our Office of Congressional Relations and Office of Public Affairs may be found on the last page of this report. Other key

¹⁴Vendors that saw no change had an exactly equal value of contract amount in the March 2019–February 2020 period and the March 2020–February 2021 period. Vendors that had contracts in both of the periods of comparison were considered to have experienced an increase or decrease if the contractual amounts varied in any way. Vendors that had contracts with DLA in only one of the two periods of comparison were considered to have experienced an increase if they had a contract in the March 2020–February 2021 period but not in the March 2019–February 2020 period, or a decrease if they had a contract in the March 2019–February 2020 period but not in the March 2020–February 2021 period.

contributors to this report included Alex Winograd (Assistant Director), Simon Hirschfeld (Analyst-in-Charge), Suellen Foth, Kevin Keith, Felicia Lopez, Keith McDaniel, Patricia Powell, McKenna Storey, and Cheryl Weissman.

A handwritten signature in black ink, appearing to read "Elizabeth A. Field".

Elizabeth A. Field
Director, Defense Capabilities and Management

Enclosure – 1

List of Committees

The Honorable Patrick Leahy
Chairman
The Honorable Richard Shelby
Vice Chairman
Committee on Appropriations
United States Senate

The Honorable Ron Wyden
Chairman
The Honorable Mike Crapo
Ranking Member
Committee on Finance
United States Senate

The Honorable Patty Murray
Chair
The Honorable Richard Burr
Ranking Member
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable Gary C. Peters
Chairman
The Honorable Rob Portman
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Rosa L. DeLauro
Chair
The Honorable Kay Granger
Ranking Member
Committee on Appropriations
House of Representatives

The Honorable Frank Pallone
Chairman
The Honorable Cathy McMorris Rodgers
Ranking Member
Committee on Energy and Commerce
House of Representatives

The Honorable Bennie G Thompson
Chairman
The Honorable
Ranking Member John Katko
Committee on Homeland Security
House of Representatives

The Honorable Carolyn B. Maloney
Chairwoman
The Honorable James Comer
Ranking Member
Committee on Oversight and Reform
House of Representatives

The Honorable Richard Neal
Chairman
The Honorable Kevin Brady
Ranking Member
Committee on Ways and Means
House of Representatives

The Honorable John Garamendi
Chairman
The Honorable Doug Lamborn
Ranking Member
Subcommittee on Readiness
Committee on Armed Services
House of Representatives

Observations on Defense-wide Working Capital Fund Cash Management and Defense Logistics Agency COVID-19 Response

Briefing for Congressional Committees

Introduction and Background

The Coronavirus Disease 2019 (COVID-19) pandemic caused a global surge in demand for medical supplies and personal protective equipment (PPE), even as it disrupted global supply chains for these and other items.

- The Department of Health and Human Services (HHS) and Federal Emergency Management Agency (FEMA) led the federal response to COVID-19 through a coordination group established by the federal government's COVID-19 response plan.
- This group's efforts have included, among other things, managing the medical supply chain; increasing testing capacity; and developing, manufacturing, and distributing COVID-19 vaccines and therapeutics.

The Department of Defense (DOD) provided support to both HHS and FEMA during the pandemic.

- DOD helped HHS develop plans for the distribution and administration of vaccines.
- DOD's Defense Logistics Agency (DLA) manages DOD's global supply chain. It contracts for, purchases, stores, and distributes most consumable items used by DOD's components, including fuel and most medical items. DLA assisted HHS, FEMA, and other federal agencies in acquiring medical materials, including PPE and testing supplies.¹

¹We previously reported that DOD established a Joint Acquisition Task Force in March 2020 to support the acquisition needs of federal agencies in their public health response activities, and that this became the Defense Assisted Acquisition Cell in September 2020. See GAO, *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, GAO-21-191 (Washington, D.C.: Nov. 30, 2020). During the current review, DLA officials told us that they worked closely with the Joint Acquisition Task Force and Defense Assisted Acquisition Cell, and that requests from other federal agencies were coordinated initially through the White House COVID-19 Response Supply Chain Task Force, and later through the Defense Assisted Acquisition Cell.

Introduction and Background (cont.)

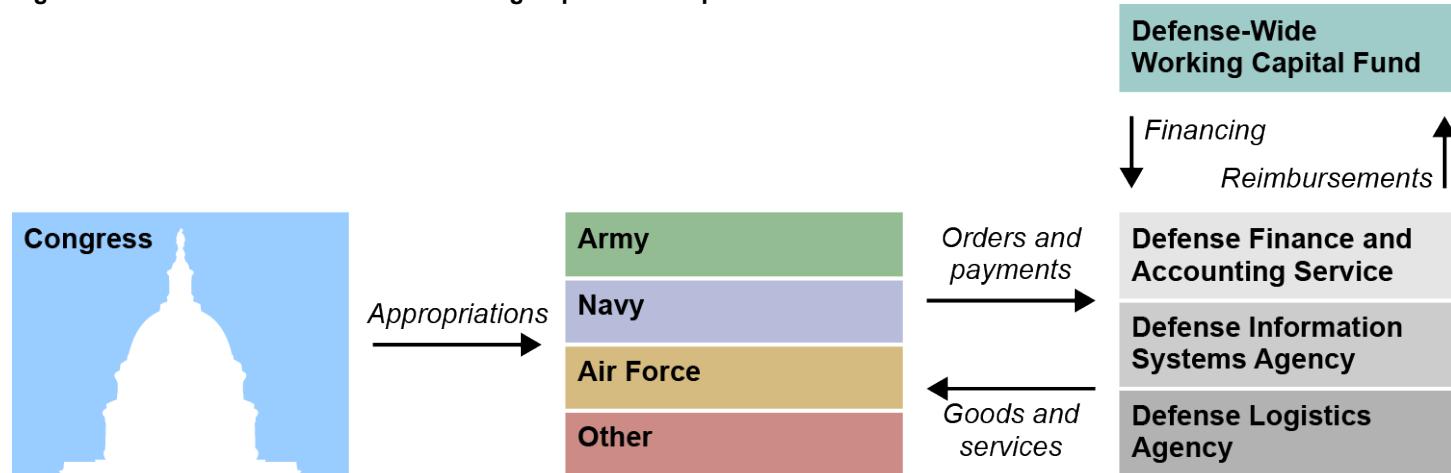
Defense-Wide Working Capital Fund (DWWCF) Operations and Cash Management

DLA, the Defense Information Systems Agency, and the Defense Finance and Accounting Service use the DWWCF to finance their operations.

- These DOD components provide customers—generally other DOD components (e.g., the military services), but also other non-DOD federal agencies—with finance and accounting services, parts and supply management, inventory and fuel provision, and information technology services, among others.
- The DWWCF consists of five activity groups that are managed by DOD components. Ongoing DWWCF operations and maintenance of a minimum cash balance are funded through reimbursements to the DWWCF consisting of customer payments made to DLA, the Defense Finance and Accounting Service, and the Defense Information Systems Agency. The flow of funding and provision of goods and services between the DWWCF agencies, their customers, and the DWWCF are shown in figure 1.

Introduction and Background (cont.)

Figure 1: Overview of Defense-Wide Working Capital Fund Operations



Source: GAO analysis of Department of Defense information. | GAO-21-104590

Introduction and Background (cont.)

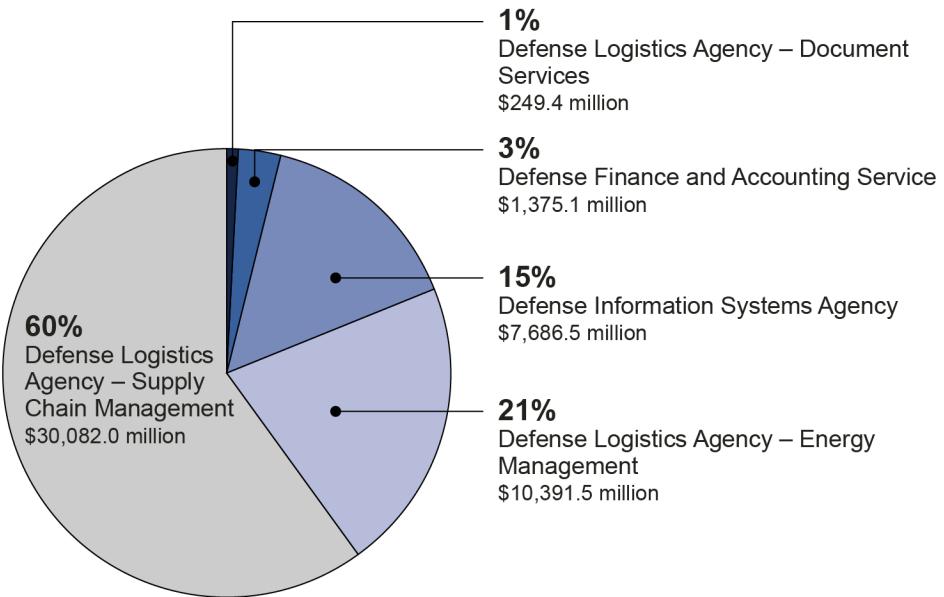
DLA manages three of the five DWWCF activity groups.

- **Supply chain management** includes the management of material, from initial acquisition to storage and distribution to, finally, reutilization or disposal. For instance, supply chain management includes the provision of items such as food, textiles, and medical supplies, as well as ground-based, maritime, and aviation weapon system repair parts, among other things.
- **Energy management** includes the provision of worldwide energy products and services for the military services and other authorized users, including petroleum products, alternative fuel and renewable energy, and aerospace energy, among other things.
- **Document services** provides printing and digital services.

DLA's activity groups generate the majority of the revenue received by the DWWCF, as shown in figure 2.

Introduction and Background (cont.)

Figure 2: Defense-Wide Working Capital Fund Revenue by Activity, Fiscal Year 2020



Source: GAO analysis of Department of Defense data. | GAO-21-104590

Note: The data were obtained from DOD, Under Secretary of Defense (Comptroller), *Defense Working Capital Fund, Defense-Wide Fiscal Year (FY) 2022 Budget Estimates, Operating and Capital Budgets* (May 2021).

Introduction and Background (cont.)

Each DWWCF agency is responsible for maintaining positive cash balances sufficient to allow its operations to continue uninterrupted. DOD revised its cash management policy in July 2017 to require a positive cash balance throughout the year and an adequate ending balance to support continuing operations into the subsequent year. The revised policy has given DOD additional discretion in setting the cash requirements for working capital funds to take into consideration the additional cash needed to cover the day-to-day volatility in the cash balance. DOD has subsequently broadened the range of the targeted upper and lower cash requirements.²

In setting cash requirements for working capital funds, DOD agencies are to consider the following four elements:

- the rate of disbursement, which is the average amount disbursed between collection cycles;
- the range of operations, or the difference between the highest and lowest expected cash levels, based on budget assumptions and past experience;
- risk mitigation, which requires some amount of cash beyond the range of operations, to mitigate the inherent risk of unplanned and uncontrollable events;
- Reserves, which are cash amounts held for future known requirements.

²See DOD 7000.14-R, *Financial Management Regulation*, vol. 2B, chap. 9 (July 2017 draft). Although the update has not yet been officially published, the DWWCF is implementing the cash management policies in the draft regulation, as instructed by the Office of the Under Secretary of Defense (Comptroller). See also GAO, *Defense-Wide Working Capital Fund: Action Needed to Maintain Cash Balances within Required Levels*, GAO-17-465 (Washington, D.C.: June 30, 2017).

Source of Work and Objectives

The House Armed Services Committee, Subcommittee on Readiness requested that we review DOD's management of the DWWCF's cash balance and DLA's response to the COVID-19 pandemic. We also conducted this work as part of our response to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).³ This briefing provides our observations on the following four objectives:

1. Actions taken by DOD from October 2018 through March 2021 to maintain the DWWCF cash balance between its targeted upper and lower cash requirements;
2. The effects of the pandemic on DLA's supply chain management activity, including medical supplies, starting in March 2020;
3. DLA's planning to support a pandemic event and tracking of its performance in meeting customer needs from March 2020 through June 2021; and
4. Changes in DLA's contracting activity, by type of product and individual vendor, from March 2019–February 2020 and March 2020–February 2021.

³ Pub. L. No. 116-136 (2020).

To address our first objective, we compared DWWCF cash balances from October 2018 through March 2021 with the targeted upper and lower cash requirements. We discussed our analysis with officials from DLA and OUSD(C) to identify drivers behind changes in DWWCF cash balances. We assessed the reliability of the data by comparing the data with DOD accounting reports and by interviewing knowledgeable officials. We determined that the data were sufficiently reliable for our purposes.

To address our second objective, we reviewed DWWCF budget estimates from Fiscal Year (FY) 2021 and FY2022 and other DLA documentation to identify changes in customer demand over the FY2019–FY2020 time period and to identify the effects of demand changes on DLA. Specifically, we reviewed actual prior-year data contained in these budget estimate documents. We also interviewed DLA officials to determine what changes were made to DLA's supply chain processes in response to the pandemic, and we reviewed DLA documentation on its responses to the pandemic. Because the most significant changes identified were in the medical supply chain area due to the COVID-19 pandemic, we focused on this area in particular.

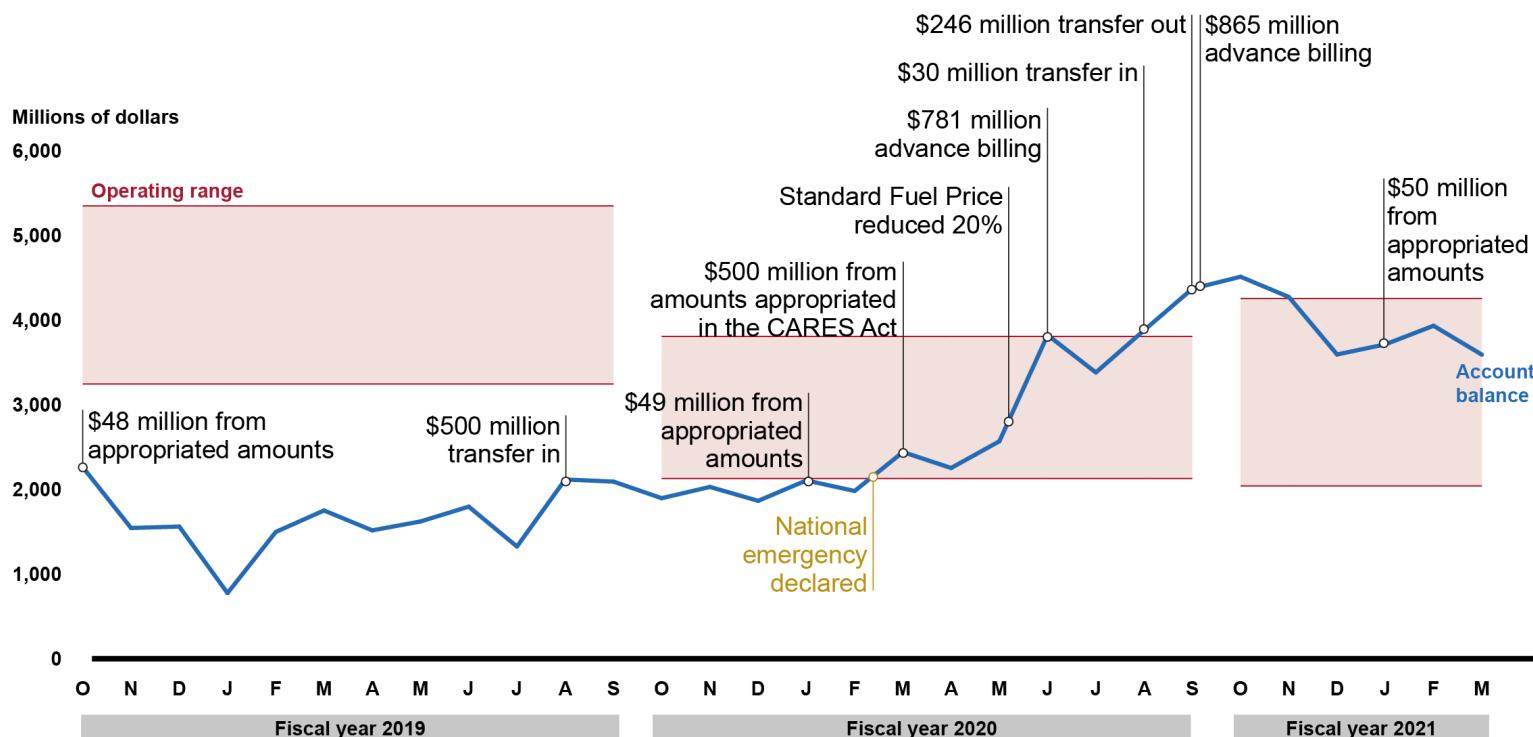
To address our third objective, we reviewed DLA documents related to planning and performance assessment, including medical readiness risk assessment reports, medical supply chain performance assessments, and other documentation from FY2019 through FY2021. We interviewed officials from the military departments and from DLA's largest non-DOD customers during the pandemic (from March 2020, when the President made a national emergency declaration in response to the COVID-19 pandemic, through June 2021) to obtain their perspectives on DLA's performance. In determining which customers to interview, we selected DOD's primary customers under typical conditions, the military departments, and also met with the two agencies leading the civilian support during the COVID-19 pandemic, HHS and FEMA, which were DLA's largest customers for COVID-19-related supplies. This did not constitute a generalizable sample of DLA's customers. We also interviewed DLA officials and reviewed DLA documentation on lessons learned to determine how DLA sought to mitigate challenges it faced during the pandemic.

To address our fourth objective, we compared Federal Procurement Data System (FPDS) contract data from March 2020 through February 2021 (the latest month for which data were available at the time of our analysis) with FPDS contract data from a comparable 12-month period of March 2019–February 2020 to identify changes in DLA's contracting volume, by product area and by vendor type (including small business, small disadvantaged business, women-owned business, and minority-owned business), between the two time periods. We chose to compare the period during the pandemic with the 12-month period starting in 2019 because it was the most recent comparable time period. We determined that the data were sufficiently reliable for our purposes by reviewing DOD documents relating to the reliability of the data and by conducting checks on the data. We also reviewed DLA documentation and interviewed DLA officials.

DOD Actions Helped Maintain DWWCF Cash Balances within Targeted Ranges

DOD took a number of actions during the pandemic that helped maintain DWWCF cash balances within targeted operating ranges. The DWWCF cash balance was below the targeted operating range prior to March 2020. However, it generally remained within the targeted operating range from March 2020 through March 2021, as shown in figure 3.

Figure 3: Defense-wide Working Capital Fund—Reported Cash Balances as Compared with Targeted Operating Ranges



Source: GAO analysis of U.S. Treasury and Department of Defense data. | GAO-21-104590

Note: DOD presents its initially targeted upper and lower cash requirements in its annual budget request. The next year, these targeted upper and lower cash requirements are revised based on actual data and then published, according to officials in the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)). We used the revised targeted upper and lower cash requirements for fiscal year (FY) 2019, FY2020, and FY2021. According to OUSD(C) officials, the FY2019 targeted upper and lower cash requirements were higher than those for prior and subsequent years to accommodate readiness investments made by the Defense Logistics Agency (DLA) in support of the 2018 National Defense Strategy.

DOD Actions Helped Maintain DWWCF Cash Balances within Targeted Ranges (cont.)

Before the Declaration of the National Emergency Concerning the COVID-19 Pandemic:

The DWWCF cash balance was below the lower targeted cash requirement prior to the March 2020 declaration of national emergency, largely because of investments in readiness in support of the 2018 National Defense Strategy and the effects of increased fuel costs on DLA's energy supply chain activity, according to OUSD(C) and DLA officials.

- According to OUSD(C) and DLA officials, DLA supported efforts to increase readiness by buying increased quantities of repair parts and support items so that they would be on hand when needed.
- OUSD(C) officials told us that to accommodate these investments, the FY2019 targeted upper and lower cash requirements range was at least \$1 billion higher than the FY2020 and FY2021 ranges. As a result, a higher cash balance was needed to stay within the targeted upper and lower cash requirements in FY2019 than was needed in later fiscal years.
- DLA was unable to remain within that range because of its acquisition of parts and the revenue effects resulting from its sale of fuel. According to OUSD(C) officials, DLA paid vendors for items when it procured them, but was not reimbursed by the military services for those parts until they were distributed. The DWWCF cash balance fell because of this delayed reimbursement. DLA officials said they could not raise prices to mitigate this cash shortfall. Instead, DOD transferred \$500 million from the Foreign Currency Fluctuations, Defense account into the DWWCF.⁴

⁴The Foreign Currency Fluctuations, Defense (FCFD) account was established by Congress for purposes of maintaining the budgeted level of operations in certain appropriations accounts by eliminating substantial gains or losses to the appropriations caused by foreign currency rate fluctuations.

DOD Actions Helped Maintain DWWCF Cash Balances within Targeted Ranges (cont.)

- DLA's Energy Management activity suffered an overall cash loss of \$382.3 million in FY2018 because the price DLA paid for fuel exceeded the standard fuel price it charged its customers. OUSD(C) officials took steps to limit the losses from the sale of fuel by increasing the standard fuel price in April 2018 from \$90.30 per barrel to \$115.92 per barrel, and increasing it again on October 1, 2018, to \$125.16 per barrel.

DLA officials said they took the following steps prior to the March 2020 emergency declaration to improve the DWWCF cash balance:

- DLA filled some customer orders with items from the safety stock.⁵ This practice allowed it to delay ordering more inventory for stock and paying for those additional orders.
- DLA decreased the quantity per order, but it increased the frequencies of the ordering, which spread obligations on these orders over a longer period of time.⁶
- DLA increased the time between receipt and payment of vendor's invoice from 2 to 15 days in the summer of 2019, and then increased payment up to the general maximum of 30 days in November 2019. This practice allowed DLA to increase the DWWCF cash balance, although the targeted lower cash requirement was not exceeded until after the disaster declaration in March 2020.

⁵Safety stock is a level of inventory retained to compensate for unexpected fluctuations in demand or delays in the acquisition process.

⁶An obligation is a definite commitment that creates a legal liability of the government for payment of goods and services ordered or received.

DOD Actions Helped Maintain DWWCF Cash Balances within Targeted Ranges (cont.)

After the Declaration of the National Emergency Concerning the COVID-19 Pandemic:

DOD took a number of actions that maintained the DWWCF cash balance above the targeted lower cash requirements and at times above the targeted upper cash requirement.

- **Appropriations:** From January 2020 through January 2021, of amounts appropriated to Defense working capital funds, nearly \$600 million was directed to the DWWCF.
 - In January 2020 and January 2021, of lump sum amounts appropriated to Defense working capital funds, DOD allotted the DWWCF \$49 million and \$50 million, respectively, to cover DLA's reutilization, transfer, and disposal costs.⁷
 - In March 2020, Congress appropriated \$500 million to the DWWCF through the CARES Act. These funds were to be used "to prevent, position, prepare for, and respond to the coronavirus, domestically or internationally." OUSD(C) officials said they used the funds to address cash shortfalls and placed all \$500 million in DLA's Supply Chain Management activity group to better position it to support the government's pandemic response.
- **Transfers into the DWWCF.** In August 2020, DOD transferred \$30 million appropriated to the Defense Health Program through the CARES Act to the DWWCF.

⁷DLA receives allotments each year for disposition services. This funding pays for disposal costs that are not covered by the military services.

DOD Actions Helped Maintain DWWCF Cash Balances within Targeted Ranges (cont.)

- **Advance billings:** From April 2020 through September 2020, DLA received \$2 billion in advance billings from HHS and FEMA.⁸ Two of the largest advance billings DLA received during this period were \$781 million for the purchase of PPE for the Strategic National Stockpile and \$865 million for the purchase of COVID-19 test kits.
 - The net amount of cash from advance billings grew from \$17 million in May 2020 to \$826 million in June 2020, and reached a maximum of \$1.8 billion in September 2020.
 - As of March 2021, DLA had \$977 million from advance billings available to make payment against goods or services required by HHS or FEMA. Figure 4 illustrates the effect of the advance billing on the DWWCF cash balance relative to the upper and lower targeted cash requirements for FY2020 and FY2021.

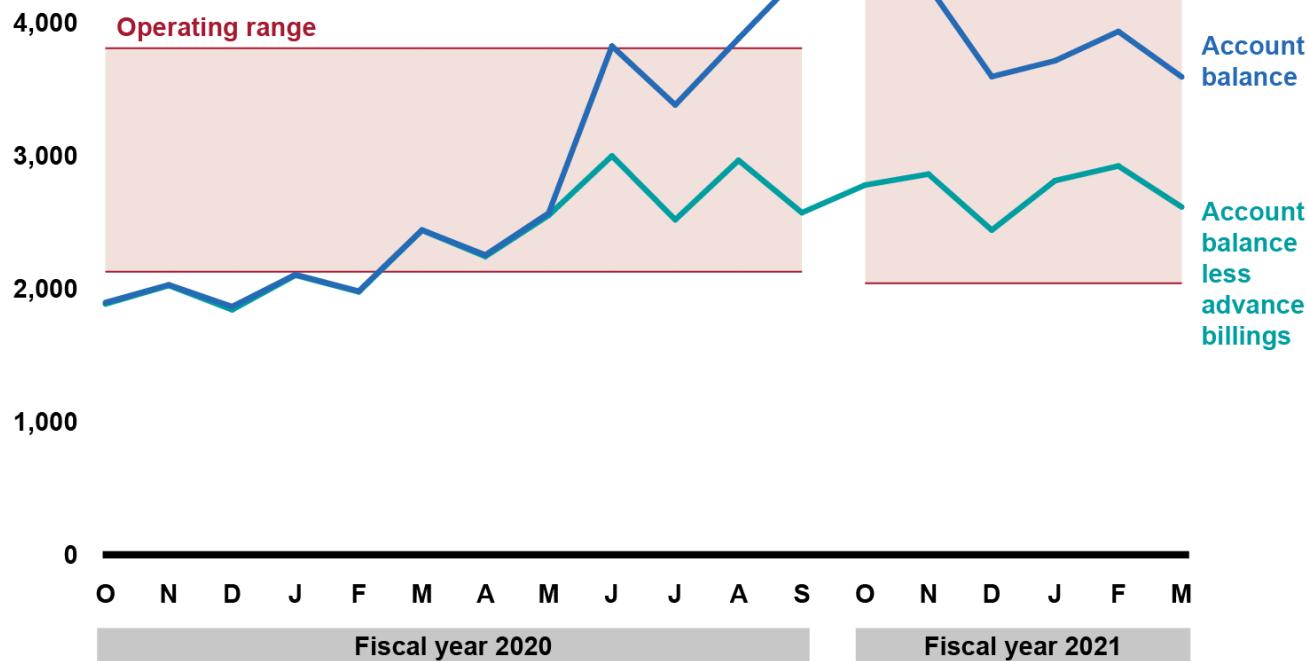
⁸Advance billing is a billing of a DOD working capital fund customer for the cost of goods or services before the goods or services are received. DOD working capital funds are authorized to advance bill under specific circumstances. 10 U.S.C. § 2208(l).

DOD Actions Helped Maintain DWWCF Cash Balances within Targeted Ranges (cont.)

Figure 4: Defense-Wide Working Capital Fund—Reported Monthly Cash Balances with and without Advance Billings

Millions of dollars

5,000



Source: GAO analysis of U.S. Treasury and Department of Defense data. | GAO-21-104590

- Moving forward, DLA officials stated that they expect the relatively high cash balance—\$3.6 billion, as of March 2021—to decline as advance-billed orders are filled and fuel prices recover along with the economy.

DOD Actions Helped Maintain DWWCF Cash Balances within Targeted Ranges (cont.)

Officials told us they took actions that had the effect of mitigating the extent to which DWWCF cash balances exceeded the targeted upper cash requirement, including transferring funds and adjusting rates.

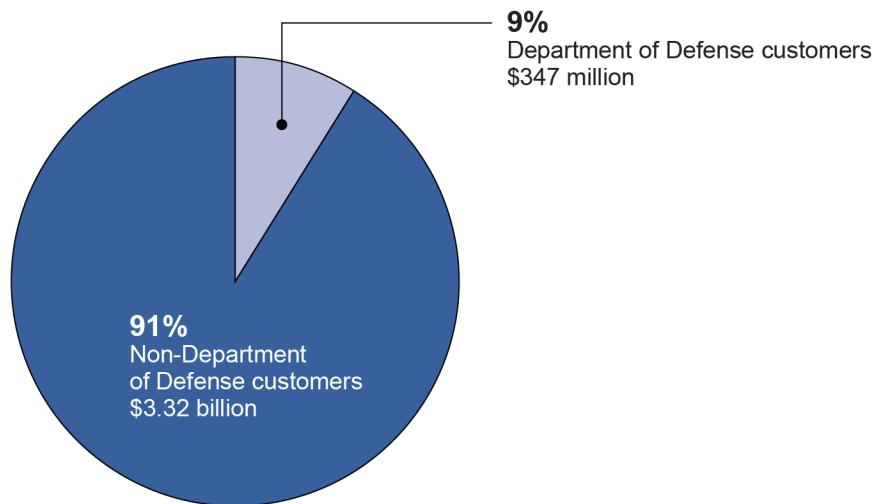
- **Transfers out of DWWCF.** In September 2020, DOD transferred \$241 million from the DWWCF to the Navy and Air Force working capital funds. In the transfer request, DOD stated that the funds were available because lower-than-anticipated fuel purchase costs due to a fuel market downturn associated with pricing competition in the spring of FY2020, combined with the reduced global demand due to COVID-19, resulted in lower-than-anticipated fuel prices being paid by DLA. Also, DOD transferred \$5 million from the DWWCF to the Office of the Under Secretary of Defense for Acquisition and Sustainment related to the Indian Incentive Program.⁹
- **Adjustment to rates.** DOD revised the standard fuel price in June 2020, reducing the price by 20 percent (from \$124.32 per barrel to \$99.12 per barrel) because DOD expected the FY2020 costs for refined petroleum to remain lower than the projected cost reported in the FY2020 budget request. DOD slightly increased the standard fuel price on October 1, 2020, to \$99.54 for FY2021.

⁹As authorized in 25 U.S.C. § 1544, the Indian Incentive Program provides incentives to government contractors that use Indian organizations and Indian-owned economic enterprises as subcontractors. According to DLA officials, DLA receives an annual bill for its portion of the program's costs, which it transfers to the Office of the Under Secretary of Defense for Acquisition and Sustainment.

DLA Responded to a Surge in Medical Materials Demand during the Pandemic

DLA responded to a surge in demand for medical materials from both DOD and non-DOD customers during the pandemic. From March 2020 through May 2021, DLA executed about 31,000 contract actions marked as COVID-19-related, resulting in \$3.67 billion in contract obligations.¹⁰ The vast majority of DLA's COVID-19-related orders came from non-DOD customers (see figure 5).

Figure 5: COVID-19 Contract Obligations on Behalf of Department of Defense (DOD) and Non-DOD Customers, March 2020 through May 2021



Source: GAO analysis of Department of Defense data. | GAO-21-104590

¹⁰In a March 2020 memorandum, the Under Secretary of Defense (Acquisition & Sustainment) notified DOD contracting activities of a new National Interest Action (NIA) code added to the FPDS database in response to the COVID-19 pandemic. The memorandum directed that new contract awards, as well as modifications made in response to the pandemic, be reported in FPDS using the NIA code. It was anticipated that both DOD and external agencies would use NIA code reports to monitor DOD's response to the pandemic. Under Secretary of Defense (Acquisition & Sustainment) Memorandum, *Reporting COVID-19-Related Actions to the Federal Procurement Data System* (Mar. 31, 2020).

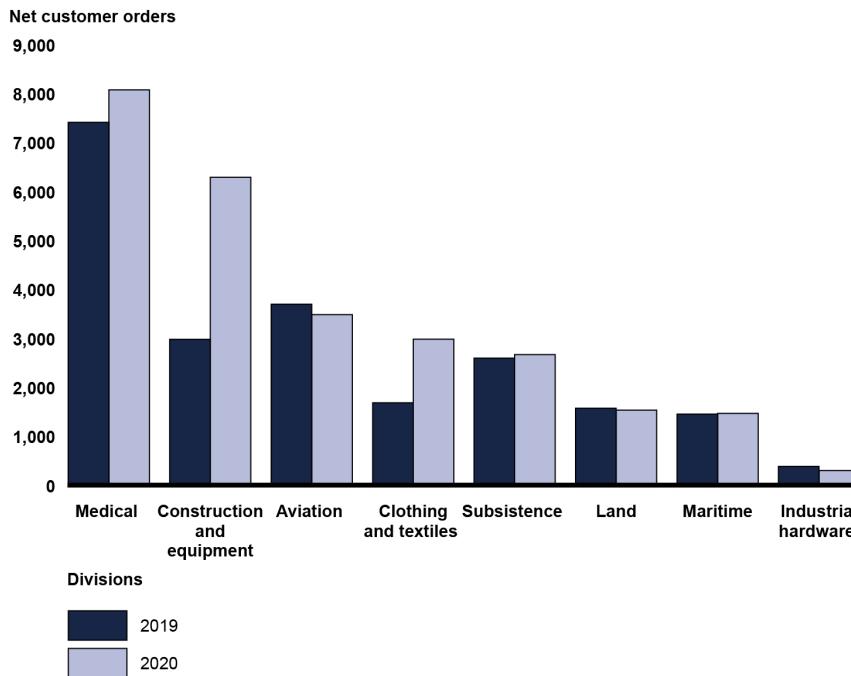
DLA Responded to a Surge in Medical Materials Demand during the Pandemic (cont.)

DLA officials said that FEMA and HHS became DLA's largest customers for COVID-19-related items during the pandemic. DLA's COVID-19-related procurements included test kits, gloves, N95 respirators, hand sanitizers, surgical masks, ventilators, and protective gowns, among other things. For example, during the pandemic HHS requested that DLA procure PPE items such as gowns, gloves, and face shields, among others, to replenish the Strategic National Stockpile, which HHS manages. Likewise, FEMA requested PPE items to support U.S. states.

DLA officials told us that demand for PPE items in the medical supply chain increased significantly at the onset of the pandemic, while the demand for material in some of the non-medical supply chains decreased. Figure 6 shows the changes in net customer orders in eight DLA supply divisions from FY2019 to F2020.

DLA Responded to a Surge in Medical Materials Demand during the Pandemic (cont.)

Figure 6: Fiscal Year (FY) 2019 and FY2020 Net Customer Orders in Eight Divisions of Supply



Source: GAO analysis of Department of Defense data. | GAO-21-104590

Note: The FY2019 data were obtained from Under Secretary of Defense(Comptroller), *Defense Working Capital Fund, Defense-Wide Fiscal Year (FY) FY2021 Budget Estimates, Operating and Capital Budgets* (February 2020). FY2020 data were obtained from the Under Secretary of Defense (Comptroller), *Defense Working Capital Fund, Defense-Wide Fiscal Year (FY) FY2022 Budget Estimates, Operating and Capital Budgets* (May 2021).

Military service officials from the Army and Air Force said that reduced training and operations due to COVID-19 restrictions decreased demand in some categories of supply. However, despite the reduction in demand in some areas, DLA supply chain management total new orders increased from \$29.5 billion in FY19 to \$32.4 billion in FY2020.¹¹

¹¹Total new orders include orders from DOD components and other federal agencies, among others.

DLA Responded to a Surge in Medical Materials Demand during the Pandemic (cont.)

DLA officials said that DLA had changed its medical supply chain processes to respond to the increased demand from both DOD and non-DOD customers during the COVID-19 pandemic.

- Prior to the COVID-19 pandemic, DLA contracted for medical material orders primarily through two prime vendors, which delivered orders directly to customers. According to DLA officials, DLA generally did not stock medical materials in its warehouses.
- According to DLA officials, during the pandemic DLA began to use additional vendors, including new entrants to the market, and it stocked medical materials in its warehouses in response to the surge in demand.
- DLA officials stated that they expect the stock of medical materials held in their depots to be depleted through continued customer ordering through the remainder of the pandemic, and they do not plan to restock.

DLA Did Not Plan for Pandemic Support, but It Tracked Performance and Identified Lessons Learned

The National Response Framework identifies roles and responsibilities of federal agencies under different emergency scenarios beyond those assigned to HHS and FEMA.¹² DOD resources may be committed when requested by another federal agency and approved by the Secretary of Defense, or when directed by the President. When DOD resources are authorized to support civil authorities, command of those forces remains with the Secretary of Defense. Based on the National Response Framework, the more specific COVID-19 response plan identified a number of potential DOD support activities, including the provision of logistics and distribution assistance.¹³ DOD provided support to both HHS and FEMA during the pandemic, including helping HHS to develop plans for the distribution and administration of vaccines. DLA, as a component of DOD, assisted HHS, FEMA, and other federal agencies to acquire medical materials, including PPE and testing supplies.¹⁴ DLA officials told us that they were not tasked to plan support for civilian agencies in a pandemic, and that they had not developed such plans prior to the declaration of national emergency concerning the COVID-19 pandemic on March 13, 2020. DLA officials added that it is not part of DLA's mission to plan for pandemic support.

¹²Dept. of Homeland Security, *National Response Framework*, 4th ed. (Oct. 28, 2019).

¹³Dept. of Health and Human Services, *PanCAP Adapted U.S. Government COVID-19 Response Plan* (Mar. 13, 2020).

¹⁴We previously reported on efforts to protect servicemembers' health during the COVID-19 pandemic, and DOD's prior planning for pandemic response, including support to civil authorities. See GAO, *COVID-19: DOD Has Focused on Strategy and Oversight to Protect Military Servicemember Health*, GAO-21-321 (Washington, D.C.: June 3, 2021); and GAO, *Defense Civil Support: DOD, HHS, and DHS Should Use Existing Coordination Mechanisms to Improve Their Pandemic Preparedness*, GAO-17-150 (Washington, D.C.: Feb. 10, 2017).

DLA Did Not Plan for Pandemic Support, but It Tracked Performance and Identified Lessons Learned (cont.)

However, as part of its normal operations (including during the pandemic), DLA conducted readiness assessments and tracked its performance.

- **Readiness assessments.** DLA studies its medical material requirements for military support as part of routine readiness assessments. DLA officials said that in 2016 they purchased a limited amount of PPE following a medical material requirements study conducted in response to the West African Ebola outbreak. DLA's annual readiness assessments in FY2019 and FY2020 also identified PPE shortfalls for medical contingency requirements due to an increase in the need for such PPE. DLA officials told us that, as a result, they began increasing contract coverage for these items, but that the pandemic conditions made it difficult to do so, as vendors were focused on meeting current needs.
- **Performance assessments.** DLA monitored its medical supply chain performance during the pandemic using previously established measures. According to these measures, DLA's performance decreased, but officials from DLA and its customer agencies attributed this decrease to difficulties vendors experienced in responding to demand during the global pandemic.

DLA Did Not Plan for Pandemic Support, but It Tracked Performance and Identified Lessons Learned (cont.)

DLA readiness assessments:

The Director of DLA is the DOD Executive Agent for medical materials and is responsible for planning the provision and distribution of medical materials, as well as assessing the medical supply chain's performance and readiness.¹⁵

- As noted earlier, DLA officials said that they had completed a study of medical material requirements following the 2016 Ebola outbreak. This study had led them to stock some PPE items, such as N95 respirators, prior to the COVID-19 pandemic. However, they also said that DLA's readiness planning had gauged DLA's ability to support DOD personnel in a localized medical contingency, rather than its ability to provide support for a government-wide response in a large-scale event such as a pandemic.
- The FY2019 medical readiness risk assessment report, completed prior to the pandemic, stated that the medical contingency requirements for PPE had increased, and it identified sourcing additional items and vendors as items for action. The FY2020 report, which covered a portion of the pandemic period, identified challenges experienced in obtaining contingency contract coverage for a large volume of PPE and recommended pursuing contract coverage for these items. According to DLA officials, DLA has made progress in securing contingency contracts for certain medical material items, but it anticipates that supply will continue to be limited in the near term.

¹⁵DOD Directive 5101.09E, *Class VIIIA Medical Material Supply Management* (Sept. 29, 2015) (Incorporating Change 2, Sept. 12, 2019).

DLA Did Not Plan for Pandemic Support, but It Tracked Performance and Identified Lessons Learned (cont.)

DLA performance assessments:

Prior to the pandemic, DLA established measures to assess performance across supply chains. For example, DLA tracks filled and unfilled orders, on-time delivery, and time frames for fulfillment of purchase requests, among other things. These performance measures apply to all customer orders, both civilian and military, according to DLA officials. DLA determined that performance decreased in some of these metrics during the pandemic, which DLA has continued to monitor, as illustrated below. According to DLA monthly briefings on the performance of its medical supply chain,

- DLA's goal for prime vendor order fulfillments is 90 percent, according to DLA officials. Prime vendor order fulfillments for non-pharmaceutical materials were just under 80 percent in February 2021, down from 91 percent in February 2020, and by June 2021 were at about 86 percent.
- DLA's goal for unfilled orders in the medical supply chain is no more than 11,900. Unfilled orders trended up to just over 13,000 in July 2020, before declining to 10,692 in January 2021. In May 2021, they stood at 10,287.
- DLA's material availability goal for the medical supply chain is 99 percent. Overall material availability—a measure of the percentage of orders filled, according to DLA officials—in the medical supply chain remained high, dipping from 99.23 percent in February 2020 to a low of 98.75 percent in April 2020, and back up to 99.35 percent in January 2021. In May 2021 it was at 99.3 percent.

DLA Did Not Plan for Pandemic Support, but It Tracked Performance and Identified Lessons Learned (cont.)

DLA officials said that performance measures apply to DLA's medical supply chain as a whole, and they attributed dips in performance to global supply chain constraints for PPE items and pandemic-related challenges, rather than to a shortfall in DLA's readiness or performance. DLA officials said that they do not track DLA's performance using their traditional measures solely for pandemic-related items. They noted that any attempt to do so would require significant resources, as tracking COVID-19-related order fulfillments required daily reviews of requirements on a line-by-line basis.

DLA Did Not Plan for Pandemic Support, but It Tracked Performance and Identified Lessons Learned (cont.)

Customer experience:

DOD and non-DOD customers had a variety of views on DLA's performance, but customers generally told us that the supply challenges they experienced were largely due to the extreme circumstances posed by the pandemic and were outside of DLA's control.¹⁶

- FEMA officials said that DLA was very communicative and responsive during the pandemic.
- HHS officials said that, as of March 2021, they had not received all the supplies they had ordered, but they attributed this to market disruptions due to a surge in pandemic-related demand.
- An official from the Army's Medical Logistics Division said that early in the pandemic the Army used its own sources rather than DLA to acquire medical supplies because DLA was engaged in attempting to meet many customer needs at the time. The official said that, as of December 2020, DLA was meeting the Army's medical materials demand.

¹⁶In determining which customers to meet with, we selected DOD's primary customers under typical conditions—the military departments—and we met with the two agencies leading civilian support during the COVID-19 pandemic, HHS and FEMA. HHS and FEMA were the largest customers for COVID-19-related supplies. This did not constitute a generalizable sample, but it did include representatives of DLA's primary customers.

DLA Did Not Plan for Pandemic Support, but It Tracked Performance and Identified Lessons Learned (cont.)

- Air Force officials noted that conditions earlier in the pandemic created challenges for DLA to meet all of their needs in the desired time frames, but that operating conditions had improved since then. An Air Force Medical Logistics officer said that DLA's medical supply chain ordering process during the pandemic did not enable customers to know which supplies were available or which were in a delivery. However, he said that the most difficult period in terms of DLA's performance was March through June 2020, and that DLA's performance had improved since then. An official in the Air Force's Logistics Readiness division said that challenges were temporary and due to the pandemic, and that as of January 2021 DLA was meeting the Air Force's needs.

DLA Did Not Plan for Pandemic Support, but It Tracked Performance and Identified Lessons Learned (cont.)

Lessons Learned

In a May 2020 briefing to senior DLA leaders, DLA officials identified lessons learned from the pandemic in the areas of procurement, policy, and coordination.¹⁷ Some of the lessons learned related to challenges in ordering medical materials through DLA during the pandemic. For example,

- DLA identified its Warstopper program—which implements industrial preparedness measures and preserves critical industrial capabilities to support DOD readiness requirements—as insufficient for pandemic requirements.¹⁸ DLA recommended that (1) DOD conduct a bottom-up review with the wider pandemic response community to determine the provisioning and prioritization of critical supply items for the Warstopper program; and (2) the Office of the Secretary of Defense review programming and funding of the DLA Warstopper program to properly resource for global pandemics.

¹⁷In July 2021, we reported on government-wide contracting for COVID-19 response, including lessons learned by DLA and other agencies specific to the contracting process. See GAO, *COVID-19 Contracting: Opportunities to Improve Practices to Assess Prospective Vendors and Capture Lessons Learned*, GAO-21-528 (Washington, D.C.: July 29, 2021).

¹⁸The Warstopper program evolved from congressional direction appearing in the conference report accompanying the National Defense Authorization Act for Fiscal Years 1992 and 1993. Congress directed DOD to take the necessary steps to ensure the maintenance and stability of the industrial base for critical “war stopper” items. War stopper items are those that are critical to carrying out military missions and that have large surge or mobilization requirements, such as nerve agent antidote auto-injectors, meals-ready-to-eat, specialty fuels, and chemical protective suits, and for which peacetime purchases are insufficient to maintain an industrial capacity. H.R. Rep. No. 102-311, at 521 (1991) (Conf. Rep. accompanying Pub. L. No. 102-190 (1991)).

DLA Did Not Plan for Pandemic Support, but It Tracked Performance and Identified Lessons Learned (cont.)

- DLA is the DOD Executive Agent for various supply classes, but it noted in its briefing that some military services and DOD agencies did not coordinate with it on the procurement of these materials during the pandemic.¹⁹ DLA recommended that DOD emphasize DLA's role as supply chain and procurement manager and establish routine checks for compliance, among other things.
- DLA stated in the briefing that it did not have insight into DOD's process for requirements determination, prioritization, or allocation of funds during the pandemic, which contributed to an extended adjudication and resourcing process at OUSD(C) once funds were provided by the CARES Act. DLA recommended that DOD identify a lead office with the authority to provide guidance, information, and funding requirements in future emergent crises.
- DLA officials told us that these recommendations had been submitted to the DOD COVID-19 Task Force, which in turn contracted with the RAND Corporation to review DOD's pre-COVID-19 planning and COVID-19 response, and that DOD will assess the results of RAND's work and implement its recommendations as appropriate.

¹⁹DLA is DOD's Executive Agent for several classes of supply: bulk petroleum, medical materiel, subsistence, and construction and barrier materiel. DOD Directive 5105.22, *Defense Logistics Agency (DLA)* (June 29, 2017).

DLA Increased Medical Contracting and Reduced Contracting in Some Other Areas

DLA's contract obligations decreased overall from March 2020 through February 2021, as compared with the same 12-month period a year earlier, according to our analysis of data from the Federal Procurement Data System.²⁰ Of the universe of 11,832 DLA vendors during this period, we found that DLA obligations related to 52.5 percent of them decreased, 41.9 percent increased, and 5.6 percent had no change.²¹

- Vendors providing medical, dental, and veterinary equipment and supplies saw the largest increase, and those providing fuels, lubricants, oils and waxes, and aerospace components had the largest decrease.
- Despite the overall decrease in DLA's contract obligations, small business contract amounts increased from 33 percent to 37 percent of the total, and the proportion of DLA contract obligations going to vendors in three primary socioeconomic groups (small disadvantaged businesses, women-owned businesses, and minority-owned businesses) remained roughly the same.

We provide more detailed information on DLA's contract obligations, based on FPDS data, on subsequent slides.

²⁰We reviewed and compared DLA-reported Federal Procurement Data System contracting data from a period prior to the pandemic, March 2019–February 2020, with an equivalent pandemic period, March 2020–February 2021.

²¹Vendors that saw no change had an exactly equal value of contract amount in the March 2019–February 2020 period and the March 2020–February 2021 period. Vendors that had contracts in both of the periods of comparison were considered to have experienced an increase or decrease if the contractual amounts varied in any way. Vendors that had contracts with DLA in only one of the two periods of comparison were considered to have experienced an increase if they had a contract in the March 2020–February 2021 period but not the March 2019–February 2020 period; or a decrease if they had a contract in the March 2019–February 2020 period but not the March 2020–February 2021 period.

DLA Increased Medical Contracting and Reduced Contracting in Some Other Areas (cont.)

Changes in Contract Obligations in Product Service Groups

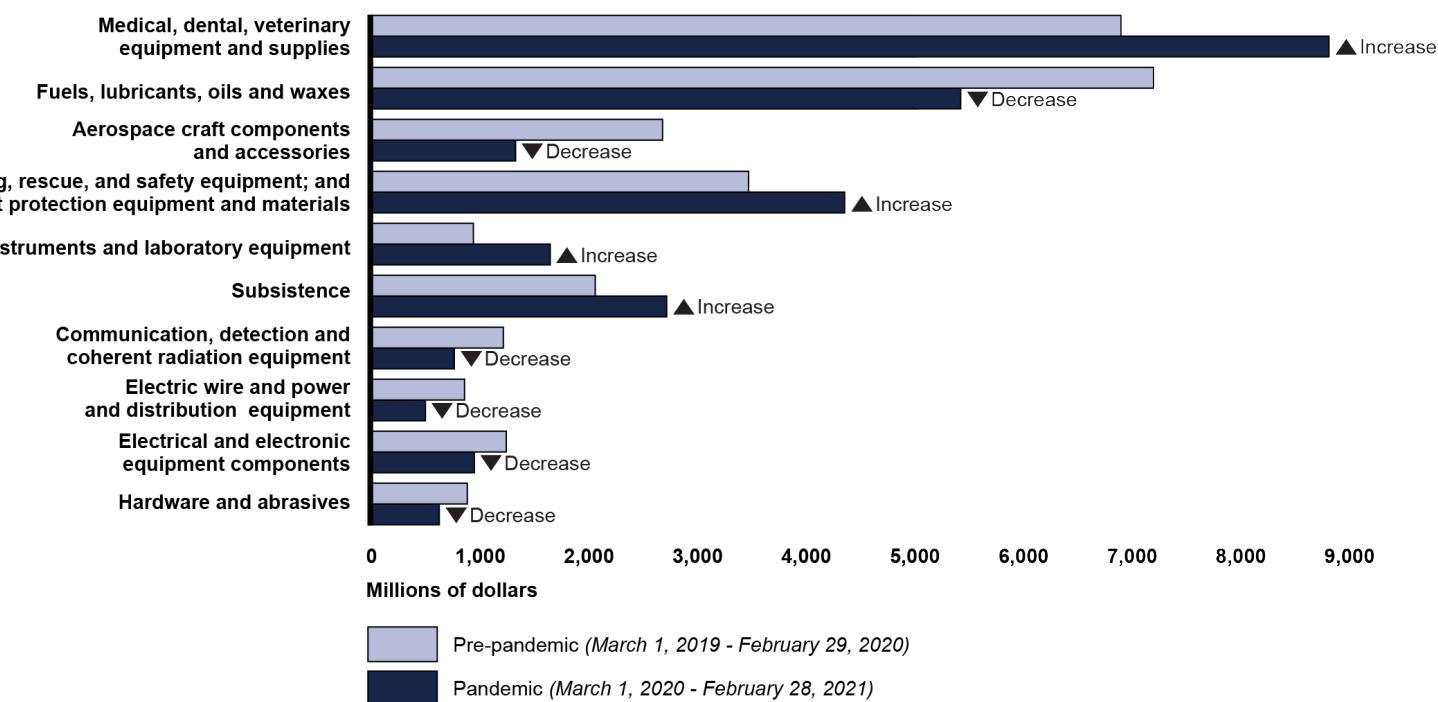
Our analysis found that DLA obligated \$40.1 billion on contracts from March 2020 through February 2021 (the latest month for which data were available at the time of our analysis), which is a decrease of more than \$2.0 billion (4.8 percent), as compared with the same 12-month period prior to the pandemic.

- DLA obligations increased in 64 of 134 product service groups, with the largest increases occurring in the following product service groups: medical, dental, and veterinary equipment and supplies; firefighting, rescue, and safety equipment and environmental protection equipment and materials; and instruments and laboratory equipment.
 - Obligations on contracts for medical, dental, and veterinary equipment and supplies increased from nearly \$6.9 billion to more than \$8.8 billion; \$1.8 billion of the total \$1.9 billion increase was identified as COVID-19-related.
 - Obligations on contracts for firefighting, rescue, and safety equipment and environmental protection equipment and materials increased from nearly \$3.5 billion to \$4.4 billion; \$118.9 million of the \$883.9 million increase was identified as COVID-19-related.
 - Obligations on contracts for instruments and laboratory equipment increased from nearly \$936.1 million to \$1.6 billion. This product service group had nearly \$872.9 million in new obligations identified as COVID-19-related (which exceeded the total increase in this category, as total non-COVID-19 obligations declined by \$165.5 million).

DLA Increased Medical Contracting and Reduced Contracting in Some Other Areas (cont.)

- DLA obligations decreased in 69 of 134 product service groups, with the largest decreases occurring in the fuels, lubricants, oils and waxes and the aerospace craft components and accessories product service groups. Figure 7 below shows the 10 product service groups with the largest changes, by total dollar volume, of DLA obligations from the pre-pandemic to the pandemic period.

Figure 7: Defense Logistics Agency (DLA) Product Service Groups with the Largest Changes in Contract Obligations from Pre-pandemic to Pandemic Periods



Source: GAO analysis of Federal Procurement Data System data. | GAO-21-104590

DLA Increased Medical Contracting and Reduced Contracting in Some Other Areas (cont.)

- Obligations on contracts for fuels, lubricants, oils, and waxes decreased from nearly \$7.2 billion to \$5.4 billion.
- Obligations on contracts for aerospace craft components and accessories decreased from nearly \$2.7 billion to \$1.3 billion.

DLA Increased Medical Contracting and Reduced Contracting in Some Other Areas (cont.)

Of the 4,960 vendors (41.9 percent of the total) that experienced an increase in DLA contracting during the pandemic, 36 vendors had increases of between \$50 million and \$1.18 billion. Twelve of these vendors had an increase of more than 400 percent of their obligations, as compared with the prior 12-month period. The following are examples of companies that had significant increases in contract obligations from DLA:

- A women-owned pharmaceutical small business had an increase of \$105.41 million, or 96.4 percent, in its DLA contracting, primarily through the medical, dental, and veterinary equipment and supplies service group.
- A minority-owned and women-owned business with no active DLA contracts in the pre-pandemic period had contracting totaling \$82.49 million through the clothing, individual equipment, insignia, and jewelry product service group.

Of the 6,208 vendors (52.5 percent of the total) that experienced a decrease in DLA contracting, 49 vendors had decreases of between \$50 million and \$548.9 million. Twenty-one of these vendors had decreases of more than 70 percent, as compared with the prior 12-month period. The following are examples of companies that had significant decreases in DLA contracting:

- A minority-owned business that provides fuels, lubricants, oils, and waxes had a \$147.4 million decrease—74.7 percent of its prior-year DLA contracting.
- A minority-owned small business that provides clothing, individual equipment, insignia, and jewelry had a \$132.2 million decrease—87.1 percent of its prior-year DLA contracting.

DLA Increased Medical Contracting and Reduced Contracting in Some Other Areas (cont.)

- A large company that provides aerospace craft and structural components and accessories as well as hardware and abrasives had a \$236.7 million decrease—26.1 percent of its prior-year DLA contracting.

Changes in Small, Small Disadvantaged, Women-Owned, and Minority-Owned Businesses

- DLA small business contract obligations as a proportion of DLA's total contract obligations increased in the pandemic period we examined, as compared with the same period a year earlier.
- The proportions of DLA's total contract obligations for small disadvantaged, women-owned, and minority-owned businesses—the three largest socioeconomic groups among DLA vendors that are tracked in FPDS—were similar during the pandemic to those in the same prior 12-month period, as shown in table 1.²²
- Total contract obligations declined somewhat for women-owned and minority-owned businesses, while increasing for small disadvantaged businesses.

²²Small disadvantaged, women-owned, and minority-owned businesses accounted for 6.1 percent, 4 percent, and 5.4 percent, respectively, of all DLA obligations during the pandemic period we examined.

DLA Increased Medical Contracting and Reduced Contracting in Some Other Areas (cont.)

Table 1: Defense Logistics Agency (DLA) Contract Obligations to Small Businesses and Three Socioeconomic Groups from March 1, 2019–February 29, 2020 and March 1, 2020–February 28, 2021

Business type	Number of companies	2019–2020 Obligations (\$ in millions)	2019–2020 Percent of total obligations	2020–2021 Obligations (\$ in millions)	2020–2021 Percent of total obligations
All	11,832	42,156.8	100	40,148.4	100
Small business	10,358	13,754.5	32.6	14,843.9	37.0
Small disadvantaged	2,652	2,290.2	5.4	2,435.8	6.1
Women-owned	2,155	1,860.4	4.4	1,590.7	4.0
Minority-owned	1,762	2,231.4	5.3	2,187.2	5.4

Source: GAO analysis of Federal Procurement Data System obligations data. | GAO-21-104590

Note: The categories of small business, small disadvantaged, women-owned, and minority-owned may overlap. Number of companies includes businesses that had an active contract with DLA in the March 2019–February 2020 or March 2020–February 2021 time frames.

GAO Points of Contact

Elizabeth Field, Director, Defense Capabilities & Management, 202-512-2775, fielder1@gao.gov

Alex Winograd, Assistant Director, Defense Capabilities & Management, 202-512-4001,
winograd@gao.gov

Simon Hirschfeld, Analyst in Charge, Defense Capabilities & Management, 202-512-3191,
hirschfelds@gao.gov

(104590)

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through our website. Each weekday afternoon, GAO posts on its [website](#) newly released reports, testimony, and correspondence. You can also [subscribe](#) to GAO's email updates to receive notification of newly posted products.

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, <https://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on [Facebook](#), [Flickr](#), [Twitter](#), and [YouTube](#).
Subscribe to our [RSS Feeds](#) or [Email Updates](#). Listen to our [Podcasts](#).
Visit GAO on the web at <https://www.gao.gov>.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact FraudNet:

Website: <https://www.gao.gov/about/what-gao-does/fraudnet>

Automated answering system: (800) 424-5454 or (202) 512-7700

Congressional Relations

A. Nicole Clowers, Managing Director, ClowersA@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

Strategic Planning and External Liaison

Stephen J. Sanford, Managing Director, spel@gao.gov, (202) 512-4707
U.S. Government Accountability Office, 441 G Street NW, Room 7814,
Washington, DC 20548



Please Print on Recycled Paper.