

us only 7 days prior to this hearing--, we found that (1) some of the assumptions used to determine the savings estimate are questionable and might affect the results; (2) key decisions regarding printing plants, equipment and the realization of savings will not be made until after the consolidation takes place, and (3) the impact on procuring commercial printing services has not been determined.

BACKGROUND

On November 16, 1990, the Deputy Secretary of Defense approved a Defense Management Report Decision (DMRD) that called for the consolidation of all DOD printing and duplicating services under the Navy's industrially funded, centrally managed NPPS by October 1, 1991. Total in-house costs associated with printing, duplicating, and the overall management of the printing program in those facilities were approximately \$206 million in fiscal year 1989. The DOD's Comptroller office estimated that the consolidation would save approximately \$25 to \$30 million annually. Estimated savings would not begin until the middle of fiscal year 1993 at which time the savings goals are estimated at \$13.7 million and approximately \$30 million annually beginning in 1994.

According to officials from the Office of the Secretary of Defense (OSD), the military services, and DLA, the methodology used by DOD in preparing the savings estimate was questionable. OSD and Navy

officials told us that certain costs associated with the printing function, such as overhead, reprographics, and micrographics, were not included in the savings analysis. In addition, service and DLA officials told us that the analysis did not address all activities equally. For example, according to DOD officials, the DMRD considered all Army and Air Force in-house printing costs but excluded the in-house costs of 70 Navy printing plants and 50 Navy duplicating centers. They added that even the DMRD acknowledged that inclusion of all Navy locations could dramatically change the cost figures used in this comparison.

On February 12, 1991, this Committee requested that we review DOD's consolidation plans and, among other things, determine the validity of the savings estimate. On February 15, 1991, the OSD Director of Administration and Management tasked NPPS to conduct an implementation study to validate the accuracy of the savings estimate. Specifically, NPPS was to (1) determine the amount of funds to be saved and the number of people to be affected by the consolidation and (2) identify the organizations and functions to be included in the new structure.

To respond to your request, we agreed to analyze the results of this study and report to you by July 31, 1991. It was the understanding of both your staff and our office that the Navy agreed to complete the study by early May 1991 and to provide a copy of it and any supporting documentation for use in our review.

During May and June, the Navy prepared several preliminary reports on the study results. However, DOD would not provide us with a copy of these preliminary reports or any of the documentation used to prepare them until concurrences within DOD were obtained. We inquired about the availability of a final report and the supporting documents on numerous occasions and were given various dates of anticipated receipt.

We did, however, obtain an unofficial copy of the NPPS June 5, 1991, preliminary report but not its supporting, documentation. As was agreed with your staff and because the NPPS final report on the consolidation was not forthcoming, we analyzed the preliminary report in our review. On September 17, 1991--7 days prior to this hearing--DOD released what was titled the "Preliminary Report on Consolidation of DOD Printing" along with a decision memorandum approving the reports' recommendations.

The June 5th preliminary report we reviewed estimated that approximately \$41 million could be saved if 338 Army, Air Force, Marine Corps, and DLA printing and duplicating activities were placed under NPPS.² The OSD September 10, 1991, decision memorandum, however, projects an annual net savings of approximately \$30 million by consolidating printing under NPPS.

²According to DOD officials, there were 542 Army, Air Force, DLA, and Marine Corps facilities identified for inclusion in this structure. The June 5, 1991, report identified 519.

According to DOD officials, the \$41 million was reduced to \$30 million by excluding certain tactical field operations, national guard and reserve facilities, and intelligence locations from the 338 activities included in the preliminary report. We were told that the remaining activities considered for consolidation would be validated later.

Although the approved plans memorandum have now been issued, we have not been given access to certain supporting documentation, and therefore, have not been able to fully analyze the validity of the savings estimate. The approved plans transmitted in the decision memorandum differed from the June 5th preliminary report we reviewed in the following ways: (1) specific implementation recommendations noted in the preliminary report were approved, (2) unresolved issues in the preliminary report were resolved³ and (3) the savings figure was adjusted downward to reflect recommendations approved in the report⁴. The issues identified in our August 1 report, except for the exclusion of military billets from the consolidated organization, have not been addressed. I will discuss these open issues now.

³Resolution was achieved through agreements by the DOD Printing and Duplicating Services Oversight Group or in instances where agreements could not be reached by this group, recommendations were made by the OSD Director for Administration and Management, and subsequently approved by the Deputy Secretary of Defense.

⁴Data identifying how NPPS obtained this new savings estimate was not included in the report. Discussions with one NPPS official revealed that the actual data supporting the \$30 million savings per year had not been summarized in their database.

SOME ASSUMPTIONS ARE QUESTIONABLE
AND COULD AFFECT COST ESTIMATES

Our discussions with NPPS officials about their methodology revealed that some of the assumptions used in the study were questionable. The first assumption was that NPPS could reduce the higher-cost Army, Air Force, and DLA activities to lower NPPS' costs. According to the preliminary report, 289 of the 338 activities had higher costs than NPPS. However, service and DLA officials said that because their activities retain many short-run, labor-intensive jobs in-house, they will always appear to be less efficient and more expensive. Noting the longer-run lengths reported for the Navy (approximately 700 copies per run on average compared with less than 100 for the Army and Air Force), these officials believe that the Navy is retaining long-run, more economical jobs in-house to keep its costs down.

NPPS officials stated that they have calculated the services' average-run lengths and found that the Army and Air Force average-run lengths were as high as theirs. However, to date, they have not shared the data with us, and therefore we are unable to determine the validity of this information.

Second, NPPS officials assumed that the cost structures for NPPS and the other activities were comparable. According to NPPS officials, to prepare their savings estimate, they collected fiscal year 1990 cost and production data for the Army, Air Force, DLA, and Marine Corps activities that would be included in the new consolidated structure. These costs, according to NPPS officials, were then compared with NPPS's expected fiscal year 1992 prices for similar work.

We compared cost data from NPPS Cost and Financial Management Summary with the cost data obtained for DLA and the other services. We were told by NPPS officials that cost information in this summary was the basis for their determination that the NPPS costs and those collected for the other services and DLA were comparable. However, during our review, we found data elements that were not comparable. Specifically, personnel support costs and depreciation costs were not included in the NPPS financial summary. NPPS officials acknowledged that fiscal year 1991 prices excluded depreciation and personnel support costs; however they told us that the fiscal year 1992 prices would include depreciation and that funds would be provided in the fiscal year 1992 budget for personnel support costs. However, NPPS officials have not provided us the supporting data to verify that the expected 1992 cost structure was used in their analysis.

Finally, NPPS assumed that the defense force structure would remain the same. According to NPPS officials, force structure reductions were not considered in the study. Specifically, the NPPS savings estimate does not reflect the anticipated impact of DOD's planned 25-percent reduction in defense spending or the impact of the Defense Base Closure and Realignment Act of 1990 (P.L. 101-510). NPPS officials told us that they did not know the impact of these force structure changes. They stated that, naturally, printing plants would close if bases were shut down; however, they did not know if a 25-percent reduction would necessarily mean an equivalent reduction in printing. With regard to base closures, some of the 338 printing plants may be affected. Specifically, sixteen plants associated with the July 1, 1991, closure list represent approximately \$1.7 million of NPPS's preliminary savings estimate.

KEY DECISIONS WILL NOT BE MADE

UNTIL AFTER THE CONSOLIDATION

According to DOD officials, certain key decisions regarding how the consolidation will be implemented will not be made until after October 1, 1991, when NPPS becomes the central DOD manager of printing and duplicating services. Specifically, no decisions have been made regarding which plants to cut back or eliminate, what equipment to purchase to implement the consolidation and how the savings will be realized. It is expected, however, that some plants and operations will be reduced or eliminated and that some

old equipment from the acquired activities will be replaced. A follow-on study is planned to address these issues. However, a \$20 million increase to the NPPS Capital Purchases Program is anticipated in fiscal year 1992 for such equipment purchases. With regard to the realization of savings, even as late as September 10, 1991, the Army, Air Force, and DLA still questioned whether the consolidated organization would save money.

Without decisions on how to implement the actual consolidation of people and facilities, it is clear that the information we have on the NPPS projected savings does not reflect the full costs associated with achieving such savings. Such costs could include disposing of obsolete or inefficient equipment, training and transferring staff, and closing or merging facilities.

IMPACT ON COMMERCIAL PRINTING HAS
NOT BEEN ADEQUATELY ADDRESSED

This Committee has directed through its Federal Printing Program that the commercial procurement of printing be maximized and that in-house printing by Federal departments be reduced, where possible. Further, regulations issued by the Committee state that all work that can be commercially procured within the necessary

time constraints, with some specified exceptions, must be forwarded to GPO for this purpose.⁵

We noted that in addition to consolidating in-house printing, the DOD's plan prohibits the services from going directly to GPO for commercial printing services. Instead, they must go through NPPS. Some officials voiced concerns that after the consolidation, when NPPS will make all decisions on whether to print work in-house or contract through GPO, that NPPS will choose to print more work in-house to keep its crews busy and production costs down. During our review, we found that customers of one NPPS activity had voiced concerns about this very issue. Specifically, in June 1991, the Director of the Defense Printing Service (DPS)--a NPPS activity--and some of its customers met to discuss, among other things, jobs that were originally sent to DPS for commercial printing but were subsequently printed in-house at additional costs. Some of the customers who attended the meeting told us of instances in which they had sent work to the DPS allowing from 4 to 6 weeks in turn-around time so that the printing could be commercially procured through GPO; however, the work was printed in-house at additional cost to the customers. These customers told us that this work was retained in-house to keep the activity's production crews busy.

⁵Paragraph 4-2 of the Joint Committee on Printing's Government Printing and Binding Regulations.

From the outset, the Army and Air Force have not concurred with the decision to go through NPPS to procure commercial printing. They stated that commercially procured work may be more expensive under the consolidation. NPPS officials initially stated, that a 5.5-percent surcharge would be levied on such work--which is their current fee. This surcharge, according to officials, will cover the salaries of the procurement personnel and overhead for the facilities. Air Force and DLA officials, however, believe this amount far exceeds the costs for such employees. For instance, Bolling Air Force Base procures about \$20.3 million in commercial printing per year. Air Force officials said that the additional 5.5-percent surcharge would add \$1.1 million to Bolling's printing costs, while only \$345,000 is associated with Air Force printing procurement personnel costs at Bolling. Because of the services' concerns, NPPS has subsequently agreed to reduce the surcharge to no more than those costs associated with the pay and benefits for printing procurement personnel--estimated at approximately 3 percent. In our example, this still appears to be almost twice the amount for Air Force procurement personnel costs at Bolling.

GPO officials told us that a significant reduction in their printing demand from the services--by 25 percent, for example--might increase GPO's unit costs. One official stated that if GPO knew the impact of the consolidation on printing demand, it could plan for reductions by downsizing its activities. If it could not

downsize quickly enough, however, prices would have to be increased, and all GPO customers would have to bear these increases.

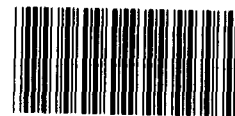
MATTERS FOR CONGRESSIONAL CONSIDERATION

Although the consolidation is to take effect on October 1, 1991, DOD has not determined which facilities to consolidate or reduce, how the savings will be realized, and what equipment will be purchased. Accordingly, the issues of concern to the Committee still need to be addressed. Therefore, we believe the Congress should consider not providing the \$20 million in investment funds to replace equipment, and prohibiting the consolidation from proceeding until DOD provides adequate responses to the Committee's concerns and those in our report.

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

GAO

Testimony



144888

For Release
on Delivery
Expected at
9:30 a.m. EDT
Tuesday,
September 24, 1991

DOD's Plans to Consolidate Printing

Statement of
Paul F. Math, Director, Research, Development,
Acquisition, and Procurement Issues
National Security and International Affairs
Division

Before the
Joint Committee on Printing



052462/144888

Mr. Chairman and Members of the Joint Committee

We are pleased to be before the Committee to discuss the Department of Defense's (DOD) plans to consolidate the printing functions of the Army, Air Force, Defense Logistics Agency (DLA), and Marine Corps under the Navy Publishing and Printing Service (NPPS), effective October 1, 1991. Our testimony today is based primarily on our August 1, 1991, report which presented DOD's preliminary information on these consolidation plans¹, and on the current status of the plans as we know them. We will focus on (1) issues regarding the savings that DOD estimates will result from the consolidation and (2) the possible impact of the consolidation on commercial printing procured through the Government Printing Office (GPO).

RESULTS IN BRIEF

Our review of the DOD's printing consolidation plans and interviews with DOD and service officials have surfaced a number of unresolved issues. As we reported to you previously, DOD did not provide, during the course of our review, information needed to adequately address the issues raised by this Committee concerning those plans and the related savings estimate. From the limited information we obtained and having reviewed the September 10, 1991, OSD Decision Memorandum which finalizes DOD's implementation plans--released to

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