OVERSIGHT OF DEFENSE SURPLUS EQUIPMENT AND THE ACTIVITIES OF THE DEFENSE REUTILIZATION AND MARKETING SERVICE

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

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OVERSIGHT OF DEFENSE SURPLUS EQUIPMENT AND THE ACTIVITIES OF THE DEFENSE REUTILIZATION AND MARKETING SERVICE

FRIDAY, SEPTEMBER 12, 1997

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn and Davis of Illinois.

Staff present: J. Russell George, staff director and chief counsel; Mark Brasher, senior policy director; John Hynes, professional staff member; Andrea Miller, clerk; and Mark Stephenson, minority professional staff member.

Mr. HORN. The Subcommittee on Government Management, Information, and Technology will come to order.

Today we will examine the excess and surplus property programs of the Department of Defense. These programs are conducted by the Defense Reutilization and Marketing Service, a branch of the Defense Logistics Agency.

The function of the Defense Reutilization and Marketing Service is to receive property no longer needed by a defense organization, to render militarized property safe, and then either to transfer or sell the usable property to other Federal agencies and private sector organizations eligible to receive Federal property.

The Defense Reutilization and Marketing Service operates under a delegation of authority from the General Services Administration. The Committee on Government Reform and Oversight has jurisdiction over this authority and the applicable law that governs the Defense Reutilization and Marketing Service.

A number of recent press reports have brought into public view problems that have long been evident to everyone reading from many critical reports on the Defense Reutilization and Marketing Service by the inspector general with the Department of Defense and the General Accounting Office. These problems include inadequate demilitarization of property, inadequate screening of property for use by other agencies, and inadequate financial practices.

Unneeded equipment with military potential is sold without being properly demilitarized. According to the Bureau of Customs

and the Department of Defense report issued a decade ago, then Deputy Secretary of Defense William Taft wrote that, "the defense disposal system is a source of supply for arms traffickers".

"U.S. News and World Report" recently reported that machineguns, grenade launchers, attack helicopters, and other equipment were purchased by citizens after inadequate demilitarization. In addition, one scrap dealer died after a supposedly safe antitank round he was moving around exploded in his face.

In 1996, the Department of Defense inspector general reported that due to inadequate screening, some segments of the Department of Defense were purchasing new equipment at the same time as the Defense Reutilization and Marketing Service was selling the very same identical items. New computer systems used to screen property have been found to be unreliable. Agency managers have minimal incentives to focus on the reutilization of property. That would be the most economical method of disposal.

Even a year earlier, in 1995, in a stinging report, the Defense inspector general concluded that the inspector general was "unable to render an opinion on the financial statement of the Defense Reutilization and Marketing Service because account balances were based on unreliable financial data." In addition, profits were found to be "significantly overstated" and "performance measures were misleading." Incredibly, this report recommended that the Department of Defense comptroller suspend the fiscal year 1995 budget authority for the Defense Reutilization and Marketing Service.

In sum, the problems at the Defense Reutilization and Marketing Service are serious, pervasive, and ongoing. We understand that the sheer volume of equipment and the multiple challenges facing the Defense Reutilization and Marketing Service are staggering. The question is, how do we improve this situation?

There are several legislative proposals under discussion. One, included in the House-passed version of the Defense Authorization Act, would be to sell each office of the Defense Reutilization and Marketing Service. Another proposal would give the Department of Defense a longer timeframe to devise its own solution to the problem. A third suggestion is performance contracting, requiring contractors to meet certain operational targets before they are paid.

The agency itself has initiated several major reforms. It is downsizing to rationalize the structure of its offices nationwide. This is a long overdue step in reducing the agency's cost structure.

Another reform under way is enterprise management. This approach is designed to create market incentives in public bureaucracies.

Last, the Defense Reutilization Service is trying new methods of doing business, especially electronic screening by computer, which seeks to reduce and simplify the process for both the Federal Government and the ultimate recipient of the property.

We look forward to today's testimony as we examine the condition of this agency, and we want to learn more how to effect positive change in the Defense Reutilization and Marketing Service.

With that, we welcome our witnesses. We are delighted to be joined by one of the most energetic and hard-working Members of Congress, Representative Nick Smith of Michigan. We will then hear from people who have been very helpful and effective in un-

covering the problems we are discussing today: the representatives of the Defense Inspector General's Office and the General Accounting Office.

Next, representatives from the Department of Defense will testify, and then, finally, we will get the perspective of private sector consumers, the people who buy the surplus property after the Department of Defense has determined that it is no longer needed for the military's use.

Thank you all for coming. We look forward to all of your testimony.

[The prepared statement of Hon. Stephen Horn follows:]

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"Defense Surplus Property and the Activities of the Defense Reutilization and Marketing Service"

September 12, 1997

OPENING STATEMENT
REPRESENTATIVE STEPHEN HORN (R-CA)

Chairman, Subcommittee on Government Management,
Information, and Technology

Today we will examine the Excess and Surplus Property Programs of the Department of Defense. These programs are conducted by the Defense Reutilization and Marketing Service, a branch of the Defense Logistics Agency. The function of the Defense Reutilization and Marketing Service is to receive property no longer needed by a defense organization, render militarized property safe, and then either transfer or sell the usable property to other Federal agencies and private sector organizations eligible to receive Federal property.

The Defense Reutilization and Marketing Service operates under a delegation of authority from the General Services Administration. The Committee on Government Reform and Oversight has jurisdiction over this authority and the applicable law that governs the Defense Reutilization and Marketing Service.

A number of recent press reports have brought into public view problems that have long been evident to anyone reading from the many critical reports by the Department of Defense Inspector General and the General Accounting Office on the Defense Reutilization and Marketing Service. These problems include inadequate demilitarization of property, inadequate screening of property for use at other agencies, and inadequate financial practices.

Unneeded equipment with military potential is sold without being properly demilitarized. Ten years ago, William Taft, then deputy secretary of defense, wrote that "the defense disposal system is a source of supply for arms traffickers," according to a Customs-Pentagon report. *U.S. News and World Report* recently reported that machine guns, grenade launchers, attack helicopters and other equipment was purchased by citizens after inadequate demilitarization. In addition, one scrap dealer died after a supposedly safe anti-tank round he was moving exploded.

In 1996, the Department of Defense Inspector General reported that due to inadequate screening, some segments of the Department of Defense were purchasing new equipment even as the Defense Reutilization and Marketing Service was selling identical items. New computer systems used to screen property are unreliable, and agency managers have minimal incentives to focus on the reutilization of property, which is the most economical method of disposal.

In 1995, the Defense Inspector General issued a stinging report that stated the Inspector General was "unable to render an opinion on the financial statement of the Defense Reutilization and Marketing Service, because account balances . . . were based on unreliable financial data." He added that the Service "significantly overstated" its profits and noted that its "performance measures were misleading." Incredibly, the report recommended that the Department of Defense comptroller suspend the fiscal year 1995 budget authority for Defense Reutilization and Marketing Service.

In sum, the problems at the Defense Reutilization and Marketing Service are serious, pervasive and ongoing. Understanding that the sheer volume of equipment and the multiple challenges facing the Defense Reutilization and Marketing Service are staggering, the question is: How do we improve this situation?

There are several legislative proposals under discussion. One, included in the House-passed version of the Department of Defense Authorization Act, would sell each Defense Reutilization and Marketing Service office. Another proposal would give the Department of Defense a longer time frame to devise its own solution to the problem. A third possibility solution is performance contracting -- requiring contractors to meet certain operational targets before they are paid.

The agency itself has initiated several major reforms. It is downsizing to rationalize the structure of its offices nationwide. This is a long-overdue step in reducing the agency's cost-structure. Another reform underway is enterprise management. This approach is designed to create market incentives in public bureaucracies. Lastly, the Defense Reutilization Service is trying new methods of doing business, especially electronic screening by computer. This aims to reduce work for both the Federal Government and the ultimate recipient of the property.

We look forward to today's testimony as we examine the condition of the Defense Reutilization and Marketing Service and the best manner to effect positive change and focus on the core mission.

With that, we welcome our very able witnesses. We are delighted to be joined by one of the most energetic and hardworking members of Congress, Representative Nick Smith of Michigan. We will then hear from the people who have been very helpful and effective in uncovering the problems we are discussing today: the Department of Defense Inspector General's office and the General Accounting Office.

Next, representatives from the Department of Defense will testify and then finally we will get the perspective of private sector consumers -- the people who buy surplus property when the Department of Defense no longer needs it.

Thank you all for coming. We look forward to your testimony.

Mr. HORN. I am delighted to introduce a good friend and one of the ablest—I am sorry. Mr. Davis is the ranking member this morning.

Do you have an opening statement that the gentleman would like to make?

Mr. DAVIS of Illinois. Yes, sir; thank you very much, Mr. Chairman.

Let me first of all thank you for convening this hearing regarding oversight of defense surplus equipment and the activities of the Defense Reutilization and Marketing Service. As you were introducing one of the witnesses, you talked about the hard work and energy, and I would also like to point out that one must have a good, solid work ethic in order to serve on this committee and to do it effectively. I think that you are the hardest working chairman that I know.

Mr. HORN. Well, we are grateful to you for being with us this morning. I know everybody else has taken planes to go home but you and me. So thank you.

Mr. DAVIS of Illinois. I also want to thank our distinguished witnesses for taking the time to share with us their expertise as it relates to this issue.

This hearing focuses on the process used to dispose of Federal surplus property as well as the management of the Defense Reutilization Marketing Service. It is important that we ensure that the process used to determine disposal of surplus Government property is fiscally and practically sound. As you know, the DOD inspector general has issued a number of reports highlighting some of the problems with the Defense Reutilization and Marketing Service [DRMS].

For example, the IG has found that DRMS's financial information is unreliable and that the DRMS has not properly demilitarized certain property, including ammunition, explosives, and other dangerous articles. It is my hope that this hearing will clarify some of the problems related to DRMS and provide some suggestions as to how we can better dispose of surplus Federal property. Therefore, I look forward to hearing from our distinguished panel of witnesses, and again, Mr. Chairman, I certainly commend you for delving into this problem and helping to find the resolution.

Thank you very much.

[The prepared statements of Hon. Danny K. Davis and Hon. Carolyn B. Maloney follow:]

Danny K. Davis

STATEMENT OF DANNY K. DAVIS (IL)

"The Government Reform and Oversight Subcommittee on Government Management Information, and Technology"

Thank you Mr. Chairman for convening this hearing regarding "Oversight of Defense Surplus Equipment and the Activities of the Defense Reutilization and Marketing Service."

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distinguished panel of witnesses.

Again, thank you Mr. Chairman for this opportunity.

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Hon. Carolyn B. Maloney --Opening Statement

Defense Surplus Equipment and the
Activities of the Defense Reutilization and Marketing Service

September 12, 1997

Thank you Mr. Chairman for holding this hearing on surplus property at the Department of Defense and the Defense Reutilization and Marketing Service (DRMS). As you know, this Committee has jurisdiction over surplus property generally and DRMS because of the Administrator of General Services delegation of authority to the Secretary of Defense for DOD's surplus property. This hearing is a good counterpart to ones which Rep. Hastert, Chairman of the Subcommittee on National Security, International Affairs and Criminal Justice, has held on problems with the DOD's inventory. Those have examined the process whereby DOD accumulates, stores and manages its secondary inventory -- everything from spare parts and clothing to aircraft engines and computers. That inventory is currently valued at close to $70 billion. This hearing will focus on the way in which DOD disposes of that part of its inventory it no longer needs, a process governed by numerous laws and regulations.

DRMS operates close to 170 Defense Reutilization and Marketing Offices worldwide. In FY 1996, those offices disposed of goods with an original acquisition value of almost $24 billion. Much of that property is donated for public purposes such as law enforcement or education, or to state and local governments after it is determined that other federal agencies have no need for it. One concern I have is the low rate of return DOD gets on the property it actually sells -- less than 2% of the original acquisition cost. While this low rate may be explained to some degree by the donation policy, it does seem exceptionally low, especially when one considers that some companies in the private sector get a return rate as high as 50%.

I am also particularly concerned about the demilitarization process in place at the DRMS. The DOD Inspector General has found serious problems in this area, from improper coding of equipment to weak or ineffective internal controls and poor training of personnel. This is particularly troubling when one considers that this property includes ammunition, missiles, explosives and other highly dangerous materials. The safety of the American public is paramount, and we must do all we can to ensure that it is not endangered in this process.

Mr. HORN. I thank the gentleman.

Now we will go to our colleague, the third person in town this Friday, Mr. Nick Smith, a member of the Budget Committee, who has been one of the great producers of sensible plans to get on our deficit and get rid of the national debt. So it is a pleasure to introduce the gentleman from Michigan, Mr. Smith.

STATEMENT OF HON. NICK SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. SMITH. Mr. Chairman, my speaking ability probably is insufficient to convey my respect both for you, Mr. Chairman, and you, Mr. Davis. I would hope that my efforts will have an influence on your minds with what I have to say this morning.

The headquarters for DRMS is in Battle Creek, MI, in my district. Since I was elected in 1993, I have been very interested in increasing the efficiency of DRMS, increasing the privatization, and somehow dealing with the unfairness of the DRMS donation programs for States, municipalities, and some charities.

Fiscal year 1996 became sort of a new year for DRMS. DRMS had been operating at a cost to taxpayers. In 1996, operating expenses for DRMS were $277 million. In that same year, the DRMS realized $191 million from sales and another $136 million from resource recovery. In other words, they operated at a profit.

DRMS has, I think, come a long way under the current leadership. I am convinced that DRMS can and must continue to improve its performance. However, we should remind ourselves that, unlike the private sector, a primary goal for DRMS is to reuse the equipment that goes through DRMS. They reuse it in the military and then they reuse it in other branches of Government.

You, Mr. Chairman, mentioned the magnitude of the operations. There are actually 13 million items now under catalog, 13 million items, roughly 6.5 million items active and another 6.5 million items inactive. So the volume of merchandise and the kinds of merchandise are almost unimaginable.

Because property is offered for reutilization, transfer, or donation, the best property, with the most current cash value property, is taken before it can be sold. The property remaining after the cycle tends to have limited commercial application or requires demilitarization. For example, DOD surplus aircraft parts are not certified by the Federal Aviation Administration for commercial aircraft, and that severely limits the ability to sell those parts.

So some of my concerns, Mr. Chairman, are: How do we do the job more efficiently? And one of your concerns, as I understand from your opening comments, is: How do we do a better job making sure that we do an appropriate job of demilitarization and that we don't make mistakes selling what might otherwise be classified information?

Items that require demilitarization are typically high-dollar items but lose much of their original value once the demilitarization takes place. The property that remains after reutilization and transfer is available for donation by law. With your permission, I just want to go on to donation, because it is one of my interests.

Entities eligible for donation include the State and municipalities within that State, and certain nonprofit charitable organizations. I

am disappointed that there is not an estimate of cash value of property donated. So all we have now is the original acquisition value, so we have no idea of what the cash value is.

I have asked DRMS to develop estimates of the market value so that Congress can have a better assessment of the dollar value of the items that they are now reutilizing and disseminating and donating. When you sell it, we are in a situation now where even one bid can sometimes buy that property without an accurate estimate of its current cash value.

The loss resulting from donation requirement is certainly evident if we look at the higher rate of return overseas. So when you sell something overseas, there is no donation or very limited donation, because the State would have to pay for the transport from Europe back to the United States if they are going to claim their donation privileges for overseas reutilization.

If you look at the higher rate of return from overseas during 1996, in the continental United States, DRMS had a 1.77-percent rate of return; that is compared with the acquisition value. In Europe, DRMS had a 6.9-percent rate of return. In other words, the rate of return in Europe, where there is little or no donation, was nearly four times the continental rate.

The donation program is unfair, I think, because States and municipalities do not benefit equally. States that have DRMS which are located in close proximity to maintenance depots benefit more from the disposal process than other States. States often stockpile what looks like it might be valuable later on. It is all free—they only have to pay for the transportation—so some States now stockpile machinery, equipment, or other salvageable goods that they think would be of value in the future.

As you might guess, such items as firetrucks, road scrapers, construction equipment disappear very quickly. In fact, relating to the unfairness aspect, Pennsylvania was successful in putting language into the Federal law that gave that State an advantage or first priority in getting construction equipment.

At the very least, to make sure that there is a real need, the merchandise that is now donated should be sold at a percentage of the current cash value, if not by auction. This would make sure that the giveaway, the donation program, does not become so huge that the Federal Government is simply giving away equipment that States would be delighted to pay some level of monetary reimbursement for.

I think it should be mentioned that DRMS has made excellent progress in privatizing some of the functions, some of the things that I have been pushing for. DRMS is making increasing use of private contractors. I think these statistics will be of interest to the committee. Since 1993, the 1993 National Performance Review and Defense Performance Review, DRMS has pursued and analyzed privatization of many services.

Let me just briefly run through a couple of statistics. DRMS relies on the private sector for numerous functions. One hundred percent of hazardous waste disposal services are provided by the private sector companies, 50 percent of precious metals recovery programs are performed by the private sector, 60 percent of the demilitarization activities are performed by sales contractors, and 50

percent of both national and local advertising is performed through a private sector company.

We need to continue to make use of the private sector services, where appropriate, to reduce the cost to taxpayers and improve the efficiency of the property disposal system. While the concept of introducing public-private competition to the disposal process is one that DRMS is actively pursuing, one of the target dates in the recently passed authorization bill, H.R. 1119, for fully implementing this concept, probably has a date that is too early. And I just put that into the record. The 1998 date is probably someplace between 8 and 12 months early. The date should be changed to efficiently additionally privatize and put out for bids.

I think it is important to point out that no other agency or company that would like to take over some of the salvage operations nearly comes close to the amount of merchandise that DRMS now reutilizes or salvages or gives away. In addition, DRMS has to deal with important issues of protecting important U.S. military technology and making sure that all equipment is fully demilitarized.

In conclusion, Mr. Chairman, we have an obligation to obtain the highest possible return to taxpayers. We also have an obligation to protect national security and certainly not make the mistakes that can cause physical injury.

I am pleased that this hearing is taking place. It shows a commitment by you, Mr. Chairman, and Congress to take these issues seriously, and I am confident, with the cooperation of Congress, we will see a continuation of success that DRMS has had in the past, and I look forward to working with you, Mr. Chairman, and this committee to move this process forward.

[The prepared statement of Hon. Nick Smith follows:]

Testimony of Rep. Nick Smith (R-MI)

Before the House Subcommittee on
Government Management, Information, and Technology.

September 12, 1997

I appreciate the opportunity to be here today to voice my concerns and share my opinions regarding this issue.

In FY 1996, operating expenses for DRMS were $277 million. DRMS reutilized, transferred or donated property that had a purchase value of over $4 billion. On these operations, it realized $191 million from sales and another $136 million from resource recovery. DRMS has come a long way to improve its efficiency and serve the taxpayer under the energetic leadership of Col. Mansfield and his predecessors.

I'm convinced that DRMS can and must continue to improve its performance. However we should remind ourselves that unlike the private sector, a primary goal for DRMS is to reuse property in the military or in other branches of the federal government. Because property is offered for reutilization, transfer or donation, the best property is taken before it can be sold. The property remaining after the RTD cycle tends to have limited commercial application or requires demilitarization. For example, DOD surplus aircraft parts are not certified by the Federal Aviation Administration for commercial aircraft, severely limiting their re-sale potential. Items that require demilitarization are typically high dollar items but lose much of their original value in the demilitarization process.

The property that remains after reutilization and transfer is available for donation by law. Entities eligible for donation include state and local governments as well as certain non-profit organizations. I'm disappointed that there is not an estimate of cash value for property donated. I have asked DRMS to develop estimates of the market value so that Congress can have a better assessment of the dollar value donated. The loss resulting from the donation requirement is certainly evident if we look at the higher rate of return from overseas during FY 1996. In the continental U.S., DRMS had a 1.77% rate of return compared to the acquisition value. In Europe, DRMS had a 6.9% rate of return. In other words, the rate of

return in Europe, where there is no donation, was nearly four times the continental rate. I will soon introduce legislation to phase out the donation program.

The donation program is unfair because states and municipalities do not benefit equally. States that have DRMOs which are located in close proximity to maintenance depots benefit more from the DRMS disposal process. I understand that States often stockpile machinery, equipment and other salvageable goods that they think would be of value in the future. As you might guess, such items as fire trucks, road scrapers and construction equipment disappear very quickly. In fact Pennsylvania was successful in putting language into Federal Law that gave that State an advantage in acquiring equipment under the DRMS donation program. At the very least, to make sure that there is a real need, the merchandise that is now donated should be sold at a percentage of the current cash value.

It should be mentioned that DRMS has made excellent progress in privatizing some functions. DRMS is making increasing use of private contractors. Since the 1993 National Performance Review and the Defense Performance Review, DRMS has pursued and analyzed privatization of many services. Currently, DRMS relies on the private sector for numerous functions. 100% of hazardous waste disposal services are provided by private sector companies. 50% of precious metals recovery programs are performed by the private sector. 60% of demilitarization activities are performed by sales contractors and 50% of both national and local advertising is performed through a private sector company. We need to continue to make use of private sector services where appropriate to reduce the cost to taxpayers and improve the efficiency of the property disposal system. While the concept of introducing public-private competition to the disposal process is one that DRMS is actively pursuing, the target date, set by H.R. 1119, for fully implementing the concept, should be extended from October 1998 to October of 1999.

Clearly, DRMS does a very difficult and important job. DRMS processes literally every type of property that DOD uses from bones, fats and meat trimmings to aircraft carriers. Even the largest private salvage companies in the United States handle only a small percentage of the salvage operations being conducted by DRMS. No other agency or company deals with the wide variety of items, time limits and rigid disposal system required of DRMS. In addition, DRMS has to deal with important issues of protecting U.S. military technology and making sure that all equipment is fully demilitarized.

We have an obligation to obtain the highest possible return to taxpayers. We also have an obligation to protect national security. I'm pleased that this hearing is taking place; it shows a commitment by Congress to take these issues seriously. I am confident that with the cooperation of Congress, we will see a continuation of the success that DRMS has had in the past. I look forward to working with the committee in the future.

Mr. HORN. Well, I thank the gentleman.

At this point, I would like to put in the record the opening statement of the Honorable Pete Sessions, who is vice chairman of the committee, the gentleman from Texas. Without objection, it is so ordered.

[The prepared statement of Hon. Pete Sessions follows:]

CONGRESSMAN
PETE SESSIONS
News

TEXAS, FIFTH DISTRICT

1318 Longworth House Office Building • 202-225-2231 • Contact: Pam Arruda

Statement of the Honorable Pete Sessions (R-TX)
Subcommittee on Government Management, Information and Technology
"Defense Surplus Property and the Activities of the
Defense Reutilization and Marketing Service"
September 12, 1997

I want to applaud your leadership in the area of government management, especially as it pertains to inventory management and the disposal of surplus property. Once again, you demonstrate your foresight in government reform by calling to the table the best experts and the responsible managers to address the important issues surrounding surplus property at the Department of Defense.

As you know, Mr. Chairman, I have taken an interest in the area of Defense inventory management as part of the Results Caucus. In one analysis of secondary defense inventory valued at $67 billion, $41.2 billion of the inventory was not needed.[1] Because of these and other Defense inventory problems, a portion of the Department of Defense's annual expenditure of approximately $15 billion for additional inventory is likely to be spent for unneeded inventory.[2] Under current tight budgetary constraints, this is unacceptable.

The Results Caucus, which has the able assistance of Majority Leader Dick Armey, represents a coalition of reform-minded members of Congress who share the common goal of realizing a smaller, smarter, common-sense government. The Caucus has decided to target for reform several areas ripe with waste, fraud, and error. And defense inventory management is one of those issues we hope to address in the coming months.

Mr. Chairman, what we have learned in preparation for this important hearing, and what is likely to be confirmed here today, is the fact that another element of the Department of Defense's property management is in disarray. According to a recent report by U.S. News and World

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[1] General Accounting Office, Defense Logistics: Much of the Inventory Exceeds Current Needs, Letter Report, GAO/NSIAD-97-71, February 28, 1997.

[2] General Accounting Office, High-Risk Program: Information on Selected High-Risk Areas, Information for House Majority Leader Richard Armey and Representative Pete Sessions, GAO/HR-97-30, May 1997.

Report, "[W]eapons and parts that should have been rendered militarily harmless before sale were not, where weapons that should have been designated for destruction were not and have been prevented from reaching foreign buyers were not."[3] Just like secondary defense inventory, and just like property in the hands of government contractors that is unaccounted for, the Department of Defense seems unable to get a handle on the billions and billions of dollars worth of property it manages on behalf of the American people.

Unlike other areas, it seems that property is being disposed of that is dangerous, and it's getting into the hands of Americans who don't know how to handle it or foreign entities that do. Both situations are improper, and reckless. This situation rises above the simple problem of waste, and puts the American people at risk.

As a member of the Results Caucus, and a proud member in this busy and effective committee, I urge the Department of Defense and those here today, to pay heed to the outstanding recommendations, made by the General Accounting Office and the Department of Defense Inspector General, to cure the profligate waste in this and other areas of property management. Once again, Mr. Chairman, you are at the vanguard of the fight against waste, fraud, and error. I applaud you, and I know you will work diligently to safeguard the financial interests of the American taxpayer.

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[3] Peter Cary with Douglas Pasternak and Penny Loeb, "Weapons bazaar: This Cobra Attack Helicopter was Build from Surplus Parts. The Pentagon Sells Millions of Them a Year. Many Fall into the Wrong Hands," U.S. News & World Report, December 9, 1996.

Mr. HORN. Now I would like to ask you one question and then yield to the ranking minority member.

In your testimony, you noted that there is no cash estimate of the dollar value of property donated to State and local governmental agencies. In the last year, we passed the Single Audit Act. And there is no reason why anybody should know this, but is an estimate made of the cash value of these donations made of the Single Audit Act, which applies to nonprofit groups and others who are eligible over the $300,000 mark in terms of their annual amount. We tried to simplify numerous audits from every other Federal agency you can think of, and it might not be exact, but you might want to ask the agency to use this figure, which should be easily available, which is an estimated figure. I don't know if it will help us that much in the point you are making, but it is a figure that is really new and newly arrived at.

Mr. SMITH. I would hope, Mr. Chairman, that you might ask that question to the people that are testifying from DLA, if it will impact from accomplishing that audit requirement.

Mr. HORN. I now yield to the gentleman from Illinois, Mr. Davis.

Mr. DAVIS of Illinois. Thank you very much, Mr. Chairman.

Representative Smith, you point out a number of issues and concerns with the donation program in terms of the unfairness, the inability of the program to make sure that all States, for example, might have equal access, even though this unfairness, as you point out, might exist.

Do you think that there is ample opportunity to correct the program, or is it necessary to actually get rid of the donation part of it in order to make sure that there is equity?

Mr. SMITH. It seems like in many aspects of trying to bring the marketplace into—have a bearing on what actually happens, maybe at least in some kind of transition, if you could put a minimum price on a percentage of cash value so that there was somehow a financial stake or a greater interest in deciding whether that particular State or municipality or charity really wanted that particular merchandise. So even though it wasn't full cash value, if there was some outlay, it might help guide the donation program to go where there was a real interest, rather than having the stockpiling that now exists with some States that say: "As long as it is free, maybe sometime in the future we could use it."

I think in our effort at frugality at the Federal level, it is reasonable to consider the possibility of having some charge for these items. Sometimes they are almost-new firetrucks or new machinery or new equipment that has never been used and they go to the State that gets there first. And as I mentioned, Federal law actually gives Pennsylvania a preference on some of this heavy machinery I think needs to be surveyed and reviewed.

Mr. DAVIS of Illinois. Could we possibly look at a system—I mean, we know that there are some States that are different than other States. There are some States, for example, that have less in the way of resources. I used to live in a State that was noted as being one of the poorest States in the Nation, and it just simply did not have the same resources that other States had.

Is there any way of perhaps looking at this from the basis of trying to make sure that those States that have the greatest need

might have a little different way of approaching it or a different kind of access?

Mr. SMITH. Well, that's a good point, because the States sort of have a double advantage, if they have the additional salaries and wages going into their States because of the location of DRMO's or salvage areas, with all of that Federal payroll going in, they not only have the advantage of some of that Federal payroll being spent in their State, but they also have the advantage of access, getting there first, getting items with the lowest transportation costs into their States. So something needs to be done at least to make it more equitable to all States.

Mr. DAVIS of Illinois. I understand that there is a fair and equitable rule that agencies must follow in distributing Federal property. Are we suggesting that maybe this rule is not being adhered to as stringently?

Mr. SMITH. Mr. Davis, I don't understand how that rule is being adhered to, if it is being adhered to.

Mr. DAVIS of Illinois. Let me just ask one other question. You indicate that there is no donation program in foreign countries for foreign countries. Would it perhaps make sense to look at a donation program with some of those nations that could, for example, make great use of things like road-building equipment and other kinds of nonmilitary items that could be very beneficial as a sort of in-kind contribution that goes beyond the appropriate process that we currently use for foreign aid?

Mr. SMITH. Well, it is my understanding that the equipment is sold at a very small fraction of its value now, depending on what that particular country or buyers within that country want to offer as a bid. And your question, should government start picking out deserving countries for free donations rather than selling the program? I would be wary or reluctant to start having a giveaway program in other countries, because I think it would result in the same thing that we have here. As long as merchandize is free, people take everything available that was free with the prospect that it might be useful sometime in the future. So I am a strong advocate of having some market forces to equitably distribute what property is salvaged and reusable.

Mr. DAVIS of Illinois. I certainly appreciate your interest in this area.

And I have no further questions, Mr. Chairman.

Mr. SMITH. Thank you.

Mr. Chairman, thank you.

Mr. DAVIS of Illinois. Mr. Chairman, could I just ask that the statement of Representative Maloney be entered into the record?

Mr. HORN. Without objection, it will be placed after the two opening statements of Mr. Davis and myself.

Thank you very much.

We will now proceed with the witnesses from the Department of Defense. Mr. Lieberman, the assistant inspector general for auditing; and also the Director of Defense Management Issues from the U.S. General Accounting Office will be on panel two, Mr. David Warren.

I think, gentlemen, you know the routine here. We do swear you all in, if you would raise your right hand.

[Witnesses sworn.]

Mr. HORN. Mr. Warren, if you would introduce the gentleman accompanying you.

Mr. WARREN. Mr. Morris, who is one of our senior evaluators and has worked very closely on these issues.

Mr. HORN. What is Mr. Morris's first name?

Mr. WARREN. Earl Morris, sir.

Mr. HORN. What is his title in your organization?

Mr. WARREN. Mr. Morris is a senior evaluator with GAO.

STATEMENTS OF ROBERT J. LIEBERMAN, ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE; AND DAVID R. WARREN, DIRECTOR, DEFENSE MANAGEMENT ISSUES, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY EARL MORRIS, SENIOR ANALYST, GENERAL ACCOUNTING OFFICE

Mr. LIEBERMAN. Thank you, Mr. Chairman. I appreciate the opportunity to be here today.

In order to comply with the subcommittee's rules, I am just going to briefly make a few comments about my statement, with the provision that it be included in the record.

Disposal is an often overlooked but vitally important phase of the logistics process. I think it is highly appropriate that the Congress provides oversight to this area. After all, we are talking about an enormous amount of materiel. At acquisition cost, roughly $24 billion worth of materiel is processed annually by the Defense Reutilization Marketing Service.

I think it is equally important to recognize that there are many players other than DRMS itself in this process. We need to review the disposal issues as part of the overall logistics picture. There are decisions being made by item managers on what to buy and put into inventory in the first place that will ultimately affect DRMS. We should not be buying more than we need.

I know that the Congress has focused a lot of attention on inventory management in the Department. The military departments decide what to put into the disposal process. We want to make sure that we are disposing of the right materiel; that is, we are not disposing of things that either the Department of Defense or other Government agencies still need. On the other hand, we do not want to be stocking things that ought to be disposed of, so that we have to carry excess storage and handling costs.

We have a very large body of work, some of which is summarized in my statement, related to property management and the disposal or nondisposal of defense materiel. Over the past 3 years, my office has published 16 audit reports and we have closed 233 criminal investigations related to the disposal process.

The point should be made that there is that much auditing and investigative activity largely because DOD management, the Defense Logistics Agency, DRMS, and the rest of the logistics community, is a very active user of IG audit and investigative resources. That is, we get a lot of audit suggestions from them, and you will notice that many of the reports that I mentioned in my statement were requested by logistics officials in the Department.

I would like to call your attention to those half-dozen audit reports that are mentioned in the beginning of the statement that have to do with the disposal of munitions list items and munitions scrap. The reason I would like to highlight them is because they deal with safety and national security issues that are indeed unique to DRMS, and there really is no equivalent in private sector scrap operations.

There have been quite a few incidents of live munitions or dangerous articles being inadvertently sold to the public, most having been processed through DRMS, some having been processed through a few of the other disposal channels that are authorized by law, such as the recycling programs by the military installations.

There have been more of these incidents reported recently than had been the case in the past, 27 of them in the first half of fiscal year 1997 alone, and this is certainly a matter of concern to us. There was a fatal accident in California in March 1997 which prompted the Secretary of Defense to ask the IG, along with the military departments and the Defense Logistics Agency, to review controls over the disposal of munitions and dangerous items. One of the reports that is summarized in my statement does conclude that controls in this area are deficient.

Virtually everybody who handles munitions has a piece of the action here, and the problems are endemic throughout the system. DRMS has some control problems, but so do the military departments themselves and the installation commanders.

We also have issued two reports dealing with demilitarization codes on munitions list items. Demilitarization codes are instructions that are put on any item that enters the Department of Defense's inventory that will ultimately dictate whether the item can be sold without any changes made to it or has to be demilitarized in some fashion, in some cases completely destroyed and in other cases just modified.

We found a lot of problems throughout this whole process. For example, 52 percent of the demilitarization codes that were put into the system for items sampled during the period of our audit were wrong. This leads to wasting money by demilitarizing items that don't need that kind of treatment. It also leads to releasing items to the public that should be demilitarized and are not. So those front-end problems need attention.

Those decisions are not made by DRMS. They are made by the inventory control points of the military departments and the Defense Logistics Agency. DRMS tries to safeguard the process by challenging demil codes on items that look wrong to them under what they call a challenge program, and we have found that 93 percent of their challenges were just being ignored by the inventory managers. This is a very troubling situation that needs to be fixed, and the logistics community as well as defense share our concerns and are taking action to fix it.

A similar problem exists with materiel in contractor plants. We looked at 1,820 items, physically turned over in plant clearance operations by contractors, and we found that 1,400 of them had not been screened to determine whether they were even munitions list items, let alone what kind of demil was appropriate for those items.

So whether we talk about DRMS—and I realize a lot of the focus is on the end state; that is, what DRMS will look like 2 or 3 years from now—I would urge that while economics are a very important consideration, we must make sure that the demilitarization and control aspects of the operation are carefully considered and preserved in whatever the ultimate solution is.

We have been critical of DRMS internal financial and program management practices, and a couple of our reports were mentioned in the chairman's opening statement. Like nearly every other DOD defense agency, or military department, DRMS has not been able to produce financial statements that can get favorable audit opinions. The fundamental cause of this is that DOD accounting systems were never designed to produce financial statements, auditable financial statements, and the Department is working across the board to try to fix that.

At the present time, the only major fund in the entire Department of Defense that can get a favorable audit opinion is the Military Retirement Trust Fund. All of the others, the large general funds and working capital funds, are getting disclaimers of audit opinions on an annual basis in the Chief Financial Officer Act audits, so this is an across-the-board problem. This is not an excuse, but I want to make sure that DRMS's problems are kept in the proper context.

Now, we were very critical of a lot of the accounting practices related to DRMS. Nearly all of the criticisms that we made have been addressed, and I would say that DRMS, like the rest of the Department of Defense, is making progress in improving the reliability of its financial reporting.

I have to say, though, that there is a lingering problem which has not yet been fixed in terms of the rather odd financing arrangement for DRMS. That is, it receives part of its revenues from sales and part through money from its customers in the Department. The military departments have been rather arbitrarily taxed in most years for amounts that bear no relationship to the cost of the services that they are getting from DRMS in order to make up for cash shortages from year to year. This is not untypical, unfortunately, in the working capital fund environment in Defense. We have a lot of these anomalies that don't make a lot of sense. Prices charged are not related very closely to actual costs for services.

Congress has mandated an across-the-board look at all of the working capital fund arrangements, which were formerly called the Defense Business Operating Fund, or DBOF, and that is an ongoing review. The Department owes a report back to the Congress this year, and hopefully some of the solutions that the Department will suggest and work out with the Congress to apply DBOF-wide will help DRMS also in determining how it will be financed in the future. Those are questions that need to be addressed, whether or not DRMS's functions are done in-house or contracted out.

With that, I would like to conclude, Mr. Chairman. I would be happy to take any questions.

[The prepared statement of Mr. Lieberman follows:]

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here this morning to discuss the disposal phase of the life cycle for military materiel. Although more attention tends to be given to other aspects of Defense inventory management, the challenges related to efficient reutilization, transfer, donation, demilitarization, and sale of excess or surplus military equipment and supplies are formidable in their own right.

To protect the taxpayers' interest, the disposal programs need to maintain a difficult balance between maximizing the sales of surplus material to recoup as much of its residual value as possible, but at the same time avoid selling items that are still needed for Defense or other Government purposes, or endangering public safety by not properly demilitarizing potentially dangerous material before it is sold or exchanged. Among the many factors at play are: the sheer volume of materiel moving through the disposal process; the necessarily widespread dispersion of disposal offices; the highly pilferable and/or potentially dangerous nature of much of the material; the multiplicity of military organizations, Federal, state, and local government agencies, nonprofit entities, and contractors involved; potentially conflicting management goals and objectives; the workforce turbulence associated with site closures, downsizing, and potential outsourcing; shortfalls in the reliability of automated management information systems; and the usual shakedown problems encountered when introducing new business processes, as the Defense Logistics Agency is trying to do.

Given those challenges, it is highly appropriate that the disposal process be given a proportionate degree of DoD and congressional oversight. We in the Office of the Inspector General are pleased to be able to report that our working relationships with key organizations in the DoD materiel management community are excellent. The Office of the Deputy Under Secretary of Defense (Logistics), the Defense Logistics Agency, the Defense Reutilization and Marketing Service, and the Joint Logistics Commanders, among others, provide a nearly continuous flow of audit suggestions and investigative leads to us. We are hopeful that this close coordination will continue and will bear fruit in terms of definitively identifying the major problems and opportunities for improvement that should be addressed, and then assisting and monitoring the corrective actions needed to minimize the risk of fraud, waste, and abuse.

Overall Assessment

Like most other aspects of DoD logistics, numerous problems in the disposal area need to be addressed. This is not to say, however, that the Defense Reutilization and Marketing Service (DRMS) is not fulfilling its mission or is a flawed concept. Indeed, the DRMS cannot be expected to unilaterally solve most of the management problems that we have identified; many problems lie partially (or in a few cases entirely) within the spheres of responsibility of the Office of the Secretary of Defense, the Military Departments, or other Government agencies.

Over the past few years, issues related to property disposal have been high audit and investigative priorities. In the past 3 years, we have issued 16 audit reports and closed 233 criminal investigations related to this area. At the present time, we have one ongoing evaluation, which has just started, and 111 open investigations by the Defense Criminal Investigative Service, the criminal investigative arm of the Office of the Inspector General..

Our completed work in this area falls into these general categories:

-- Disposal of munitions list items and munitions scrap

-- Recycling programs

-- Property disposal decisions

-- Defense Reutilization and Marketing Service financial issues.

I will discuss the 12 most significant audit reports in those categories and then three closed criminal cases that are representative.

Disposal of Munitions List Items and Munitions Scrap

Between June 1996 and April 1997, we issued five reports with numerous findings from an audit of controls over disposal of munitions list items. The audit was requested by the Defense Logistics Agency because a former Director was concerned about the risk of inadequately demilitarized equipment or substances being released to the public. Munitions list items (MLI) are defined as military articles that require special handling at disposal to prevent unauthorized use by domestic or foreign purchasers. Special handling instructions are provided by assigning a demilitarization code when an item is introduced into the DoD inventory.

Two of the five reports dealt with problems related to MLI coding. In Report No. 97-130, Coding Munitions List Items, we reported chronic noncompliance with DoD policies for coding MLI items which by DoD policy is a responsibility of the inventory control points of the Services and Defense Logistics Agency. A random statistical sample showed that 52 percent of items sampled from DoD supply inventories had inaccurate demilitarization codes. To compound the situation, inventory control points were nonresponsive when DRMS challenged suspicious coding. These problems need to be addressed vigorously so that the DoD does not incur unnecessary demilitarization costs or inadvertently sell sensitive items. The risk of either of those undesirable consequences occurring is high when the coding is wrong. In one instance, about 10,000 tools had been coded as requiring demilitarization, which would have cost

$9.5 million. We found that 80 percent of the items did not require demilitarization. We attributed the problems to a general lack of training on how to interpret and use the codes, compounded by the dependence on hundreds of widely dispersed item managers to make coding determinations on their own without central guidance or control. The Deputy Under Secretary of Defense (Logistics) shared our concerns and is working to find solutions. The Defense Science Board is also currently studying demilitarization issues, although we are not sure when their input will be available. In addition, the House National Security Committee is requiring the Department to report on its corrective actions by December 31, 1997.

In Report No. 97-134, Disposal of Munitions List Items in the Possession of Defense Contractors, we found similar coding problems at 15 contractors holding DoD property. Of 1,820 items that we judgmentally sampled, 1,400 were not reviewed at all to ascertain whether they were munitions list items. It was accepted practice to dispose of such property without due attention to potential demilitarization requirements. On the other hand, we found 155 items that had been identified as munitions list items, but were sold anyway without consideration of demilitarization or trade security policy requirements. Part of the problem was a Catch 22 situation in which DoD procedures relied on the assignment of a National Stock Number to a new inventory item as the first step in identifying MLI materiel and assigning demilitarization codes. If items are purchased by contractors in very small quantities or as part of a contractor logistics life cycle support package, no National Stock Number is

assigned because the items are not entering the DoD supply system. This can also be the case when raw material or subassemblies are provided to prime contractors by subcontractors. The lack of sufficient training for DoD property administrators at contractor facilities was also a factor. Management agreed with the findings and is taking corrective action.

The other three reports on MLI disposal related to the transfer or exchange of purportedly excess military property by the Army or Navy in return for historically significant items for museums or related services. The reports were:

No. 96-143, Transfer and Exchange of Navy P-3A Aircraft

No. 96-229, Distribution of Excess Army Helicopters and Flight Safety-Critical Helicopter Parts

No. 97-211, Management of the U.S. Army Center for Military History Exchange-for-Services Agreement.

In all three cases, questionably prudent exchanges or transfers were being made to enhance museum collections. We found a variety of problems, including the Navy

not considering the continued need for many components on a patrol aircraft that it intended to transfer to the Smithsonian Institution. The transfer was canceled as a result of the audit.

Between January 1991 and June 1995, the Army Aviation and Troop Command transferred 170 helicopters to the Army Center for Military History for exchange purposes. The Center for Military History exchanged 86 of the helicopters for historic property or related contractor services. The helicopters that were exchanged were not properly valued, and the transactions were not reported to the Internal Revenue Service as required. The Army also transferred about $1.8 billion in excess helicopter parts to DRMS during that period. About $153.1 million of parts carried incorrect demilitarization codes and $37.5 million of flight-safety-critical parts were sold without safety inspections, due to incorrect Army instructions to DRMS.

The U.S. Army Center for Military History also did not properly manage its exchange-for-services agreement with Southeastern Equipment Company, Incorporated. The Center paid for, but did not make use of, outdoor storage areas; paid for, but did not fully use, 3 warehouses; allowed Southeastern Equipment to store contractor-owned property in 2 of the warehouses; exchanged 16 helicopters for less than reasonable, objective values; and subsidized the operations of Southeastern Equipment by paying transportation costs on exchanges. As a result, we estimated that the Center overstated its liability to the contractor by at least $1.1 million and undervalued the helicopters it

exchanged with the company by approximately $1 million. Financial records are seriously deficient and we are working with the Army to definitize any remaining contractual liability.

The Army did not completely agree with our conclusions, but actions are being taken to improve management at the Center for Military History. It is especially important not to repeat mistakes in planning for the prudent disposal of helicopters and their parts, because the Army needs to dispose of more than 1,900 additional helicopters by FY 2000.

Our most recent report related to the disposal of sensitive material was issued last week. Report No. 97-213, Evaluation of the Disposal of Munitions Items, resulted from a review requested by the Office of the Secretary of Defense. In March 1997, there was a fatal accident when a purportedly inert artillery shell exploded in a commercial scrap yard in California. It had been purchased from the Defense Reutilization and Marketing Office in Barstow, California. A criminal investigation of that incident by the Defense Criminal Investigative Service is still in progress. As a separate effort, we reviewed disposal practices for ammunition, explosives, and other dangerous articles (AEDA) at 16 military installations. We feel confident that our findings are indicative of the situations at most other bases. We found the following problems:

- Controls for the disposal of AEDA residue by the Military Departments were ineffective. As a result, the public was sold or had access to either discarded live AEDA or AEDA residue that had not been properly inspected and certified as inert.

- Management controls at the Defense Reutilization Marketing Service to prevent the sale of live AEDA to the public also were not fully effective. As a consequence in several instances, Defense Reutilization and Marketing Offices received and sold uncertified or improperly certified AEDA residue to the public.

- DoD policies and procedures for AEDA disposal contracts, Direct Sales Programs as part of the Qualified Recycling Programs, reporting and investigating AEDA incidents, and demilitarization were inadequate. As a result, AEDA disposal service and sales contracts varied by installations and provided for disparate levels of safety and oversight.

The report contains numerous references to incidents that illustrate the need for concerted action to address these disquieting findings. I refer you, for example, to the picture on page 27 of the report of a live MK20 Rockeye bomb that was inadvertently sold in a load of scrap containers from Crane Army Ammunition Activity in July 1996. Cumulatively, the DoD fires or otherwise disposes of 200,000 tons of ordnance

annually, so there are extensive safety and environmental ramifications in AEDA disposal. We have been advised that responsive action is being taken to implement our numerous recommendations or acceptable alternatives, as well as measures stemming from separate Military Department and Defense Logistics Agency reviews, which were also directed by the Secretary of Defense.

Property Disposal Decisions

Earlier I referred to the fact that DRMS cannot solve all disposal management problems by itself. The DoD material managers who decide what to put into the disposal process and what can be reutilized actually have more impact on the volume and economic impact of DoD disposal operations than does DRMS. Therefore, we have put considerable audit emphasis on identifying problems in determining what should be disposed of or retained in inventory, especially in settings other than the supply depots.

Report No. 97-183, Uncataloged Material at Research, Development, Test, and Evaluation Installations, discussed how the Military Departments unnecessarily stored uncataloged material purchased for research, development, test, and evaluation work. The six installations we reviewed kept uncataloged material on hand dating from 2 years to more than 30 years after projects were completed. The installations did not fully consume the material in fabrication and testing, and retained it without any

apparent need and without sufficient safeguards. The uncataloged items stood little chance of being reutilized where they were and no chance of being reutilized at other DoD activities, who had no way of knowing of their existence. Based on our audit and a similar Naval Audit Service effort, we estimate that well over $1 billion (acquisition value) of uncataloged and generally uncontrolled excess property was stored at the 13 research, development, test, and evaluation facilities that were audited. There are 73 other similar installations and it is reasonable to assume that most of them have had similar practices. The material is not reflected on official accounting records and security is often minimal. It needs to be inventoried and screened for reutilization or disposal.

Management comments on the report were generally responsive. We will work through the DoD audit followup process to resolve any open items, but it appears there are corrective measures under way.

Report No. 97-202, Financial Reporting of Government Property in the Custody of Contractors, is part of our extensive body of work related to implementing the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. One of the major barriers to favorable audit opinions on DoD financial statements is uncertainty about the amounts reported as assets. Government-owned property in the possession of contractors, whose acquisition value is roughly $92 billion, has been a particular problem.

In our report, we noted that the Contract Property Management System simply does not meet minimal requirements for financial statement reporting. It also contains an unacceptably high number of errors ($963 million in a sample of $12.0 billion). More fundamentally, it is time for the Department to reexamine its 44 year old practice of taking title to large amounts of tooling, test equipment and general purpose items whose reutilization potential may be minimal. The Deputy Secretary of Defense and the DoD acquisition community have been examining the current policies over the past few months and we anticipate significant changes to the current practices. It is likely that much of the currently stocked material will be sent to disposal. The problems related to the accounting treatment and control of the remaining items still must be addressed, however, and we anticipate working closely with the Department on those issues.

In Report No. 97-168, Disposal of Serviceable Reparable Assets, we discussed the fact that the Army had not corrected problems identified in previous audit reports on the Army credit return program. In August 1993, the Army tried to promote supply inventory reduction by relying on automated disposal decision processes and omitting item managers from the loop. Due to the program logic used, however, Army field units were frequently directed to dispose of serviceable assets and retain unserviceable assets for the same National Stock Numbers. The previous audits identified $44 million of serviceable assets that were sent to disposal in 1994 and $8 million of

unserviceable assets returned to the depots for credit. By November 1996, we found the disposals of serviceable items totaled $104 million and returned unserviceable items totaled $191 million for the Aviation and Troop Command alone. This time, the Army took responsive action and the problem was corrected.

Recycling

Report No. 97-087, Direct Sales of Recyclable Material, summarizes our evaluation of the direct sale of recyclable material by DoD installations under the provisions of 10 U.S.C. 2577; Executive Order 12873, Federal Acquisition, Recycling, and Waste Prevention; and implementing DoD regulations. We reviewed 16 of the 94 installations authorized as of March 1996 to conduct direct sales, with proceeds accruing to their morale, welfare, and recreation activities. We found that those bases generally followed prescribed policy for their $1.5 million FY 1995 sales; however, we had three concerns:

-- Improved guidance was needed to ensure that financial records were accurate and sales were properly conducted. Installation officials did not have accurate financial information concerning the revenues for direct sales on which to make program decisions. Additionally, they could not verify that awarded sales were based on competitive bids, or that a fair market price was received for recycled materials sold directly.

-- There were inconsistencies in estimating costs for purposes of cost benefit analysis, reporting, and reimbursements. As a result, decisionmakers within the Military Departments and the Defense Logistics Agency did not have sufficient information to ensure the accurate calculation of net proceeds and net benefits at installations, and to decide whether to permit their organizations to expand the direct sale of recyclable materials. In addition, installation officials did not have adequate cost information to decide on the most cost-effective methods for conducting direct sales.

-- Officials at 10 installations had not considered the option to outsource Qualified Recycling Program functions to recycling contractors. As a result, the installation officials could not always demonstrate that the best value for the Government had been obtained by performing Qualified Recycling Program functions in-house. Further, the 10 sites assumed sales and accounting responsibilities and costs that could have been transferred to a contractor.

The DoD Pollution Prevention Committee, a Defense Environmental Security Council Committee, recently took steps to improve the guidance and oversight on direct sales. It formed a working group on recycling on which a member of the Inspector General, DoD, serves. The working group is developing a Combined Services Qualified Recycling Program guide that includes specific information on the

military installations' direct sale of recyclable material. It is scheduled to be issued in September 1997. This is a growing program that will be a more significant component of the disposal picture in the future.

Defense Reutilization and Marketing Service Financial Issues

The Defense Reutilization and Marketing Service is financed as a working capital fund, formerly part of the Defense Business Operations Fund and now the Defense Agencies Working Capital Fund. The DoD accounting systems were not designed to produce auditable financial statements and numerous system and control problems are being addressed across the spectrum of working capital funds. Therefore, the criticisms of DRMS financial reporting in several previous audit reports should be viewed in that overall context.

As indicated in Report No. 95-220, Financial Statements of the Defense Logistics Agency Reutilization and Marketing Service Business Area of the Defense Business Operations Fund for FY 1994, both the DRMS statement of operations and statement of financial position for FY 1994 were unreliable. The reported profit of $98.9 million was overstated by $82.3 million because the Military Departments had been taxed ("component level billings") by the DoD to make up for DRMS cash shortages. Accounting for public sales proceeds and the hazardous waste disposal program was inadequate. More needed to be done to reduce the number of buyer

defaults, which ranged up to 29 percent. Although the FY 1995 DoD budget included $208.3 million from additional component level billings for DRMS, there was no underlying fee structure based on costs of individual services provided to customers.

As a result of the audit, the $208.3 million was not provided to DRMS. The fundamental underlying issue is that the combination of sales revenues and component level billing is an unstable financing mechanism for DRMS operations.

Report No. 96-216, Evaluation of FY 1995 Defense Reutilization and Marketing Service Financial Data, also took DRMS to task for reporting unreliable revenue and expense data. The same accounting deficiencies that caused us to disclaim our audit opinion on DRMS FY 1994 financial statements were still prevalent in FY 1995. We also found poor controls over the use of expedited processing for disposal and sale of DRMS inventory during FY 1995. That resulted in DRMS processing approximately $2 billion (acquisition value) of property that was not authorized for expedited processing, with a significant reduction in the usual reutilization rate.

Management agreed with our findings, most of our recommendations, and took several actions, including automated system changes to improve property screening. The ongoing, congressionally directed, DoD review of cash management and other issues that involve all formerly Defense Business Operations Fund activities, including DRMS, likely will deal with many of the same kinds of issues that we have identified.

Criminal Investigations

The intrinsic nature of the material being processed through DoD disposal channels, plus the difficulty in maintaining strong controls at every storage or disposal site, make this a high risk area in terms of criminal threat. The following examples of recent cases give a good indication of the kinds of criminal schemes that the DRMS and the Defense Criminal Investigative Service frequently encounter.

Operation Breechblock

In May 1995, the Defense Criminal Investigative Service received information from a confidential source. As a result of that information, the Defense Criminal Investigative Service and the Federal Bureau of Investigation undertook an undercover investigation of the illegal diversion of military items from military installations, Defense Reutilization and Marketing Offices, and the Army Center for Military History.

An undercover agent represented himself to subjects of this investigation as a consultant for small businesses who are attempting to secure Government contracts. Additionally, the agent claimed that he had several clients who were military vehicle and arms collectors. At the request of subjects of the investigations, the agent prepared official looking paperwork to create the appearance that some of the subjects' intended

diversions of military equipment were proper and legal. During the week of June 12, 1995, the agent purchased and took possession of a "like new M901 Tow Missile Carrier with a fully operational launcher" and an M151A1 Jeep for his clients.

On June 11, 1996, seven search warrants were executed at various locations. About $13 million of illegally diverted property was found and recovered. On October 3, 1996, a Federal grand jury in Madison, Wisconsin, returned a 17-count indictment against Donald Crandall and Dennis Lambert, two civilian employees of Fort McCoy; individuals named Anthony Piatz, Grant Kruger, and Lloyd Pilgrim; and two other persons. On February 11, 1997, Crandall pled guilty and is awaiting sentencing. On March 11, 1997, Piatz was found guilty of 11 counts including conspiracy, bribery, and unlawful conversion of Government property. Piatz was sentenced on July 23, 1997 to 97 months incarceration, 36 months of supervised probation, and a $600 special assessment. On June 13, 1997, Dennis Lambert, Grant Kruger, and Lloyd Pilgrim were found guilty to 10 counts of conspiracy and unlawful conversion of Government property. Sentencing is scheduled for September 1997. The other two individuals were found not guilty.

Forsyth Township Case

This investigation was initiated based on information provided by the Federal Bureau of Investigation, Marquette, Michigan. This information alleged that Perry

Foress, Chief of Police, Forsyth Township Police Department, Gwinn, Michigan, had fraudulently obtained DoD excess property from the Defense Reutilization and Marketing Office, K.I. Sawyer Air Force Base. The excess property was received under the auspices of the DoD Regional Logistics Support Office (RLSO) Program.

The Forsyth Township Police Department was a participant in the RLSO Program, which facilitates the transfer of excess DoD property to law enforcement agencies involved in counter drug activities. Foress, acting on behalf of the Forsyth Township Police Department and under the auspices of the RLSO Program, was authorized to screen and receive property at K.I. Sawyer AFB. An investigation determined that Foress converted to his personal use a Case tractor originally valued at $4,669 and two trailers originally valued at $2,084 each, which were obtained from the DRMO at K.I. Sawyer AFB for the Forsyth Township Police Department.

On August 11, 1997, Foress resigned his position as Police Chief and pled nolo contendere, in Marquette County Court, to a misdemeanor charge of embezzlement by a public official. As part of the plea agreement, Foress was sentenced to a $100 fine, $65 in court costs, and ordered to attend counseling.

Oseby Case

On July 21, 1997, Francis Butch Oseby was sentenced in U.S. District Court for the District of South Dakota, Northern Division, Sioux Falls, for charges of

conspiracy and payment of a gratuity. Oseby, who was convicted by jury trial in February 1997, was sentenced to 20 months of confinement, 4 years of probation, and to pay $50,000 in restitution and a $100 special assessment fee.

The sentence is the result of an investigation concerning the illegal acquisition and sale of Federal excess property obtained by Oseby and others from Defense Reutilization and Marketing Offices throughout the United States. Oseby and others were authorized screeners of Federal excess property for use by various tribal Indian reservations. Over a period of approximately 3 years, Oseby and others conspired to divert more than $80 million in Federal excess property for their own use and sale. Most of the property acquired never made it to an Indian reservation.

Summary

Property disposal is an important, but often overlooked, facet of DoD logistics. We welcome the Subcommittee's interest in our work on the subject and I should note that all of the audit reports that I have discussed have been provided to the various Congressional Oversight Committees for Defense, as is our routine practice. They are all releasable to the public.

Mr. HORN. Thank you very much. Let's proceed with the other witnesses, and we will question all of you singularly or jointly, as the case may be.

We now have Mr. David Warren, the Director of Defense Management Issues, U.S. General Accounting Office.

Mr. Warren.

Mr. WARREN. Thank you, Mr. Chairman.

I would like to also ask that my full statement be included for the record.

Mr. HORN. They will ultimately be included in the record. All witness' remarks are put in right after we introduce them.

Mr. WARREN. I will summarize my remarks.

I will just echo what the other witnesses have said: This is big business; $24 billion in acquisition value is a lot of money. When you think about that, that is twice the size of NASA's budget, for example; so there is a substantial amount of money here.

I would like to focus on three areas today. The first area relates to how the disposal process works and how it differs from the private sector disposal system. DOD's process is governed by numerous laws and regulations that require surplus property to be available to many organizations. As has been mentioned, these are contained and outlined in the Federal Property Act.

I would like to look at the first chart here, if you would, and that gives an overview of what has been discussed in terms of how this process works. The first two sections—Ken, if you would point out—deal with the excess property portion, and then the second section that gets into the surplus property and deals with what some of Mr. Smith was talking about in detail—and that is where the donation process starts—and then you get finally into the last area, the sales process, and this again—as I said—is laid out legislatively, the framework in which the disposal process works.

As you can see, the first priority is given to DOD activities, Federal agencies, and other entities such as law enforcement organizations and humanitarian relief activities. Second priority goes to those approved donee organizations such as State and local government and the Boy Scouts and Girl Scouts of America. As has been mentioned, the items that are left then are sold.

Usually the most attractive items are taken through the donation and transfer process—Mr. Smith mentioned this—leaving the lower value items for sale. I think this is interesting, though. Nonetheless, a substantial portion of the items are, in fact, disposed of through the sales process.

Ken, if you could point again.

Fully some 80-some percent actually go through the sales process. About 20 percent or less are actually donated or transferred. In terms of DLA's priorities, the DRMS priorities are, reutilization and transfer. So you have kind of an anomaly that is occurring here. The highest priority area, in fact, results in—at least from a volume standpoint, line item and dollars, in the lowest amount of activity, if you will.

In contrast, the disposal system of the private sector companies that we talked with—and this was particularly in the commercial airline industry where we did our work—are much different from the DOD system, and I would like to put up a chart to display that

as well, and I think it gives some helpful insights as to why the two systems are different.

I think it is important to point out—and I don't want to leave the impression with the members that these two systems should be directly comparable—the point that I would like to make here is that they are, in fact, different and that is why you see much different rates of returns. And if that dynamic is to be changed, then I think, in fact, there would have to be some policy changes along the lines of the first discussion with the initial witness.

As you can see, the airline companies place special emphasis on selling surplus property and creating incentives for employees to maximize return on sales. When we talked with these folks, basically what they said is, we just see this as another line of our business activity; we try to set this up in such a way that when our items get to the end of their life within our supply system, we are going to reap a benefit or a profit or a return on investment from those items. The staff are trained to understand aircraft parts technology and the application of those parts to existing systems that are out there in the market for sale.

As I have mentioned—and this is a key difference—there is no donation or transfer process within the private sector, so obviously the best items do, in fact, become available for sale. What we found in many cases is that, in fact, new items that had not been used at all and could be then put on the marketplace and, in some cases, sold back to the original equipment manufacturer, who could in turn resell those to new customers.

Now, what is the net effect of this? DRMS reports in the airline—I am sorry—in the aircraft part area, that they get less than 1 percent return on investment against the acquisition value. The private sector companies we talked with said that they were getting between 40 and 50 percent return. So there is a substantial opportunity, but at the same time, again, I want to leave you with this, they are not directly comparable.

The second area that I want to address is DOD's actions to improve the management of property disposal process. To its credit, DOD recognizes that it needs to improve the process and has adopted or is planning a number of actions in that regard. For example, DOD is employing or considering key initiatives such as contracting with auctioneering companies to conduct sales; they are using the Internet to advertise available property; and, as you mentioned in your opening statement, they are working on an enterprise management plan to make DRMS, in essence, look and operate more like a private sector company. I would say that we see all of these as positive steps toward improving the management of DRMS.

Last, and this has also been touched on a little bit, but I want to address outsourcing. There have been several reviews that have been made of DOD's business operations, such as the Defense Science Board, the Commission on Roles and Missions, and others, and they have recommended that many DOD business activities be outsourced.

Also, there has been a recent legislative proposal out of the House that would, in essence, require that all DRMS activities be competitively outsourced. We agree with the aim of this legislation.

Our work does show that there are some impediments to accomplishing that. However, it also indicates that they can be overcome.

The impediments relate to the size and scope of the disposal operations and the lack of a demonstrated commercial capacity out there to take on this huge volume of disposal activities that has been described. However, in discussions with industry, government officials, and DLA officials, they understand these impediments are there but believe, in fact, through a case-by-case analysis that outsourcing opportunities do exist.

Overall, our work, not directly in DRMS but with other Federal activities and within the Department of Defense, has shown that whenever you put in this public-private type competition, the result is that the ultimate cost to the taxpayer is driven down, whether the winner comes from the public sector or from the private sector. So we think there is a lot of merit to looking at the opportunities for accomplishing that type of a process within DRMS.

Mr. Chairman, that summarizes the key remarks in our statement, and we would also be happy to answer questions.

[The prepared statement of Mr. Warren follows:]

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here to discuss the Department of Defense's (DOD) process for disposing of surplus personal property. Surplus personal property can be any items other than real property, which is land and buildings and items permanently attached to them. Personal property includes items such as aircraft parts, computers, furniture, and clothing. DOD maintains a complex disposal system that is characterized by massive volumes of excess property. In fiscal year 1996, for example, DOD disposed of millions of items with a reported acquisition value (the amount originally paid for the items or most recently paid for similar items) of almost $24 billion. Our testimony today will focus on (1) an overview of how the disposal process works and how it differs from private sector disposal systems, (2) the means used to dispose of personal property, (3) efforts to improve the efficiency and effectiveness of the current disposal operation, and (4) opportunities to improve aspects of the disposal function through competitive outsourcing.

SUMMARY

DOD's disposal process is governed by numerous laws and regulations that require DOD's surplus property be made available to many organizations. Thus, the best items are taken through the transfer and donation process leaving the least marketable items available for sale. This and other factors contribute to DOD's low rates of return. Although the private sector obtains higher rates of return than DOD for comparable items, it does not handle the quantities, types, and conditions of items that DOD does. Thus, the private sector is able to develop disposal expertise and tailor its disposal strategies so that it obtains higher rates of return.

DOD recognizes that it needs to improve its management of property disposal and has adopted or is planning to adopt a number of commercial practices that should help improve its operations. DOD is also involving the private sector in certain aspects of the

process, particularly in the sales of surplus property, to improve its rate of return and become more business-like in its operations. In addition, aspects of DOD's disposal process that are deemed to be not inherently governmental functions may be outsourcing candidates–an aim we supported in recent legislative proposals.

BACKGROUND

The Federal Property and Administrative Services Act of 1949 (P.L. 81-152), as amended, placed responsibility for the disposition of government real and personal property within the General Services Administration (GSA). GSA delegated the responsibility for disposal of DOD personal property to the Secretary of Defense, who in turn delegated it to the Defense Logistics Agency (DLA). DLA established the Defense Reutilization and Marketing Service (DRMS) to carry out the disposal function. Although DRMS disposes of the majority of items generated by DOD activities, certain categories of items, such as nuclear devices and cryptographic equipment, are disposed of by other means.

In fiscal year 1996, DRMS had about 170 Defense Reutilization and Marketing Offices (DRMO) worldwide that receive and dispose of personal property for DOD activities. It also employed about 3,700 people and disposed of millions of items with a reported acquisition value of almost $24 billion.

Data Indicates Operating Losses And Low Rates Of Return On DRMS' Disposal Operations

With a few exceptions, historical data indicates that DRMS has experienced operating losses in recent years and low rates of return on disposed items. For example, DRMS reported net operating losses in three of the four years from fiscal year 1993 through 1996. These losses ranged from a low of $84 million in fiscal year 1996 to a high of $153 million in fiscal year 1995. DRMS' overall rate of return on the reported acquisition value of all usable surplus property it sold in fiscal year 1996 was 1.97 percent. For fiscal years 1995 and 1994, the rates were 2.28 and 1.83 percent, respectively. DRMS calculates the

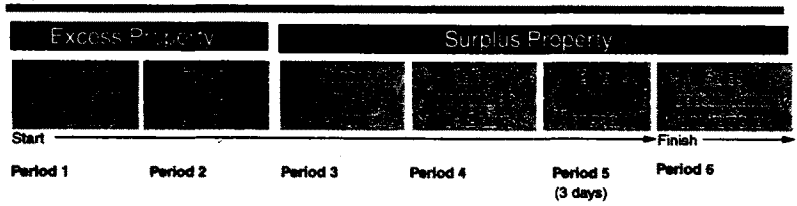
rate of return by dividing the proceeds from the sale of usable items by the reported acquisition value of usable property sold. DRMS' overall rate of return is based on all usable items sold (excludes scrap).

The rates of return on property disposal at overseas DRMOs are higher than in the continental United States. For example, in fiscal year 1996, the rate of return for DRMOs in Europe was 6.98 percent, whereas the rate in the Pacific region was 2.88 percent. The higher rates of return at overseas DRMOs are primarily due to better items being available for sale because of fewer overseas transfer and donation customers. The lower rates in the Pacific region, as compared to Europe, are due to (1) bilateral agreements that give the host country "first right of refusal" (i.e., first opportunity to buy the items), (2) a smaller customer base, and (3) higher shipping costs incurred by customers due to longer distances.

DOD'S PERSONAL PROPERTY DISPOSAL PROCESS IS GUIDED BY LEGISLATION WHILE THE PRIVATE SECTOR HAS GREATER FLEXIBILITY

Figure 1 shows a general overview of the personal property disposal process.

Figure 1: The Personal Property Disposal Process



The disposal process, which is governed by numerous laws and regulations, starts when DOD activities turn in items to the DRMOs for disposal. Upon arrival, the items are inspected, condition and demilitarization (i.e. rendering an item militarily unusable) codes are verified, the type of sale is determined, and items requiring special handling such as hazardous material and precious metals are identified in order to apply extra controls. Items are accumulated for 2 to 4 weeks and then processed together. At anytime during the process, all customers may screen items and attach tags, indicating a desire to have them, but the items may only be issued and removed in accordance with established priorities. First priority is given to DOD activities, federal agencies, and other entities with legislative priority equal to DOD, such as certain law enforcement organizations and

[a]Property not needed by DOD activities is considered to be excess and is available for reutilization by other DOD activities, transfer to other federal agencies, and transfer to organizations that have been given priority equal to that of the federal government for the purpose of obtaining excess personal property.

[b]Property not needed by the federal government or organizations with equal priority is considered surplus and is available for donation to eligible organizations or for sale.

humanitarian relief agencies, among others. Second priority goes to approved donee organizations, such as state and local governments, museums, and Boy and Girl Scouts. Within these priorities, items are dispensed on a first-come, first-served basis. Customers have 14 days to requisition and 14 days to remove items, unless otherwise agreed with the DRMO. Items that are tagged but are not removed within the prescribed time frames are available for use by other qualified organizations during a 3-day period known as the "blue light special."

Items that still remain after this part of the process has been completed are sold to the general public through three types of sales–international, local, and retail. International sales are used for items with global appeal, such as machine tools, or property that requires additional controls, such as hazardous materials. After several hundred items are accumulated, a catalog is published, and sealed bids are solicited. The high bidder for items requiring extra controls or demilitarization undergoes a clearance process before the award. The DRMOs use local sales for items that do not have global appeal and either publish a catalog or hold an auction at the DRMO. Sealed bids are solicited for the catalog sales, and on-the-spot bids are made at the auctions. Items with commercial appeal, such as computers, furniture, and clothing are sold at retail stores at 40 DRMOs. Retail sales are made on a cash and carry basis.

Disposal Systems In The Private Sector

The disposal systems of private sector companies, particularly the commercial airlines, are much different than DOD's system, which is based on statutory requirements. For example, the airlines we interviewed place special emphasis on selling surplus property and create incentives for employees to maximize the return on sales. These companies expect to obtain reasonable proceeds from the surplus aircraft parts they sell and are less concerned than DOD with how quickly the property moves off the warehouse shelves. To maximize sales proceeds, staff are trained to understand aircraft parts terminology and the applications that exist for various parts. This training and experience make it more

likely that highly marketable parts will be identified and marketed appropriately. Further, the staff often specialize in selling a specific category of part, such as engine parts, to promote a better understanding of the parts and the markets to which they sell.

In addition, progressive commercial companies provide employees with the resources to effectively sell surplus property. Marketing staff are provided a wide range of sales tools and techniques and are held accountable for the property they intend to sell. At one airline, sales personnel are responsible for the sale of the surplus property and are rated on how well they maximize sales proceeds. Figure 2 compares the differences between DOD's and the private sector's disposal processes.

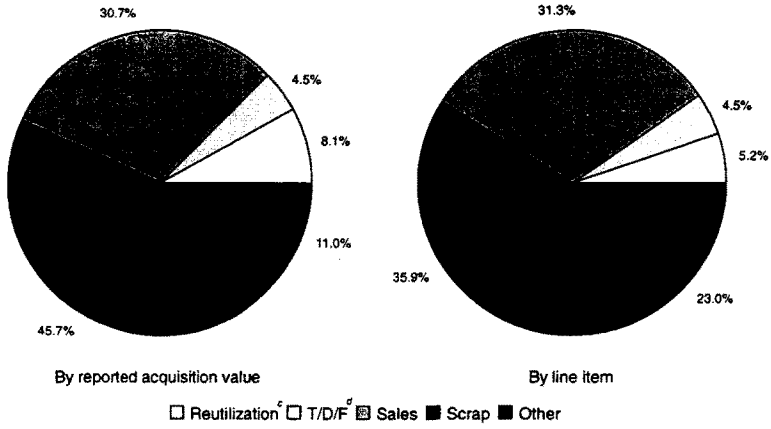
Figure 2: Comparison of DOD and Private Sector Disposal Processes

• **DOD**	• **Private sector**
• Emphasizes moving items quickly and complying with laws	• Emphasizes maximizing return
• Handles huge quantities, types, and conditions of items	• Handles few quantities, types, and conditions of items
• Cannot develop disposal expertise for 7 million active line items	• Can develop disposal expertise for fewer items
• Has rigid disposal system defined by laws and regulations; all items treated the same	• Can tailor disposal strategy on an individual item basis
• Best items are taken through transfers and donations	• Best items are not taken through transfers and donations
• Sells items that are usually not new	• Sells items that often were over bought or did not sell well (i.e., new items)

LARGE MAJORITY OF ITEMS DISPOSED OF THROUGH SALES AND SCRAP

DOD's primary disposal objective is to maximize the reuse of surplus property within the military services, various levels of government, and authorized organizations before offering the property for sale to the general public. Despite this goal, DOD actually sells most of its surplus property to the general public either through sales efforts or as scrap, as shown in figures 3 and 4.

Figure 3. Average Dispositions, FY 1992-96



[d]Includes personal property (1) transferred (2.1%) to other federal agencies or organizations given priority equal to the federal government, (2) donated (2.1%) to eligible organizations, and (3) sold (.3%) to foreign military sales customers--the system through which government-to-government sales of military equipment are made.

Note: Totals for the line item dispositions do not add due to rounding.

Figure 4. Disposition by Reported Acquisition Value, FY 1992-96

Dollars in millions	FY 1992		FY 1993 [f]		FY 1994		FY 1995		FY 1996	
Reutilization	1,600	7%	1,770	5%	2,146	8%	2,295	9%	2,848	12%
Transfers	540	2%	532	2%	532	2%	575	2%	465	2%
Donations	502	2%	610	2%	648	2%	551	2%	592	2%
Sales	5,100	22%	9,100	26%	8,722	34%	9,189	38%	8,459	35%
FMS	99	<1%	18	<1%	84	<1%	42	<1%	133	1%
Scrap	9,882	43%	14,553	42%	13,557	53%	11,372	48%	11,099	47%
Other[e]	5,744	24%	7,878	23%	344	1%	318	1%	305	1%
Total	23,467	100%	34,461	100%	26,033	100%	24,342	100%	23,901	100%

DOD HAS EFFORTS UNDERWAY TO IMPROVE DISPOSAL OPERATIONS

DOD is seeking to improve its disposal process by using more commercial practices and making greater use of the private sector in disposing of property. While we have not done recent work in this area, our 1994 report stated that, while not always directly

[e]According to DRMS personnel, the "other" category was significantly larger in fiscal years 1992 and 1993 than in subsequent years because it was used as a "catch all" category.

[f]Fiscal year 1993 disposals were larger than other years because of DOD base closures and drawdowns (force reductions).

comparable to DOD, the commercial airlines' system for selling surplus aircraft parts reflects the profit incentive.[8] The airlines we interviewed expect to obtain reasonable rates of return on the surplus aircraft parts they sell. Officials from one airline told us they often receive as much as 50 percent of the manufacturer's list price (the price of the parts brand new) from the sale of their surplus aircraft parts.

Commercial companies use marketing techniques that substantially enhance the visibility and marketability of their parts, including (1) identifying highly marketable commercial-type parts, (2) selling the parts as Federal Aviation Administration certified, (3) arranging parts into sales groupings that meet buyer needs, and (4) actively marketing the parts to a full spectrum of civil aviation buyers. Even though it may not be practicable for DOD to duplicate commercial marketing techniques because of competing priorities, DOD could substantially increase its proceeds by adopting some basic marketing practices that have worked successfully in the private sector. Critical to the success of such practices, however, will be the establishment or realignment of incentives.

Compared with the private sector's rates of return for similar items, DRMS rates are low. As noted earlier, airline companies report receiving as much as 50 percent of the manufacturer's list price for aircraft parts. One reason for DRMS' lower rates of return is that many of the aircraft parts it disposes of have only military application, and those parts with commercial application are not certified by the Federal Aviation Administration, a requirement for commercial use. Another factor for the lower DRMS rate of return is that the best items are reutilized, transferred, or donated, leaving the least marketable items available for sale. The volume and types of items DRMS disposes of annually (about 4 million line items) also make it difficult for DRMS to develop expertise or tailor disposal strategies for individual items, as the private sector does. Moreover, the quantities, constant influx of items, and time limits on the various phases

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[8]Commercial Practices: Opportunities Exist to Enhance DOD's Sales of Surplus Aircraft Parts (GAO/NSIAD-94-189, Sept.23, 1994).

of the process drive DRMS' emphasis on moving items through the process quickly to make room for incoming items.

DOD Initiatives

In response to the recommendations made in our report and by others, DOD has developed several initiatives, changed some of its business processes, and adopted best practices to improve its property disposal operation. For example, DOD is employing or considering key initiatives, such as contracting with private auctioneering companies to conduct property sales, using the Internet to advertise available property, selling the property to private contractors that will dispose of it and share the proceeds with DOD, and allowing property located at the depots to remain there rather than shipping it to the DRMOs to save labor and other costs. DRMS has also hired a financial advisor to assist in developing proposals for joint venture arrangements with the private sector.

In addition, DRMS plans on restructuring its organization, under a concept known as Enterprise Management, to operate and compete similar to a private enterprise by reorganizing into (1) a corporate and leadership unit, which will be staffed by government employees to handle inherently governmental functions, such as senior management and legal functions; (2) a utility function, which will handle the reutilization, transfer, and donation functions with the help of private firms, and (3) a marketplace function, which will contract with the private sector to handle sales and disposal of hazardous wastes. DOD activities will be able to choose whether they want to use DRMS' services for a fee or sell the property themselves.

DRMS' ACTIVITIES APPEAR TO BE CANDIDATES FOR OUTSOURCING

Several recent reviews of DOD military forces, such as the Report of the Defense Science Board, the Commission on Roles and Missions, the Quadrennial Defense Review, and the Bottom-Up Review have recommended that competitive outsourcing be considered as an

option to reducing costs, streamlining operations, and improving performance. The intent of competitive outsourcing is not to automatically give work to the private sector, but to determine, on a case-by-case basis, just how competitive the marketplace is and to take advantage of outsourcing if there are efficiencies to be gained through this means.

Legislative proposals have been introduced this year in Congress specifically related to the competitive procurement of services in connection with the disposal of surplus property at DRMS' locations. In particular, section 1402 of H.R. 1119 (the National Defense Authorization Act of 1998) requires that the Secretary of Defense establish procedures to conduct competitions among private sector sources and DRMS, and other interested Federal agencies, for the performance of all such services at a particular site. Since DOD has identified DRMS as not an inherently governmental function, and, therefore, a candidate for outsourcing, we agreed with the aim of this legislation.[h]

In August 1995, we reported that DLA cited several impediments it believed would limit them from fully outsourcing the DRMS operation and would need to be carefully considered before an outsourcing decision was made. Some of the impediments related to the size and the scope of DRMS' operations; the lack of a demonstrated, comparable infrastructure in the commercial marketplace to manage the DOD disposal function; how a contractor would or should operate to ensure DRMS' mission is given the required level of emphasis; time and resource constraints with Office of Management and Budget Circular A-76 procedures; and difficulties in preparing and administering contracts. Generally, the government and private sector officials we interviewed did not believe these impediments to be significant. DLA officials, while concerned with these impediments, indicated that DLA supports the outsourcing of functions or operations, on a case-by-case basis, where there is demonstrated competence in the private sector that will provide equal or better disposal services.

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[h]1997 Defense Reform Bill: Observations on H.R. 1778 (GAO/T-NSIAD-97-187, June 17, 1997).

Mr. Chairman, this concludes our statement. We would be happy to answer any questions you or the members of the Subcommittee may have.

(709301)

Mr. HORN. Well, I thank you very much for the thorough studies that GAO has done in this area and that the inspector general has done in this area.

Let me ask a few general questions here. I remember years ago, a fairly powerful Pennsylvania Congressman got the NATO forces and the U.S. Supreme Command there to buy a tremendous amount of coal, which was shipped to Europe and every year or so dumped into the Atlantic Ocean, so the next wave of coal could come from Pennsylvania.

How many cases have we run into where they are selling out of one door surplus parts and we still have contracts where various plants around the country are manufacturing the same parts to meet service needs? Have we, do you think, caught up with trying to find this anomaly where we are still paying for new parts and they are selling the old parts, which aren't even used, out the back door? What do you think?

Mr. LIEBERMAN. Well, I think we are doing better than we used to.

Mr. HORN. Do you mean the Pennsylvania Congressman either died or retired?

Mr. LIEBERMAN. I am not sure whether we are still taking coal to Newcastle or not, but we are shipping bottled water across the ocean to the PX's in Europe and things like that.

But the problem of asset management in the Department is a very, very difficult one. We are not there yet in achieving what the logistics community calls total asset visibility, so we know what materiel we have before we buy any more.

However, as I said, a lot of attention has been paid to that, actually ever since Desert Storm, when it was really brought home to us that we didn't know what we were sending over to the gulf in the tens of thousands of containers that we sent.

So a lot of money has been put into automated systems. Computers are really the tools that should enable us to overcome that problem. We are still finding incidences where bad disposal decisions are being made, yes, and sometimes some of the criminal cases we have relate to people manipulating the system to dispose of items in order to create illicit profits for someone.

Mr. HORN. Well, on those criminal cases, is there a pattern here where the criminal activity is operated out of the local offices and depots? Has somebody put the touch on some of the staff involved to get a good deal, which they can sell at what would be very high prices if you get it at a very low price?

Mr. LIEBERMAN. Some of them certainly involve collusion by Government personnel or bribery. I don't know what the breakdown is. We would be happy to provide that kind of analysis to you. It is a mixed bag.

Mr. HORN. If you would, without objection, put it at this point in the record, I think we would like to take a look at that. I think we have all had a lot of lessons, whether it be spies or people dealing with equipment, that we sometimes aren't scrutinizing their IRS filings enough, if they are filing, and I would like to know if those criminal cases revealed that part of it was an income tax problem when they finally got into it.

Mr. LIEBERMAN. OK.

[The information referred to follows:]

A review of the investigations conducted by the Defense Criminal Investigative Service (DCIS) for the last 2-year period disclosed that 185 investigations involved the Defense Reutilization and Marketing Service (DRMS). To date, sixty-six of these cases have resulted in criminal, civil or administrative action including 35 arrests, 97 indictments, 65 convictions, 3 civil charges and convictions, $1.2 million in recoveries and $78.5 million in seizures.

In these cases, there were 130 subjects (individuals or companies) for which some type of action was taken. Twenty-three of these subjects were Government employees. All of the criminal charges involving the Government employees were investigated as violations of Title 18 United States Code, Section 641 (theft of Government property) or Section 371 (conspiracy). None were charged with tax code violations.

No formal program is in place for the Internal Revenue Service (IRS) to review these cases for either criminal or civil adjudication. On a case by case basis, however, DCIS investigators may refer cases to the IRS for its review. During the last 2-year period, there have been no referrals to the IRS of theft cases involving the DRMS.

Mr. WARREN. If I could just also add, we also have work that would indicate that there are still problems in terms of this issue of total asset visibility, and item managers are, in fact, going out and purchasing items that, as part of this process. One of the things that can happen in here is that if an item manager has sent something into the disposal process but then, for whatever reason, determines or finds that, hey, I need that back, they can go back and dip in and get priority.

We have some work under way that indicates now that, because of the lack of good asset visibility, that is not happening as often as it should and, in fact, some items continue to be purchased while that same item is moving through the disposal process.

Mr. HORN. Well, on that very point, are items that are submitted as surplus—is that a signoff from the buyer that has bought and might still be buying those that this is no longer needed?

Mr. WARREN. Yes, sir, that would be correct. That's the process.

Mr. HORN. They do have the process.

Mr. WARREN. The process is there, but the difficulty for them, as I understand it, is the visibility to be able to go back into the disposal process to determine where that item is and to be able to pull it back when they need it, so that, as Bob said, I think, improvements have been made, but I don't think it would be appropriate to leave you thinking that that problem has been totally cleared up.

Mr. HORN. Well, I realize that military turn over a lot of these jobs every 2 years, for experience sake, and that's a difficulty. But is there any coding or tying in where you have the buying arm and the disposal arm that have to come together, and what do we find are the problems there when that doesn't happen?

Mr. WARREN. There is a process, but I think, again, where the breakdown is is the timely and accurate exchange of information within that process.

Mr. HORN. Well, are you satisfied with it and is the inspector general satisfied with it?

Mr. WARREN. Well, from where I sit, I think we will be recommending that there be improvements made to that process.

I can't emphasize enough the point that Bob made about total asset visibility and that this is a total logistics problem. The Department has been working on achieving total asset visibility for

probably 10 to 15 years and is still not there. If there were one thing I think that you could do to improve the entire economy and efficiency of the logistics system would be to make and get that process in place as quickly as possible.

Mr. HORN. Let me move to who should demilitarize dangerous pieces of equipment. Where is that burden now, on the military or on the disposal service and its experts in either warehousing or wherever? How do we handle that?

Mr. LIEBERMAN. Well, the decisions on what needs to be demilitarized and to what extent are made by Government personnel. The actual disposal—the mechanics of the demilitarization, as putting a torch to a gun barrel or whatever, is often contracted out. Some of it would be in house.

Mr. HORN. Well, what I am trying to get at here is, let's take munitions. I mean, aren't the military the best people in the field to know whether this is a live piece or not? And, if so, do they have the capacity to do something about it in demilitarizing it, let's say—unless there is a better word for it—in the field, before it is ever sent from either the warehouse, where we often have them stacked high, and no sergeant or private or captain has ever gotten their hands on it. They are just sitting there, and sometimes we don't even know they are sitting there, and that bothers me.

But where is the point in the organization where somebody will technically know whether that is live or not live? From the demilitarized sense, it could be a hazard to someone.

Mr. WARREN. Again, if I could use the chart to my left, imagine that those are the military personnel that are making the decision about whether or not an item should be put into the disposal process, and they would also do the coding with regard to the condition of the item and whether it needs to be demilitarized. Then, when it comes into the disposal process, that actual activity would take place.

Mr. HORN. Well——

Mr. WARREN. So it is a handoff.

Mr. HORN. OK. In the cases that did occur, did we trace it back to find out where the error was made?

Mr. WARREN. Our data have shown that it has happened on both sides. Sometimes it is poor coding from the military members as they move it in; sometimes it is poor screening. DLA does go through a screening process when they receive the items, and poor screening occurs.

Mr. HORN. Well, when we say poor coding, are we talking about a judgment call and the wrong number is in this column, or are we talking about somebody that is semi-illiterate and you can't read their handwriting—not that you have to be semi-illiterate.

Mr. LIEBERMAN. Well, actually, we are really talking about illegible signatures.

If you read our report on munitions items, there is a certification process. When the military installation turns over fireshells, for example, to the Defense Reutilization Marketing Office, they are supposed to certify that that materiel is no longer hazardous, it is inert, and it is not dangerous. And there is a nice control on paper which includes certification that a technically qualified person has inspected the materiel. But we found in our review that this certifi-

cation process really isn't working very well, that people like truck drivers are certifying that ammunition is inert, and they have no idea what they are doing. People are turning in the right form, but sometimes the signature is illegible or blank, and that is being accepted.

So, again, we have good controls on paper, but the execution leaves a lot to be desired. Those sorts of mundane problems cumulatively led us to the conclusion in our report that the Department just needs to put a whole lot more emphasis across the board on this whole disposal process, especially the demilitarization aspects.

Mr. HORN. On that very point, is the service inspector general in the Army or Navy or Air Force or Marines—are they looking at those processes and not just the DOD inspectors general? It seems to me an ordinary part of their work when they get down to small local commands is to look at whether the military's processes are being adhered to.

Mr. LIEBERMAN. I agree, and I would have to say that they have not been as active in this particular area as we would like them to be. It is a matter of emphasis. Because we are talking about local installation level decisions, you are absolutely right that this is a very difficult process to oversee centrally. So since we have inspectors general throughout the military apparatus at all organizational levels, we would want to push down that responsibility and make it a continuing thing at every installation and base worldwide.

Mr. HORN. You are absolutely right.

Now, how do we get our hands on that in terms of communication with the Secretary of the Army or the Chief of Staff and say, why isn't this looked at? Surplus, potential surplus property, or surplus property; why haven't we looked at the processing by every installation we visit? They visit Reserve Forces and they visit the Active Forces. It seems to me that should be part of the routine when you go to a base and see what kind of an organization the commander is running at that base, fort, camp, air base, whatever it is.

Mr. LIEBERMAN. Well, I would like to think that this body of reports that we have put out will generate that kind of activity.

Certainly, Secretary Cohen himself was very upset about the fatal accident in California, and when he requested us and everybody else to go look at this, it was a clear signal to the Department that at the very highest levels the safety issues were considered of paramount importance.

So normally the system reacts well when they see what a new boss is interested in, and I think the fact that we have had fatalities really brought home that we have a problem.

Mr. HORN. Well, have any orders been issued yet based on your reports?

Mr. LIEBERMAN. Yes. We have made, cumulatively, probably about 40 recommendations, and I would say nearly all of those are being implemented.

Mr. HORN. And at what level are they being implemented?

Mr. LIEBERMAN. Well, they are a mixed bag. In many cases they require centralized guidance to be formulated, so——

Mr. HORN. That could take years, couldn't it, trying to get all the signatures around the Pentagon?

Mr. LIEBERMAN. Well, that has happened on occasion, and I wouldn't want to predict that it won't happen, but in this case the kinds of actions we are talking about should not take that long. We should be talking weeks or, at the most, a few months, but certainly in—a year from now, or even 6 months from now, if we found lack of action, we would be reporting that to the Secretary and making a major issue of it.

Mr. HORN. Well, I think in about 3 months this subcommittee ought to be asking him, what have you done in terms of implementation of these recommendations, because we, as you know, are in the process, under the law 5 years ago, of getting proposals on results-oriented government, and it seems to me, in this niche of the Pentagon, there should be some very careful looking at how we measure results, and certainly safety should be a part of it.

I would like to yield to the gentleman from Illinois, Mr. Davis, for questioning.

Mr. DAVIS of Illinois. Thank you, Mr. Chairman.

Mr. Lieberman, I have come to the conclusion that downsizing, reorganizing, and the adoption of commercial practices at DRMS may have a disruptive effect on that organization—it may not, but then, it may, there is a possibility—and actually make it more difficult for them to control what they are doing and really account for the actions of the agency.

Do you have any recommendations that would help prevent that from happening or to address that problem should further downsizing occur?

Mr. LIEBERMAN. Well, I share your concern. I think it is a commonly accepted fact that any organization that is in a state of turbulence, adapting new practices, restructuring, or changing the outsourcing and in-house mix of its work, is subject to higher risks than ones that are in a more stable state.

We, hopefully, have learned how to transform organizations and processes without really falling down on the mission, because we have been doing that reengineering throughout the Department for the last few years. Virtually every part of the Department of Defense has been going through business process reengineering, a lot more outsourcing than before and what-have-you.

I would say the key is to decide what the game plan is and then stick to it; that is, a stable plan that does not change all the time. For that to happen, the Department and the Congress need to work together. If the employees know what the game plan is, you are going to have a lot fewer morale problems and confusion and things like that.

The worst thing that can happen is, 1 year we decide we are going to compete half of the functions in the organization, and then the next year it is everything, and then we go back to something less. So we need stability in the plan.

Then I think it needs to be explained that when you compete, when you have a public-private competition under the OMB Circular A–76 rules, it is an above-the-board process. In fact, I am committed to help the Defense Logistics Agency make sure that any A–76 competitions they run in DRMS or anywhere else are

done fairly and that the numbers that they end up comparing are correct, and we will do that.

So there will be controls in that process, and I think a little bit—well, a lot—of forethought is necessary. If we are going to outsource, we need to make sure that we know how to write contracts that make sense and get the job done, we provide adequate controls, and we have the in-house expertise in place to oversee those contracts.

It is quite different overseeing a contractor than running an in-house operation, and we want to make sure that we train people properly so that we have proper contracting procedures in place.

Mr. DAVIS of Illinois. So you are saying that a solid planning process with a firm commitment in terms of what you are trying to do and what you are planning to do, and the active involvement of the employees or the work force who are involved in that situation, will probably be, net, the most, or the best results?

Mr. LIEBERMAN. Yes, sir.

Mr. DAVIS of Illinois. Do you have any estimates of the amount of money that is lost to the Federal Government as a result of improperly demilitarized equipment?

Mr. LIEBERMAN. No, I don't.

Mr. DAVIS of Illinois. Any assumptions? I mean, are we losing, in all probability, a great deal, or do we just know that the system isn't working and that all of these shenanigans that we are hearing about are taking place?

Mr. LIEBERMAN. Well, we do have lots of specific incidents. It is difficult to know what we don't know, and it is a very tough problem to get a handle on overall. I can't give you a good estimate, for instance, of how much money have we spent demilitarizing items unnecessarily; I don't know.

We found specific instances. In one example we found 10,000 tools at one contractor's plant—I believe it was a McDonnell Douglas plant—that had been earmarked for full demilitarization. They were old tools, obsolete. We went back to, in this case, the Navy and asked them whether they really wanted to pay for the demil costs, which in this case would have been $9.5 million, and they said certainly not. They had just taken over that plant from the Air Force in terms of plant cognizance. They didn't know anything about it. They hadn't been part of the decision. They said only about one-fifth of the tools needed to be demilitarized.

So, fortunately, we were able to stop that before it happened, but how much it has happened over the years, we really don't know.

Mr. DAVIS of Illinois. Could not some of these be characterized as criminal acts of subterfuge?

Mr. LIEBERMAN. There is a lot of criminal activity going on in this area, yes. At the present time, we have 111 open cases. This is a large part of our investigative workload. The good news is that we are identifying a lot of these schemes and successfully prosecuting the offenders, and the bad news is, we don't know how much activity is going on that is not detected.

By the very nature of this process, all of these items out there that are spread all over the world—literally; a tremendous volume of things going through the process. Heavy reliance on low-level personnel to make decisions about what is going to be disposed of

and what isn't; challenges in maintaining the security of these items and other things like that. It is a high-risk area and always will be, no matter who is doing the actual processing.

Mr. DAVIS of Illinois. Would careful scrutiny of the system—that is, having a system in place, scrutinizing it carefully, coupled with effective prosecution—do you think this would significantly decrease the problem?

Mr. LIEBERMAN. I think that we will find criminals trying to attack this process forever, as long as there is this volume of materiel out there. It is just too tempting.

As I said, we have had what we regard as a pretty successful investigative program in this area, and I think DRMS deserves a lot of credit for being very cooperative, because they share your concern completely, and they have been very helpful to us in doing things like organizing undercover operations and things like that.

Just the intrinsic nature of this process is such that, just like banks, the disposal offices are always going to be under a criminal risk.

Mr. DAVIS of Illinois. We continue to hear, I guess, suggestions that it might be time to privatize DRMS. Is that a good idea? Are there alternative ideas? Is this the best way to get at what we are trying to accomplish? Do you have any thoughts about that?

Mr. LIEBERMAN. Well, I would prefer not to get too deeply into that, because I do have to do that work I referred to earlier in terms of independent reviews of their outsourcing studies, so I don't want to indicate a bias one way or the other.

But I would say, in general, the inspector general supports the idea of public-private competition whenever we are not talking about intrinsically governmental functions, and there are certainly parts of DRMS that are clearly not intrinsically governmental functions, certainly the actual sales area itself.

Mr. DAVIS of Illinois. Thank you very much.

Mr. Warren, I gleaned from your testimony suggestions that would, or possibly could, cause one to think or feel that you are suggesting that DRMS is a good candidate for outsourcing or privatization. If that is the case, could you share with us why you think so?

Mr. WARREN. Yes. We believe it would be a good candidate, because the types of things that DRMS is doing, there is currently a market out there that would serve as a competitive base to take over these functions and then hopefully drive down costs.

Now, as I said in my opening statement, we are not advocating just a wholesale privatization to the private sector. What we have found is that when you take and put public activities in competition with the private sector, that, overall, that generates a reduction in cost to the taxpayer, whether the private sector wins or whether the public sector wins.

But one of the key triggers in making that positive result occur is that there has to be a very competitive market out there. What you don't want to do, for example, is to enter into an outsourcing or a competitive strategy where you only have one or two competitors and so, as a result, you are moving almost into a sole-source type of situation, so you are not going to get that competitive dynamic that helps to drive it down.

The experience has been, again, where there are companies that are performing like functions, that the opportunity is greatest there to have an effective competition that drives costs down. You see this happen, for example, a lot on your military bases and some of your support activities such as taking care of the maintenance of the grounds, in terms of taking care of laundry functions and in terms of taking care of road maintenance functions.

All of those are types of things that are very transferable to activities that are occurring in the private sector, so that when you go out to compete, you can really have a good, solid competition and the costs can be driven down. So that is why we see this as a likely candidate to move into that process.

The other part of that is, under the A–76 process, it requires for the public sector to identify their most efficient organization. We think that is extremely important. Many segments of the Department of Defense business activities need to desperately reengineer their activities to come closer to current modern business practice, particularly as it relates to the use of technology to substitute technology for capital investment in labor and other activities. So those are the key reasons why we see this as a likely candidate.

Mr. DAVIS of Illinois. Do you have any dollar figures or estimates or percentages of how much DRMS is already contracting out or what part of its total operation?

Mr. WARREN. I do not have that. I do know they have entered into some contracting relationships, but I do not have a dollar number with me today; no, sir.

Mr. DAVIS of Illinois. And, finally, I know that we try to think and plan as comprehensively as possible. In your thinking, do we give much consideration to what happens with the work force should we move to the point of greater privatization and outsourcing?

Mr. WARREN. I think there is always a great deal of thought given to that. I think the real issue that underlies that: Is that going to be satisfactory to everyone? In other words, what the ultimate outcome will be.

Typically, what we have seen in the outsourcing and, let's say, when the private sector wins, or even when the public sector wins, but more so the general trend is, there are lower salaries and fewer employees performing that function. In the public sector, what happens is that there are fewer employees performing that function.

As I have looked at this outsourcing issue over the last couple of years, I think one of the things that the Department and the Congress needs to put a lot of attention and focus on is, how do we create this transition from the existing work force that we have today into the work force that we are projecting for the future in such a way that everybody feels that it is equitable and a fair process has occurred as we achieve a more effective and efficient government? And that is probably the most difficult thing out there.

Mr. DAVIS of Illinois. And you just don't think that we can shape the civilian operation to the point that it can be competitive in this instance perhaps?

Mr. WARREN. Well, no; I think there is an opportunity that very well could be shaped to be competitive in this situation, but, in all

likelihood, that would result in some impact on personnel who are currently performing some of those functions.

But I wouldn't want to prejudge that activities of DRMS couldn't very well go in, reengineer, and, again, through the use of technology as an enabler, come up with a more efficient operation than they have today that is highly competitive with what you would see in the private sector.

Mr. DAVIS of Illinois. Thank you very much.

I have no further questions, Mr. Chairman.

I thank both of you gentlemen for your responses.

Mr. HORN. I thank the gentleman.

With reference to the question that Mr. Davis raised, I am going to ask to insert in the record at this point two documents. One is the document from the American Federation of Government Employees relative to this, and the other is a document of the National Association of Aircraft and Communication Flyers, which is also relevant to this. So, without objection, this will be inserted in the record following Mr. Davis's comments.

[The AFGE document referred to follows:]

FAX

Date: Thursday, September 11, 1997 **Time:** 2.49:25 PM 8 **Pages**

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Comments:

Dear Honorable Horn:

Subj: Hearing on the DRMS, 12 Sep 97

Unfortunately I have neither been invited to your subcommittee hearing nor am I able to attend. However, I do wish to read into the record the enclosed Press Release which I previously prepared. As the senior AFGE Union representative for the more than 2500 DRMS Bargaining Union employees, I believe my words should have some bearing on your recommendations.
Very respectfully,

Rich Peternel

DLA Council of AFGE Locals

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DRMS ENTERPRISE MANAGEMENT

INFRASTRUCTURE REDUCTIONS

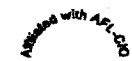
For Immediate Release

Contact: **Rich Peternel**
DLA Council of AFGE Locals
(616) 961-7063

Battle Creek, MI 49016 *(April 11, 1997) The American Federation of Government Employees (AFGE) Union Leadership in the Defense Reutilization and Marketing Service (DRMS), in consultation with the DRMS Corporate Management, reluctantly announces that the DRMS Corporate structure in the Continental United States (CONUS) will be severely downsized.*

The AFGE is an international Union of United States Federal Employees. The Defense Logistics Agency (DLA) Council of AFGE Locals represents some 45,000 federal employees within the Department of Defense (DoD). The DRMS Vice President for the AFGE Council represents some 3100 Bargaining Unit employees in DRMS.

DRMS, as announced in the DLA Press Release of 10 April 97 (see enclosed), will be downsizing its CONUS employee workforce to approximately 2200 during the next several years -- both at the Battle Creek, MI Headquarters, and throughout the CONUS field offices -- the Defense Reutilization and Marketing Offices (DRMOs). The 148 CONUS DRMOs will be restructured and downsized to a total of 60 by the end of Fiscal Year (FY) 1999 (30 Sep 1999).



"TO DO FOR ALL THAT WHICH NONE CAN DO FOR ONESELF"

We, in the Union ranks of DRMS, have been involved in the planning with the DRMS Corporate Leadership led by the current Commander, Colonel Robert Mansfield to meet the needs of today and the future under the concept of ***Enterprise Management.*** *Enterprise Management is a concept developed by the DLA / DRMS Reinvention and Privatization teams. And, this current Enterprise Management initiative is certainly inspired and driven by Vice President Gore's "***Reinventing Government***" theme to make the Federal Government more efficient.*

Unfortunately, because of the severe DoD budget reductions caused by a downsized military and the desire of the American Taxpayer for a smaller and more efficient Federal Government, our DRMS employees will be forced into transferring out, retiring, resigning, retraining for different jobs -- or be FIRED outright!

We, in the AFGE, want the American Taxpayer to know that we support their desire to "do the right thing." And for our DRMS workforce employees, we will work hard to save and reinvent your JOBS -- secure early retirement or "buy-out" benefits -- or find you new JOBS -- so that you can continue to provide for yourselves, your families, your communities -- and maintain a good standard of living.

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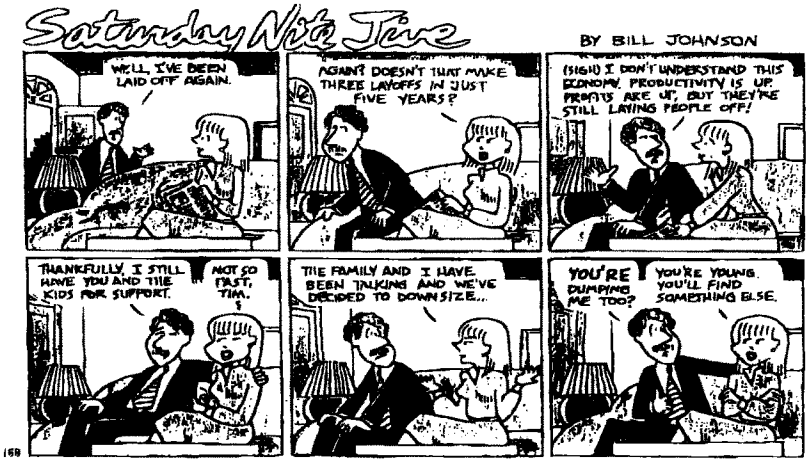

AMERICAN FEDERATION of GOVERNMENT EMPLOYEES

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8725 JOHN J. KINGMAN ROAD
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FOR IMMEDIATE RELEASE **APRIL 10, 1997**

DLA ANNOUNCES STRATEGY FOR STREAMLINING AND CONSOLIDATING DOD'S REUTILIZATION, MARKETING, AND DISPOSAL MISSION

The Defense Logistics Agency (DLA), headquartered at Fort Belvoir, Va., today announces its strategy for dramatically reducing the cost of reutilizing, transferring, donating (RTD) and selling excess military equipment.

The Defense Reutilization and Marketing Service (DRMS), a DLA field activity, performs the RTD mission and sales operations from its Battle Creek, Mich., headquarters. Disposal is managed through three regions. Within the regions are 148 Defense Reutilization and Marketing Offices (DRMOs) in the continental U.S., and 19 DRMOs overseas.

DLA's strategy calls for actions which, when completed, will result in a significantly reduced total workforce and fewer DRMOs. These actions are expected to translate into a 36 percent cost reduction to the military services over six years.

Actions are specifically designed to:

- Reduce DRMS headquarters by 25 percent over two years;
- Eliminate the regional management offices in Columbus, Ohio (29 personnel) and Ogden, Utah (41 personnel);
- Reduce the continental U.S. DRMO infrastructure from 148 to approximately 60 major sites;
- Subject DRMO sites to public/private competition on a geographic basis;
- Increase use of electronic inventory visibility to reduce handling and transportation costs; and

-more-

DEFENSE
LOGISTICS
AGENCY

NEWS
RELEASE

Accelerate innovative efforts to outsource sales related functions.

With a global workforce of approximately 3,700 employees, DRMS receives excess material from the military services and makes it available for reutilization within other agencies. What remains after redistribution, is sold to the public. Last fiscal year DRMS arranged for the reuse, transfer and donation of more than $4 billion of materiel and generated $191 million in revenue from the sale of what remained.

DLA considers these changes an essential part of downsizing the Department of Defense and taking advantage of improved business processes. Although some employees will be displaced, the Agency is committed to providing all possible assistance during the transition.

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PUBLIC
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8725 John J Kingman Road
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Fort Belvoir
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[illegible]
From: Bob Leslie
Sent: Thursday, April 10, 1997 1:48 PM
To: 'stevens'; 'brown'; 'bellinger'; 'woolbridge'; 'burkholder'; 'maxwell'; 'robinson'; 'prosser'; 'williams'; 'blakeman'; 'hendry'
Subject: FW: MEMO TO ALL DRMS EMPLOYEES

[illegible]
Sent: Thursday, April 10, 1997 11:35 AM
To: 'sen@drms.dla.mil'; 'stores@drms.dla.mil'; 'vpe@drms.dla.mil'; 'cmg@drms.dla.mil'
Subject: MEMO TO ALL DRMS EMPLOYEES

DRMS-DO

MEMORANDUM FOR ALL DRMS EMPLOYEES

SUBJECT: News Release

Today, April 10, 1997, DLA will be releasing a press release announcing the strategy for streamlining and consolidating and disposal mission of DRMS.

The specific actions outlined in the press release are:

Reduce DRMS HQ by 25 percent over two years;

Eliminate the Columbus and Ogden Regions;

Reduce the Conus DRMO infrastructure from 148 to approximately 60 major sites;

Subject DRMO sites to public/private competition on a geographic basis;

Increase use of electronic inventory visibility to reduce handling and transportation costs;

Accelerate innovative efforts to outsource sales related functions

The above actions are all ones we are working on and which we have previously discussed with the workforce. We will continue to keep everyone informed of our progress through all hands meetings, the DRMS World, the EM News and other communication vehicles.

If you have any media queries, please refer them to Carol Simpson, Public Affairs Officer at (616)961-7614, or (DSN) 932-7614.

We will put a copy of the DLA press release on the Public Affairs section of the DRMS WEB Site.

[The NAACF document referred to follows:]

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WASHINGTON, D.C. 20036

TELEPHONE (202) 387-2615
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September 10, 1997

BY HAND

Mr. Mark Brasher
House Government Management, Information
and Technology Subcommittee
B-373 Rayburn House Office Building
Washington, D.C. 20515

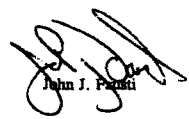
Re: ***September 12th hearings concerning the Defense Reutilization & Marketing Service ("DRMS")***

Dear Mr. Brasher:

Pursuant to our discussion of yesterday, enclosed please find a copy of the comments of the National Association of Aircraft & Communication ("NAACS") in connection with this Friday's subcommittee hearings concerning DRMS. As you explained, you anticipate that this Friday's hearing will simply be the start of two to three days of live-hearings concerning DRMS. Although the NAACS will not be able to testify this Friday, I am delighted that you indicated that an NAACS representative will be able to testify at the follow-up or continuation on the second or third day of these hearings.

As I mentioned, the NAACS is an organization of over one hundred small businesses who regularly purchase surplus DoD property from DRMS. Although our organization is nation-wide, over half of our members are from Southern California and, as such, their continued viability is important to the Southern California economy. Incidentally, a number of NAACS representatives will be traveling from California to Washington for a series of meetings during the week of September 22 and we would welcome the opportunity to meet with you at that time. I will call you in the next few days to hopefully try to arrange such a meeting. Thank you again for your time.

Very truly yours,



John J. Fausti

Enclosure

cc: Mr. David Bartel (w/encl.)
Office of Congressman Steve Horn
Mr. Jeff Jones (w/encl.)
Defense Logistics Agency
Mr. Ed Wilk (w/encl.)
NAACS President

National Association of Aircraft & Communication Suppliers, Inc.
P.O. BOX 3583, SAN ANTONIO, TEXAS 78211
TELEPHONE: (210) 924-6561 - FAX (210) 924-4901

Written Statement of the National Association of Aircraft & Communication Suppliers

Presented by John J. Fausti
NAACS Counsel — September 10, 1997

For submission and inclusion as part of the official record and transcripts from the hearing held on September 12, 1997, before the House Government Management, Information and Technology Subcommittee

on

The Defense Reutilization & Marketing Service ("DRMS")

Pursuant to my letter of September 10, 1997, and on behalf of the National Association of Aircraft & Communication Suppliers ("NAACS"), we hereby submit the NAACS' comments concerning the disposal of surplus property. These particular comments focus on the issue of **demilitarization**, which we understand from our discussions with Mr. Mark Brasher of the Subcommittee staff, will be one of the topics concerning the Defense Reutilization & Marketing Service ("DRMS") which will be addressed during the Subcommittee's September 12th hearings.

The NAACS contends -- and the evidence supports our view-- that far too many parts and surplus items are being needlessly demilitarized and destroyed. As suggested by a number of Government witnesses at a recent Senate subcommittee hearing, to the extent that surplus items are being released improperly, the problem is not with the DRMS surplus sales program.[1] The problem is actually with DoD's transfer, reutilization and donation programs. One Government witness, DoD Demilitarization Program Manager Jack Blackway, even suggested that the sales program already had security controls in place which should be copied and applied to DoD's property donation program. Another witness pointed to security problems inherent in DoD's Foreign Military Sales ("FMS") program and the fact that the original equipment manufacturers ("OEMs") operate without adequate security restrictions in their own plants when they are manufacturing militarily-critical items.

To the extent that property is being illegally diverted overseas, we respectfully suggest that the House Government Management, Information and Technology Subcommittee should direct its efforts

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[1] *The Senate hearings were held on July 8, 1997, before the Senate Judiciary Subcommittee on Administrative Oversight and the Courts with regard to the topic of "Oversight of the Administrative Process for Disposing of Government Surplus Parts and Equipment."*

towards fixing the problems with the DoD property donation program, the FMS program and the lax security at OEM manufacturing facilities.

My firm provides counsel to the NAACS, an organization of over one hundred small businesses throughout the United States who buy and sell military surplus aircraft parts from DRMS. Chief among their concerns is the availability of surplus parts from DRMS so that their businesses can continue to survive (some have been in business over fifty years). Therefore, there exists among the members of our association a keen amount of concern and awareness with respect to the demilitarization of these parts.

For quite some time now, many of our members have complained to us about watching the total and improper destruction of an item because the DoD employee actually destroying the item in the demil yards is not clear on what is to be destroyed. For example, a particular aircraft engine may possess a single component that needs to be removed and destroyed. However, the person doing the actual demil will instead of removing that component and destroying it, destroy the entire engine instead. This is wrong. That is the reason for the demil codes in the first place because there is no need for the Government to waste time, energy and money destroying items that do not need to be destroyed. It is not lost on us that these are also taxpayer-owned assets which creates the responsibility on behalf of DoD and DRMS to manage these items correctly.

According to a recent DoD Inspector General ("IG") Audit Report, DoD and DRMS are needlessly destroying far too much property. See DoD Inspector General's Office, *"Audit Report on Coding Munitions List Items,"* Report No. 97-130, dated April 16, 1997). The results of the audit report bear out our position -- too many surplus parts are being needlessly destroyed by DRMS personnel. In this report, the Inspector General reviewed the demilitarization codes assigned to 2,658 randomly selected items, all of which had been assigned codes requiring their destruction. The IG found that the codes assigned to 52 percent of these 2,658 items were incorrect. The IG found that 38 percent of these items required no demilitarization whatsoever and that 21 percent of these items were not even munitions list items. Yet, all of these items had been marked for destruction by DoD personnel.

If the errors found by the IG are projected over DoD's entire inventory, the results and the extent of the waste would be staggering. According to the IG, 20 percent of DoD's entire inventory of close to 12 million different line items are marked as munitions list items requiring some level of demilitarization or control.

The IG report identified a number of significant problems inherent in DoD's demilitarization practices. Most notably, the IG found that DoD's demilitarization process is inconsistent and overly decentralized. The IG stated:

> Inaccurate demilitarization coding occurs because the coding process is too decentralized, making it difficult to train personnel... DLA estimated that more than 3,000 personnel were involved in some aspect of assigning demilitarization codes DoD-wide. All the personnel involved ... had not received the specialized training needed to ensure compliance... In addition, personnel ... did not have access to information

needed to select the appropriate code.

The IG found that one DoD depot continued to assign discontinued and obsolete demilitarization codes, even after its personnel had attended a demil training course. The report also found in many instances, DoD personnel relied upon the OEM, who manufactures the part, to assign demil codes. This is highly improper. The OEMs have an interest in assigning codes that require parts to be destroyed after they become excess because the OEMs have a financial incentive in preventing excess parts from being sold by DRMS.

The IG's report recommended that DoD should establish one centralized office for the purpose of assigning, challenging and maintaining demilitarization codes. According to the report, the Office of the Under Secretary of Defense for Logistics has already reviewed the IG report and agrees with this key recommendation. We also agree with that recommendation, because as the IG concluded, and as we have stated on many occasions to various officials at DRMS, DLA, DoD and now Congress, ***too many parts are being needlessly destroyed.*** It would be remiss of me to not point out that the IG also studied whether or not there was a sizeable or substantial number of parts that were not on the demil list but should be. The IG reviewed a sampling of parts not slated for demilitarization and apparently concluded that the few parts which were improperly marked were *statistically insignificant* and could not serve as a basis to project that small number over a larger pool of inventory in much the same manner that the IG projected the results of his findings concerning the pool-sampling of demil-required materials.

We respectfully request that this Subcommittee take no actions regarding to the DRMS sales program which would adversely impact the members of the NAACS who rely on the sales program as their source of supply. Our members buy and use spare and replacement parts for military surplus aircraft. Parts obtained from DRMS serve a variety of uses and needs. Some of our members operate military surplus aircraft in logging activities and industrial lifting. They use DoD surplus parts to service and maintain their own aircraft. Other NAACS members are dealers who stock surplus parts and sell them to friendly foreign nations who fly U.S. military aircraft. There is also a commercial market for these parts. In fact, the NAACS was instrumental last year in the Federal Aviation Administration's ("FAA") issuance of Advisory Circular 20-62D in May of 1996 which confirmed that military surplus parts are *eligible* candidates for installation in commercial aircraft. Clearly, if the FAA, who works to maintain the safety of our airways, can see the value in the use of these parts, great efforts should be made to stop their senseless destruction.

It should also be noted that the military surplus industry offers DoD a *safety net* that affords DoD a greater margin of error in down-sizing the military than would normally be available. The sheer size of DoD makes it impossible to be 100 percent accurate in the disposal of surplus items. The military surplus industry has many parts available in its inventories for immediate delivery. This inventory can be utilized to support emergency military that require short delivery schedules that the OEMs cannot meet. In the face of military down-sizing, it is critical that our members continue to meet the role of DoD's back-up warehouse for spare parts.

Thank you for your time. Please feel free to contact me at (202) 387-2615 should you have any questions regarding my statement.

Mr. HORN. Now, let me ask you now a couple of questions that relate to what we said earlier in the opening statement. One of them related to the question of the goals that motivate the agency, and I think some of your past audit work, Mr. Lieberman, has pointed to the overstatement by the Defense Reutilization Materiels Service of its sales revenues and profits. And in that "U.S. News and World Report" article that I quoted in my opening comments, a senior military official asserted that, "Work priorities at your sites are: One, profit; two, profit; three, profit; four, profit; five, profit." Six was accountability; seven was rendering lethal weapons harmless. It seems to me seven perhaps should be No. 1.

Do these priorities comport with the law? Is this what you found when you visited—you and your staff visited various installations? And have the performance ratings of the agency managers ever been based on their profits? And what kind of work has the inspector general done in this area?

Mr. LIEBERMAN. I think it is fair to say that DRMS has put tremendous emphasis on its profitability. About 3 years ago, this was particularly evident, and I am not sure that this wasn't seen as a way to avoid some of the outsourcing pressure that was being applied, starting to be applied throughout the Department in general and to DRMS specifically at that point.

We found plenty of indications that sales were being pushed very hard. In one of our reviews, we found $2 billion worth of materiel that was processed under what is called an expedited processing arrangement, where these times that are shown in GAO's left-hand chart here are all telescoped together and materiel is pushed through the process very quickly. This really cuts down on the amount of reutilization that is possible.

Of this $2 billion, only about 12 percent was reutilized, because most item managers didn't get a chance to—either didn't know that the materiel was about to be disposed of or didn't get a chance to survey their holdings and make decisions about whether they wanted to tell DRMS that they still needed it. So only 12 percent was reutilized as opposed to 28 percent of the items that were not processed in that manner.

So we attributed those kinds of things, and we found a few other problems of that type: perhaps, too excessive emphasis on sales, as opposed to reutilization. Only one-sixth of the materiel going through DRMS is reutilized from year to year. And we have to remember that we are never going to get more than a few cents on the dollar back from selling most of this stuff, but when we reutilize it, we save the whole acquisition cost of buying a brand-new item.

Mr. HORN. I quite agree with you.

Let me ask this on the issue of incentives. If they aren't profits, does the Defense Reutilization and Marketing Service use sales proceeds to fund its operations?

Mr. LIEBERMAN. In part, yes.

Mr. HORN. In part. How is that differentiated? What part can use it and what can't?

Mr. LIEBERMAN. In some cases they are allowed to cover the operating expenses—the costs of sales themselves. They are not allowed to keep profits in excess of their sales costs.

Mr. HORN. Let us define that. The sales cost is based on what? Is it what—when transferred from the military to them to dispose, or is it original acquisition cost. Or is it simply their cost of handling the materiel?

Mr. LIEBERMAN. It is simply the handling cost and the expense of hiring someone to run an auction and processing the items.

Mr. HORN. Should we have a different basis for sale? I mean, why shouldn't we make a profit?

Mr. LIEBERMAN. Oh, I think it is great to make a profit. Among other things, we certainly should spare no efforts to drive down the cost of the operation, and to the extent we can get better prices than we are getting, that's great, if we can look at demil requirements and make sure that we are not ruining items unnecessarily and therefore not getting a good price for them.

All of those sorts of things absolutely need to be done and are part of what DRMS is trying to do. But reutilization really should come first. We absolutely have to make sure we are not disposing of something that we still need.

Mr. HORN. And I take it the safety aspect would be somewhere up as 1 or 2 or 1(b).

Mr. LIEBERMAN. Yes; that's true, too.

Mr. HORN. It seems to me if that——

Mr. LIEBERMAN. I guess that has to come first, because safety always has to come over economics.

Mr. HORN. Yes, it should.

Now, let me move back to that criminal situation which bothered me. As I looked at your summary of some of these cases, which don't seem very much punishment to me, and maybe that's the U.S. attorney's problem, and maybe it's the judge's problem, but do you have the right as inspector general to check the income tax filings of employees in this particular agency or anywhere in the Pentagon. Or do you need them to give you a waiver to access their filings?

Mr. LIEBERMAN. The investigators say no.

Mr. HORN. You don't?

Mr. LIEBERMAN. We don't have that authority.

Mr. HORN. Well, we ought to take a look at that, because it seems to me inspectors general ought to have the right to review those filings. If the CIA would have been awake, we would have caught Mr. Ames, just go look at his bank accounts and his housing and all the rest of it and ask a few questions. Because this is an area, let's face it, that's rife for payoffs, rife for deals, and all the rest.

Now, hopefully, that doesn't occur too much. But as far as I'm concerned, one bad apple is enough bad apples. I don't need a barrel to convince me. I just want to get at it. If you need that authority, it seems to me we should be talking with the Ways and Means Committee. Since this is the oversight committee for inspectors general, we ought to be looking at it across the board.

But I'd welcome your thoughts and the thoughts of the inspector general particularly in this. Does GAO have any comments on what we're talking about, the priorities of incentives as they look at the agency and also on how we find the bad apples?

Mr. WARREN. We have not done much recent work with regard to looking at the bad apple problems, so I would have to defer to Bob on that one.

Mr. HORN. Well——

Mr. WARREN. Yes.

Mr. HORN. Pardon.

Mr. WARREN. I was going to go on. The incentive system, obviously again, as Bob said, we need to focus on reutilization first. Then, once you get into the sales, it seems that if, in fact, those items are going to be sold, that we should do prudent things to create incentives to generate as many sales as we can, training people properly and creating some type of incentive to reward people for behaving properly in terms of disposing of the items.

We noted when we did our work that the sales revenues, for example, don't go back to a particular DRMO that behaves well. And if there were some way that there could be kind of this cause and effect, because this is a very decentralized system, that would reward, in fact, good behavior with regard to how things are disposed of and the disposition.

Then obviously on the other side, as you said, taking appropriate action where the inappropriate cases occur. The difficulty now is we kind of have this system that's pretty much neutral regardless of what the behavior is. So if there were some things that could be done along that line to reward the champions, so to speak, that are really implementing the system and are benefiting the Government the most, that would be an area that we would explore to see if there would be some processes we can put in.

Mr. HORN. Well, I appreciate that. I've been suggesting for a year now, and we're working on it, the identification of a procurement corps where we could have incentives to have long-term career service remain in the Government, and not just when they're very good at it being bought off by the private sector. Certainly, this aspect ought to be part of that procurement corps, where we're talking about acquisition and disposal meeting, because those do require certain skills; and we ought to appropriately recognize that in the civil service methods that we now have. What we're thinking about is trying to improve them and start there.

Mr. WARREN. If I could add one additional thought in that area, it's been pointed out that really this is not just a disposal problem; it's a logistics system problem. But I think for DRMS, in fairness, in terms of priority of operating the defense supply chain or logistics system, the disposal portion of it has traditionally received a very low priority; and the emphasis, the high priority, has gone toward bringing materials into the system, getting the necessary dollars to procure the items you need, and then storing and maintenance as they're used.

But then once that part of the system stops, and it moves into disposal, all of a sudden there's this major dropoff in terms of priority. And if there would be something that we could do to balance—get that into better balance and say, as the private sector is, that the entire supply chain is important to kind of the economic well-being of this company and we can't afford to have any one segment of that not operating properly, I think that would be good, as well.

And I think that's a business process change that would need to be made.

Mr. HORN. I think that's an excellent suggestion, that perhaps if we're going to have an identifiable part of a career service, that we would have them rotated through both areas there, so they understand the total process. I think that makes a lot of sense as well.

Well, gentlemen, we appreciate all your help on this and the fine work you and your staffs are doing over the years. Thank you for sharing that experience with us this morning. It's appreciated. Thank you.

Mr. LIEBERMAN. Thank you.

Mr. HORN. Thank you, Mr. Lieberman. Thank you, Mr. Warren, and thank you, Mr. Morrison.

We will now go to panel III, Jeff Jones, Principal Executive Director for Materiel Management, Defense Logistics Agency; and Col. Robert Mansfield, Commander, Defense Reutilization and Marketing Service, Department of Defense.

OK. Stand and raise your right hand.

[Witnesses sworn.]

Mr. HORN. Thank you. The witnesses have affirmed.

We will begin with Mr. Jones.

STATEMENTS OF JEFF JONES, PRINCIPAL EXECUTIVE DIRECTOR FOR MATERIEL MANAGEMENT, DEFENSE LOGISTICS AGENCY, DEPARTMENT OF DEFENSE; AND COL. ROBERT MANSFIELD, COMMANDER, DEFENSE REUTILIZATION AND MARKETING SERVICE, DEPARTMENT OF DEFENSE

Mr. JONES. Thank you, Mr. Chairman. I appreciate that this is Friday, and that this is a serious subject for you and for Mr. Davis.

Mr. HORN. Let me just ask you, Mr. Jones, the staff received this DRMS disposal process in brief?

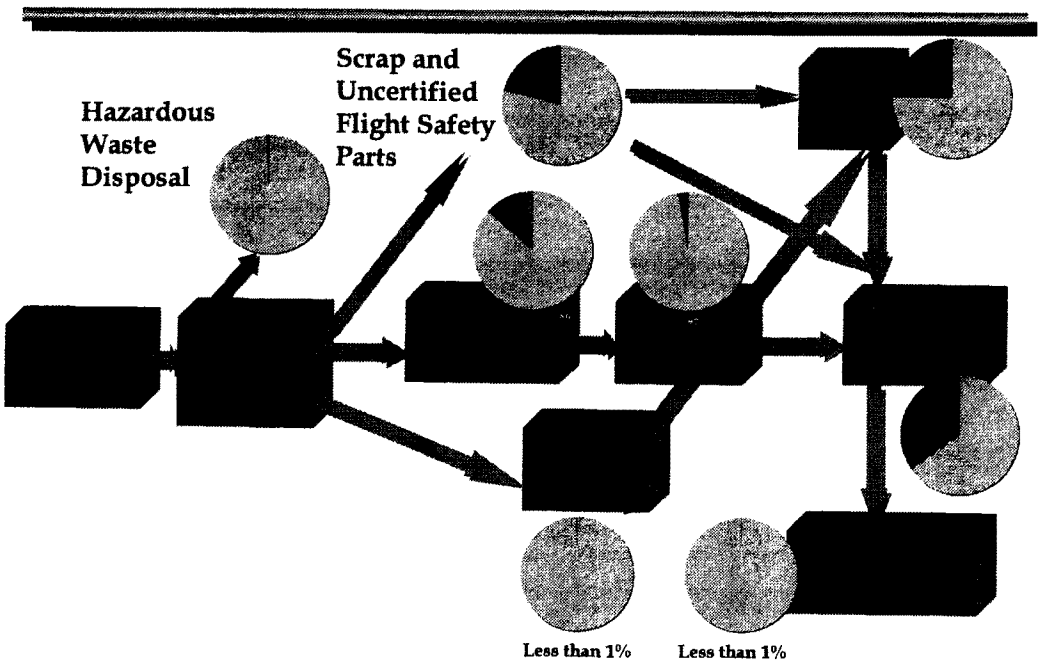
Mr. JONES. Yes.

Mr. HORN. We'll put it in the record at this point.

Mr. JONES. All right.

[The information referred to follows:]

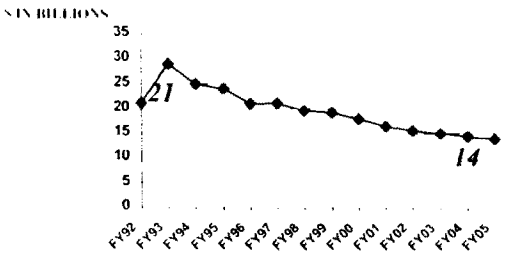
DRMS Disposal Process in Brief



The DRMS Business Environment

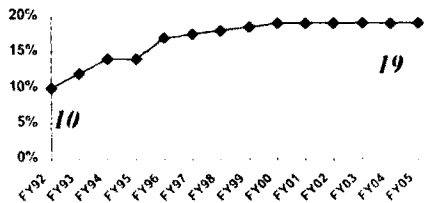
DECREASING WORKLOAD

ACQUISITION VALUE RECEIPTS

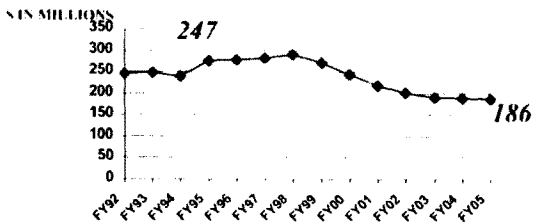


COST AVOIDANCE INCREASING

R/T/D PERCENTAGE



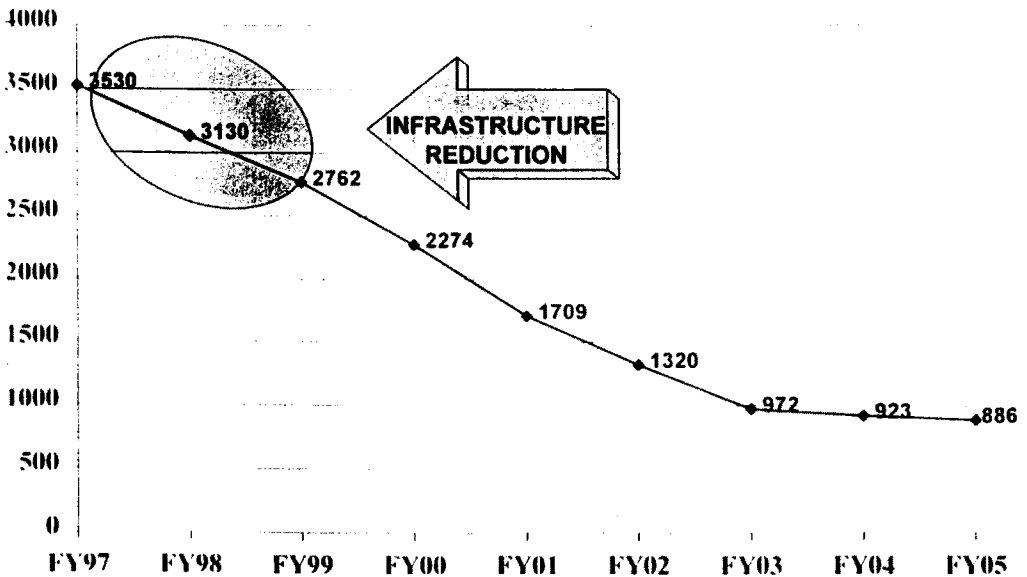
REDUCED OPERATING EXPENSE



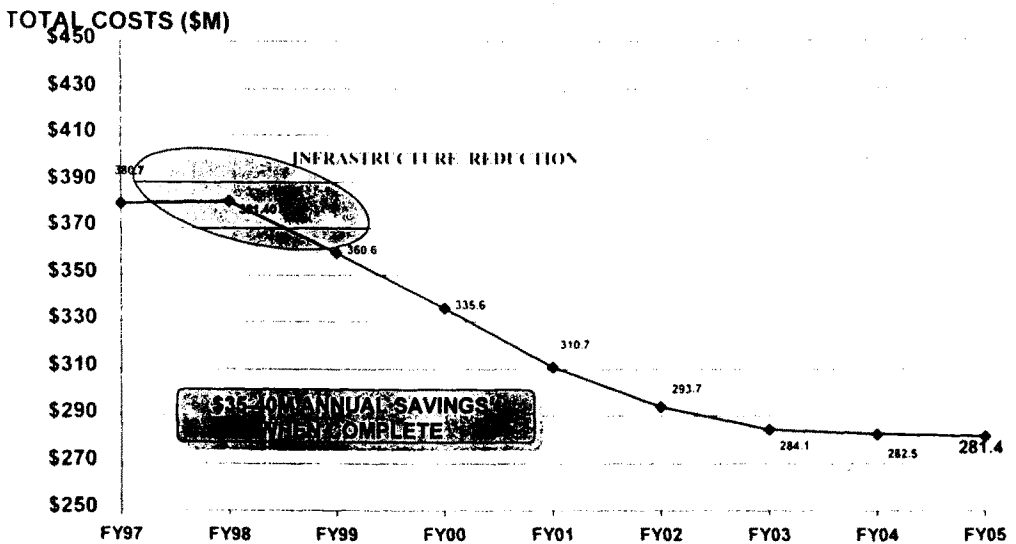
The DRMS Business Core

- **Defense Reutilization and Marketing Service (DRMS) Core Functions:**
  - *Oversight of business operations (C^2, fiduciary responsibility and regulatory enforcement)*
    - Centralized functions such as public sales must have government direction, but not necessarily execution
    - Government supervision required for reutilization, transfer, demilitarization, and other regulatory functions
  - *Management presence at sites collocated with distribution (C^2 and regulatory enforcement)*
    - Ensures appropriate control over demilitarization at sites that generate most of this material
    - Treats other sites as principally scrap processing centers

Projected Workforce--Current Plan



Projected Cost Reduction-- Current Plan



(EXPENSE FIGURES INCLUDE HAZARDOUS CONTRACT COSTS)

Reengineering DRMS

Initiatives	Timeline	Results
■ DRMS identified as a privatization candidate	1993	POSITIVE RESULTS
• Contracted AGI to analyze DRMS business and customers		• Developed Enterprise Mgmt (EM) model • Targeted marketing strategies • Reorganized to facilitate EM execution
■ INITIATIVES TO PRIVATIZE DRMS BUSINESS AREAS	1993—Present	
• Hazardous Waste (HW)	1993—Present	OUTSTANDING RESULTS • Better, cheaper, greener
• Precious Metals Recovery Program	1994—Present	IMPRESSIVE RESULTS • Returned $8.3M in FY 96; partnering with National Institute for the Severely Handicapped
• Local Sales; auctioneering contractors	1995—1996	MARGINAL ACHIEVEMENTS • Lower rates of return • No improvements in disposal process
• Local and National advertising	1996—Present	Encouraging results so far; 50% performed by contractor; no adverse impacts
• Optimum Marketing Initiative (OMI)	05/97—Present	Positive results; $70K+ in net proceeds
• Joint Venture (JV)	09/96—Present	Concept developed by Kormendi Partners Gp based on model used by RTC
→Develop	09/96—04/97	
→Implement	04/97—Present	RFTP due 30 Sp; follow-on award to most qualified bidders

Reengineering DRMS

(continued)

Initiatives	Timeline	Results
	1996	
■ DEP SCTY WHITE APPROVES EM		Better alternative to wholesale privatization
■ OTHER COST SAVING INITIATIVES	1994 — Present	Structured business-based plans
• Infrastructure Reductions	10/96 — Present	
→ KPMG developed/ validated model	11/96 — Present	
→ HQ Staff reductions	01/97 — Present	25% reduction projected; 10% completed
→ CONUS DRMO closures	10/97 — 1999	50% DRMOs; 30% total cost; $100M in 8 yrs
■ REENGINEERING INTERNAL BUSINESS PROCESSES	1994 — Present	
• Recycling Control Point (RCP)	1994 — Present	Move information not property; Prototype 1994; 7 sites operating; promising results
• Changing Internal Working Procedures	09/95 — Present	Increased use of information technology
• A-76 for remaining DRMOs	1998—1999	Subject non-core functions to public/private competition

Mr. HORN. So without objection——

Mr. JONES. Thank you very much. I wanted to use this chart only because I thought it would be useful to spend a few minutes discussing the process again so that we understand the complexity of what is going on.

Before I do that, I want to make sure that I properly introduce Col. Robert Mansfield here on my left, the commander of DRMS, who is largely responsible for the tone of the previous witnesses as far as change and positive change of this organization. And he will be able to speak with you as we go on here.

What I want to do is just mention that one of the last things that Mr. Lieberman said, the logistics system, is off the left of the chart. And what you're looking at here on this chart is strictly what goes on in the disposal process. With respect to those parts of the process which we have looked at in privatization, if you look at the second block from the left called receipt processing demil and segregation, that particular block right there is where most of the crunch comes in the decision process where all of the problems begin that often become parts of news media presentations and so forth.

It's the decisions that end up in materials being scrapped so that their full sale value can't be realized fully. A lot of the materiel has to go through precious metals recovery. These processes, all the way up through to the reutilization, transfer, and donation blocks on this chart, have no commercial equivalent. And it's the scrap sales and the sales of usable items part of that chart which are not insignificant by any means. Those are the primary parts of the business that are of commercial interest and that we are, in fact, proposing and continuing to work commercial solutions. We're working them in other places as well, but I just wanted to illustrate the number of processes that are not commercial processes.

The next chart shows something that I think we all need to realize is a fact of life in the disposal business. The chart on the upper left shows the relative value of materiel turned into the disposal system over time.

And the projection is that that business, unless there's a massive resizing of the forces again, is a diminishing business, so that there's less materiel available than there was. Next year, there will be less, and the year after and so forth.

The upper right chart shows that, as budgets have come down, particularly in the Department of Defense, more and more materiel is being reutilized. And one of the questions you asked the earlier witnesses was how to incentivize reutilization. I can't tell you that we're asking for less money in our budget. But the fact that there is less money is a great driving factor in the use of the system.

Third, down at the bottom chart, shows that we are planning as a result of our obligation to the Secretary and the Department to reduce the cost of the infrastructure and operations, to make a dramatic reduction in the cost of what our contribution to that infrastructure is.

The next chart. I wanted to go through one concept with you very briefly, and it's been alluded to by previous witnesses. But our plan—and there is a plan that we have briefed through the Department of Defense, and it has received approval at fairly high levels of the Department—is based on the concept that there are some

core functions that have to be performed whether we hire people to do the work or not. There are functions of oversight, fiduciary responsibility, and regulatory enforcement that can't be given away. Those are inherently governmental, and, unfortunately, no amount of privatization will ever change that.

Similarly, where we have major distribution depots and maintenance facilities, the opportunity for things to go wrong in the demilitarization area is high. We consider that a high enough risk that we feel we need a presence at those sites, a command presence, to make sure that the process is as well conducted as possible no matter who actually does the handling of the materiel. It could be private; it could be public. But that kind of control, governmental control, I believe, is ultimately going to fallback on our shoulders regardless of what tack we take. And so our plan is to make that our starting point.

What I'd like to show you next, then, is kind of our bottom line and where we're headed. Right now, we have over 3,000 people in the Defense Reutilization and Marketing System, most of them in the field. And if we are able to continue and complete our infrastructure reduction plan by the end of fiscal year 2005, we will be below 1,000 people: one of the more dramatic reductions in the size of an organization in DOD. We're going to do that by a combination of closing sites, and then doing the reengineering and the A–76 type of contracting process that Mr. Lieberman spoke about.

The next chart shows again the cost reduction plan that goes with that. And you can see that, to the extent that we're able to complete our reduction in infrastructure in our business reengineering processes, we expect to go from a cost basis right now in the $380 million range down to $100 million less, a significant change in the relationship between what we are producing today in terms of results and into the future.

The last two charts are kind of an eye test. I apologize for the way these came out. But this is basically just to acquaint you with the fact that the reengineering process is a serious process. It consists of many steps.

It began in 1993. In fact, General McInerney and I were just discussing a few minutes ago the briefing that DLA gave to him in his capacity as the NPR/DPR chief when this whole thing began.

And what we actually started with at that time was a concept of enterprise management, breaking DRMS into those logical business categories that would allow us to map them to the market. Not everything, as we have said, that DRMS does can be outsourced in a wholesale fashion; but different pieces of it matched different segments of the market. So by proper segmentation, it would be possible to do a better job of matching the market's capability to absorb business with the business that it needs to absorb.

In addition to that, we have—privatization efforts too that are continuing. Hazardous waste is almost—is 100 percent outsourced today. Precious metals recovery is almost 100 percent outsourced. For local sales, we've tried auctioneering contractors. We have local and national advertising. And we can speak more about the joint venture and optimal marketing initiatives, if it's in the interest of

the committee to do so. I don't want to really go through all of those here, because I'll take up too much time.

We are implementing activity-based costing, one of the first parts of the Department of Defense to do that, implementing commercial cost accounting structures. We do intend to have a fully redefined Defense Reutilization and Marketing System within 5 years.

That's essentially the opening remarks I wish to make. We have some additional information we could provide the committee based on some questioning of the previous witnesses, particularly with regard to the dangerous articles. There is a plan to work that issue. It's a very serious plan. There are time lines. And we are deeply involved in that, as you might expect.

So with that, I'll conclude my opening remarks and be pleased to take any questions you may have.

[The prepared statement of Mr. Jones follows:]

Statement of

Mr. Jeffrey A. Jones

Principal Executive Director for Materiel Management

Defense Logistics Agency

Before the House Committee on Government Reform and Oversight

Subcommittee on Government Management, Information, and Technology

September 12, 1997

Introduction

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to appear before you to discuss the role of the Defense Logistics Agency (DLA) in the disposal of Excess and Surplus Personal Property.

The Defense Logistics Agency (DLA) was assigned the responsibility for management of the DoD Materiel Disposal Program by the Secretary of Defense in 1972 in part to centralize and standardize processes previously discharged by the individual Components of the Department. The decision to centralize these functions made DLA the Department's administrator and implementer of property disposal policies of the Department under Federal Regulations issued by GSA. Over time DLA acquired additional responsibilities, including the Executive Agency for specialized programs, such as the DoD demilitarization program.

Since 1972, the Defense Reutilization and Marketing Service, or DRMS, which performs day to day operation of the DoD disposal system, has taken steps to improve how it does business. Fundamentally DRMS has many customers to satisfy with divergent interests:

- First and foremost, DRMS is responsible for property reutilization, transfer and donation under Federal and DoD regulations. Every year about 1/6 of the property turned in to DRMS is reused by another DoD organization, transferred to another Federal, Law Enforcement or similar recipient, or donated to authorized recipients of such property.
- Second, once DRMS accomplishes its reutilization, transfer, and donation mission, it is responsible for conducting sales of remaining property to generate revenues to cover some portion of its operating costs.
- Third, DRMS provides a number of services, including the contracting for removal and proper disposal of hazardous waste. Although military customers are not required to use DRMS for this service, most choose to do so because it is a service they do not need to staff themselves.
- Last, DRMS provides executive management and oversight of the DoD demilitarization program, a program often criticized for lapses in allowing sensitive military equipment to leave the DoD inventory for unauthorized purposes.

I will return to this issue later because understanding the DEMIL issue and challenge is directly relevant to how the DoD is approaching the proper sourcing of DRMS services. Much of the attention placed on the disposal program in recent years has found fault with DEMIL controls. The remainder of the public focus has been on the commercial-type operations characteristic of much of DRMS's operation, with the general theme of "why not outsource these functions?" The question is a good one that deserves a thoughtful and careful answer, which I hope to be able to deliver today.

Operation of the DRMS

The DRMS, through its 155 Defense Reutilization and Marketing Offices (DRMOs), receives, screens, and otherwise disposes of nearly all DoD's disposal property, about $24 billion worth last year, valued at acquisition cost. With some obvious exceptions, such as watercraft, ships, and some large armored vehicles, excess

property generated by the military services is transported to a DRMO for processing through reutilization to other DoD activities, transfer to other federal agencies, donation to state agencies, or public sale. Throughout this process DRMS follows special processes for property identification to determine whether it requires additional controls, including end-use certifications by buyers, hazardous materials destruction, precious metals recovery, all the way to complete destruction (DEMIL). These special processes are designed to limit adverse impacts on national security, public safety, and the environment. The disposal program is highly visible and has multiple constituencies, many with conflicting interests.

Interestingly, just as it is DRMS's responsibility to ensure sensitive military equipment or potentially hazardous items are not inadvertently released to the public, there are major markets for these materials. Thus, unlike a true business, DRMS, on occasion, must reduce to scrap some of the items that, in an open market, would receive the highest return on investment.

DRMOs are located in 45 states, 2 overseas territories, and 13 foreign nations. Items found in DRMO inventories include most types of property found within the Department of Defense, ranging from clothing and hand tools to aircraft and tanks. The magnitude of the DRMS program is enormous, as is its overall benefit to the taxpayers. In fiscal year 1996, reutilization to DoD activities and others authorized by law totaled $2.8 billion, transfers to federal agencies totaled $465 million, and issues to state agencies exceeded $590 million. Almost $8.5 billion worth of property was sold to the general public.

DRMS Services: Should DoD Make or Buy Them?

During the 1970s through today, DRMS has executed its mission. It has:

- Recycled billions of dollars worth of property within DoD;

- Provided hundreds of millions of dollars in precious metals recovered for reuse in the production of government products;
- Managed the complex DEMIL and hazardous property programs for DoD;
- Increased its use of technology to "move information instead of materiel."

Yet, despite these actions, DRMS has, except for one year, consistently incurred higher costs than revenues. Deficits incurred by DRMS during these years required military service funding to cover the operating costs. In addition, particularly in recent years, reduced government spending as well as legislative changes resulted in larger amounts of property being reutilized, transferred, and donated. As a result, less surplus property of lower quality remained available for sale, with an accordant decrease in DRMS sales revenue.

In 1992, DLA directed DRMS to become self-financing. In response, DRMS began actively reengineering its processes and considering privatization alternatives. The following year, DLA nominated DRMS as a potential outsourcing candidate under the Defense Performance Review (DPR). The DPR pointed out that certain ***non-core*** government functions might be better performed by the private sector. The underlying rationale for this nomination was the potential for enhanced operations at lower cost, increased sales revenue, and reduced manpower requirements. The fundamental principle underlying the DRMS strategy, then and now, is that, there are some inherently governmental functions, primarily related to command, control, oversight, finance, and regulation, that cannot be divested. However, in all cases where the private sector has the capacity to perform DRMS work, the make or buy decision is fundamentally a "best value" business decision. After presenting this approach to the Defense Performance Review, DRMS pursued a policy of selective privatization, streamlining and reengineering of many of its processes

In 1995, the agency proposed to the DoD Commission on Roles and Missions (CORM) that DLA supported leveraged privatization, recognizing each case needed to be looked at individually and that privatization decisions should be supported by a

rational business case. The CORM accepted this position and did not mandate any action for wholesale DRMS privatization. The CORM also recognized, "Outsourcing is not a remedy....and the Government must retain certain core functions to protect the public interest."

DRMS has worked diligently to establish a viable privatization strategy consistent with the recommendations outlined in the CORM report. DRMS has engaged well known business consultants to aid them in designing an executable strategy based on entrepreneurial principles, funding, and management practices.

DRMS privatization strategy is based on the following principles:

- Continue to provide improved support to the customer;
- Retain a minimal set of governmental core competencies, but organize them in the most efficient structure;
- Offer the Government workforce a chance to compete for providing other services;
- Use private sector capabilities that have a performance edge;
- Avoid establishing new Defense-unique businesses; in other words, our objective would be to capture best existing commercial practice.
- Bottom line: outsource wherever it makes business sense.

I believe it important to emphasize that DLA recognized DRMS was an organization in need of dramatic change in its business processes and that the private sector could provide assistance. However, it is not appropriate to follow an "all or none" model. Of the outsourcing alternatives reviewed by DLA, wholesale privatization failed to recognize the complexity of DRMS operations; the inherent conflict between reutilization functions and profit-making sales; that some functions are cost centers and others profit centers with very different business appeal.

Wholesale privatization would ignore the carefully drawn market-based distinctions between DRMS's functions. It would require DLA to relinquish control

over sensitive functions such as demilitarization and end-use monitoring, the control of munitions list and strategic list items, and it would likely involve the sudden displacement of more than 3,000 DoD employees–an action high in costs, risk, and human ramifications. To the extent that outsourcing is the answer—and to a considerable extent we believe it is—the proper course of action is through a deliberate process that balances cost and risk and seeks the best value source of performance through competition: to obtain the best, most innovative solutions from the public and private sectors. This is a lesson proved time and again at State and local government level, in Indianapolis, for example: competition is the key to reducing the cost of public services. It is the essence of DLA's strategy.

DLA Approach

DLA has undertaken an approach of selective privatization, which takes into account DRMS's core functions and leverages the abilities of various sectors of the business community. As said above, it does so in a way that minimizes needless risk to the mission. DRMS has also undertaken a significant enhancement in the use of technology to replace the costly physical movement of materiel with the movement of information about the materiel. In determining where the highest potential for outsourcing DRMS functions lies, we have identified DRMS's core functions as:

1. Oversight of business operations; e.g.,
   - command and control,
   - fiduciary responsibility, and
   - regulatory enforcement.
2. Centralized supervision of functions such as
   - International sales;
   - Reutilization, transfer, demilitarization, and other regulatory functions.

3. Management presence at sites collocated with DLA distribution facilities. This presence ensures appropriate control over demilitarization operations at sites that generate most of the property requiring demilitarization.

The future of DRMS will be characterized by ever greater reliance on moving information. DRMS has been marketing surplus property on the World Wide Web for about three years. They are increasing the coverage of their Web products and services to reach the appropriate customer bases. We have begun to implement a new automated disposal process already in place at seven of our distribution depots.

At the same time, DRMS is undertaking an infrastructure reduction which will reduce the headquarters level by 25% and the United States DRMO operating costs by 30%; reducing the number of DRMOs in the Untied States from 140 to approximately 65-70 over the next two years. Outsourcing opportunities are currently offered in the DRMS marketing and sales programs and we have current contracts in place with an additional major outsourcing opportunity currently in the bidding process. After the downsizing of the physical DRMO infrastructure is approved, DLA will initiate a program for public-private competition of DRMO operations on a regional basis. We anticipate this effort can begin mid to late FY98, but completion will be regulated by the processes imposed by OMB Circular A-76, Commercial Activities.

Summary

DLA and DoD strongly support a combination of options for DRMS that includes both public-private competition and direct outsourcing for many of the processes in our disposal business area. We do not believe wholesale privatization of DRMS is in the best interest of the DoD or the taxpayers; and we feel an abrupt move would create undue and unacceptable risk. We have embarked on a major effort to reshape the DRMS organization, its business processes and its business partners over the next several years. This is the approach approved by the Defense Performance

Review and, I believe, represents the best value solution for DRMS's customers and the taxpayers of America.

Mr. Chairman, that concludes my prepared statement. I will be pleased to answer any questions you may have.

Mr. HORN. All right, Mr. Mansfield, would you like to make some comments on this?

Colonel MANSFIELD. Yes, sir. I would like also to say that it's really a pleasure to be here and to be able to bring DRMS to the committee. We are committed in DRMS to improving our performance, to reducing our costs, and in conjunction with that, to privatize wherever it makes business sense to the agency to do that. We are actively pursuing that.

We are beyond the stages of studying and into the implementing pilots to see how well these privatization plans will work. And I, likewise, am here to be able to answer your questions, sir.

Mr. HORN. How would that privatization work, as you envision it?

Colonel MANSFIELD. Through selective, deliberate looks at our business areas.

The first area we're looking at is in the sales area. We have several pilots up and running in those to test whether we get a better return and reduce our costs overall.

Mr. HORN. Well, let's take the sales area, then. How do you envision that? What does it mean? What's the difference if, on one day, we move toward privatization, what will that mean in terms of that part of your responsibility?

Colonel MANSFIELD. It should mean that we reduce the numbers of people we have doing the sales work, because we no longer need them. We would move them to the private sector.

Mr. HORN. Well, would that be primarily going to auctioning then or——

Colonel MANSFIELD. No, sir; we are entering into sales contracts. Our two candidates that we put forward as prototypes, one with medical-dental-vet equipment. We have released a contract with three separate contractors, actually, to sell those items to them, and they resell them. We get 75 percent of our acquisition, our historical rate of return. We have negotiated with them a sharing of the net proceeds. At this point, we've had that in operation about 4 months now. The net benefit to the Government looks like somewhere around $180,000. It's very small. It's about 1 percent of our total sales volume.

We have another, which we call a joint venture, but is a sales contract, as well, competed, that we hope at the end of September to be able to relieve the RFP for that. That one puts out about 30 percent of our overall sales volume. And we would expect, based upon the economic analysis, to see an improvement in sales revenue between $25 and $50 million, depending on how much materiel comes through, because we can only estimate that.

Mr. HORN. Now, this first sale area, you said what type of equipment is in there?

Colonel MANSFIELD. Medical-dental-veterinary equipment.

Mr. HORN. Would that include hospital equipment?

Colonel MANSFIELD. Yes, sir.

Mr. HORN. To what degree in the law—and I just haven't had a chance to look at it—does it have a problem with, say, the competition with the private sector? Is yours relatively new, or is this primarily already heavily used equipment?

Colonel MANSFIELD. This is already, for the most part, heavily used. There are items that are turned in that have been—Clyde's gone—but are surplus. Most of the new, particularly medical-dental-vet is moved by donees, transfers within the Federal Government. And then humanitarian assistance programs take a lot of the new items. So these are pretty well-used items.

Mr. JONES. Mr. Chairman, if I can just add to that briefly, one of the theories behind this optimal marketing initiative, as it's called, is that the companies who trade in this kind of merchandise, who know the markets for medical and dental and veterinary equipment, basically have the ability to assess the value of used equipment. They are willing to spend some of their own money in some cases to upgrade it and bring it into serviceable condition and resell it. That process that they add value to is one that we can't add value to. That's where we would be in conflict with the private sector.

So they're basically doing a rehabilitation in some cases. They're finding then the buyers of that property that we would have to search for on our own and providing a value added service, and I think that probably keeps us well outside the realm of conflict.

Mr. HORN. Now, does the Defense Reutilization and Marketing Service have any role in foreign sales?

Colonel MANSFIELD. Yes, sir. We do do some foreign military sales of surplus. We have FMS cases, and we work that out with the Defense Security Agency.

Mr. HORN. I read about some in relation to Latin America a few months ago. I mean, you would be involved, then, in transferring that equipment to the Navy or the military of a foreign nation?

Colonel MANSFIELD. If it's an approved FMS case, yes, sir.

Mr. HORN. Yeah. Where is that decision made in the Department of Defense, that we should supply those nations with whatever it is we're supplying?

Colonel MANSFIELD. I believe that's done in the Defense Security Assistance Agency, sir.

Mr. HORN. Is that the Assistant Secretary for International Security Affairs?

Mr. JONES. Well, he would be the policy authority that would say yes or no. But the DSAA, or Defense Security Assistance Agency, is more or less independently chartered under the Secretary of Defense to handle the mechanics of that process.

Mr. HORN. And do they essentially get first dibs at the equipment before you get it? Is it relatively new equipment that they're transferring?

Mr. JONES. It could be relatively new equipment. It depends on the case. It really does, generally speaking, it's going to be items that pertain to weapons systems that were common at one time between our and another's military that no longer are: F–4 parts and things like that. So, in a sense, getting first dibs on it doesn't conflict with any public interest. It's primarily military equipment that would be shared with an ally. And that would supposedly be in our national interest.

Mr. HORN. What percent of your sales, if you will, are foreign, be they allies or neutrals or whoever?

Mr. JONES. Well, there are two kinds of foreign sales. There are sales that are just sales that are made overseas, and that can be excess property. For example, in Bosnia, as our forces are over there, we generate excess; and a lot of that materiel ends up getting disposed of overseas because of the cost of bringing it back. That's one kind of excess.

The FMS numbers, I don't have offhand.

Colonel MANSFIELD. Last year, it was about $3.5 million in sales.

Mr. HORN. $3.5 million?

Colonel MANSFIELD. It's mostly grant-in-aid through the military assistance program.

Mr. HORN. Now, with three new nations being likely to come into NATO, is there anything you have in your warehouses that would be relevant to equip those nations? And has anybody looked at that? Because my worry is we're going to be stuck with the tab of equipping these three nations, which I think is just completely wrong, and there's more about that as the fight goes on down the line.

But I'm just curious. What kind of materiel, if any, would help bring them up to the standard of other NATO forces? And we're apparently engaged in more of that down the line.

Mr. JONES. Well, Mr. Chairman, I could really only guess. I would have to say that the primary issue, as I understand it, with equipping those nations would be with major items of equipment, major end items, and so forth, of which we don't handle that many.

The primary business of DRMS is basically in spare parts. To the extent that they have a weapons system or obtain a weapons system from us, and we have spares that are no longer needed, those would be available to them. The terms of the transfer and the cost of actually doing the transfer might be pretty minimal. It might be on their ticket. And so it would really depend on a lot of circumstances that, if I gave you a guess, it would be, for sure, wrong.

Mr. HORN. Yeah, but you do have a role in it.

Mr. JONES. We could have a role in it; that's correct.

Mr. HORN. Very good. I gather here there's a chart in this GAO report, Federal Property Disposal, Information on DOD's Personal Property disposal process. And it's on page 13 of that GAO report, which I want to include in the record at this point.

[The information referred to follows:]

GAO Disposition by Reported Acquisition Value, FY 1992-96

Dollars in millions	FY 1992		FY 1993[b]		FY 1994		FY 1995		FY 1996	
Reutilization	1,800	7%	1,770	5%	2,146	8%	2,295	9%	2,848	12%
Transfers	540	2%	532	2%	532	2%	575	2%	485	2%
Donations	502	2%	810	2%	648	2%	551	2%	592	2%
Sales	5,100	22%	9,100	26%	8,722	34%	9,189	38%	8,459	35%
FMS	99	<1%	18	<1%	84	<1%	42	<1%	133	1%
Scrap	9,882	43%	14,553	42%	13,557	53%	11,372	46%	11,099	47%
Other[a]	5,744	24%	7,878	23%	344	1%	318	1%	305	1%
Total	23,467	100%	34,461	100%	26,033	100%	24,342	100%	23,901	100%

[a]According to DRMS personnel, the "other" category was significantly larger in fiscal years 1992 and 1993 than in subsequent years because it was used as a "catch all" category.

[b]Fiscal year 1993 disposals were larger than other years because of DOD base closures and drawdowns (force reductions).

Mr. HORN. Foreign materiel sales are consistently at about 1 percent of your inventory, I gather.

Mr. JONES. That——

Colonel MANSFIELD. Acquisition value.

Mr. JONES. That's acquisition value, right.

Mr. HORN. I understand that the chairman of our National Security Subcommittee visited the Tinker Air Force Base and found $1.5 billion in extra inventory. Now, how do we get that property to you? Are they selling it on their own?

Mr. JONES. Selling it on their own. This is an interesting question, and I'm not familiar with that incident. The way the system works is that each supply manager every quarter does a requirements projection. And if they have assets on hand that, through that projection, will outlast the requirement to have any of those assets, they're supposed to turn them in. It's an automatic process at that point.

So that materiel then would be turned in to DRMS at the local site, no doubt. And in the case of the Air Force, we now have an automated interface. So it would be done electronically rather than physically. And the records at Tinker would become Colonel Mansfield's materiel, and we would basically start the process that the GAO chart showed up there.

Mr. HORN. Well, could we ask you, Colonel Mansfield, maybe a status report on where the $1.5 billion in surplus is, if that is true.

Colonel MANSFIELD. All right, sir.

Mr. HORN. Mr. Davis, the gentleman from Illinois.

Mr. DAVIS of Illinois. Thank you very much, Mr. Chairman.

Colonel Mansfield, you indicated that by going to the private activity, there is going to be a tremendous increase in sales. Is there also going to be a savings that we can realize in personnel?

Colonel MANSFIELD. Yes, sir. We believe there clearly will be, if we are successful, and this makes business sense and, in effect, net benefit to us, that those individuals that we have doing sales will no longer be needed; and we'll try to redeploy them to other parts of the organization or take a net decrease in our personnel strength. And you saw some of those in the chart, and those are factored in.

Mr. DAVIS of Illinois. Do you have any idea how much that savings might be or——

Colonel MANSFIELD. Not right off the top of my head, sir, but I can certainly get you the data of our projection.

Mr. JONES. We have a total 7-year projection of going from 3,500 to about 900. That's the total reduction. The part of that that's attributable to the sales function would probably be less than a third of that would be my guess. The rest of it would be in infrastructure, the rest of the physical plant.

Colonel MANSFIELD. Some of the reductions also would come from being out some of the materiel handling aspects toward the end of the sales, so we included some of that in our sales contract. So there's not only sales writers and contracting officials, but also materiel handlers.

Mr. DAVIS of Illinois. And, Mr. Jones, could I detect that much of your presentation suggests that these are management activities that are taking place and were not necessarily precipitated by—

the, well, what kind of activity will I call it—some of the chicanery that has been uncovered; but these were normal management processes adopted by the agency, simply seeking to streamline it and make it more effective?

Mr. JONES. Mr. Davis, the reengineering of DRMS is really independent. As Mr. Lieberman said, the diversion of materiel, the criminal activity, the demilitarization problems are 25 years old and older. I will not sit here and say that we have not responded to the public reaction and the congressional reaction to these latest cases. We have in fact, developed additional plans. We have—as I said earlier, a fairly comprehensive plan under development now in the explosives area that we're putting in place. We had all the right policies. It's the enforcement issue.

We also had a major increase in emphasis on property accountability last year, in which developed a much improved plan for controlling the physical property moving through the system. So we have taken responsive actions. We worked a great deal of demilitarization actions.

As you probably have seen from the written testimony, we do have a Defense Science Board investigation of the whole demilitarization issue beginning very quickly here, hopefully to be finished by some time around April or May of next year with broad policy recommendations on the framework for that particular piece of the problem, which will not go away, privatization or no privatization. That's a separate issue and needs to be resolved that way.

Mr. DAVIS of Illinois. OK. GAO testified that DRMS is planning to implement the enterprise management concept. Could you share with me some of what that actually is?

Mr. JONES. Yes, I'll do a little bit, and then I'll ask Colonel Mansfield to kick me under the table when I make a mistake.

Enterprise management was basically a model developed in the private sector. And, just as the title implies, what it does is, it takes an enterprise view of the entire operation, in this case DRMS, and divides it into its components, its natural business entities. So that enterprise management, for example, consists of leadership functions which you might call inherently governmental functions, which would be policymaking and that type of thing; marketplace functions, which would be those that have equivalents or analogs in the private sector; and then utility functions, which are simply things like property handling, bookkeeping, which are both government and private and have some opportunity for competition.

The basic model served as a way of analyzing the DRMS businesses that they do. In breaking them into pieces, they then could be examined in terms of market application, what is the correct analog out there, what company does things like this, and how could we take a process that fits into that market function and find a resource that might do that better on the outside. That was the basis of enterprise management.

Now, it's led to some specific implementation, such as the optimal marketing initiative and joint venture, where there's actually a shared interest in property. We have investors, as in the case of the liquidation of some of the savings and loan property, a similar

concept. Those came out of enterprise management. They weren't originally part of the basic plan.

Mr. DAVIS of Illinois. Did I understand that we're projecting, you know—I don't recall the period of time, but that we're actually going to be able to reduce the personnel by two-thirds over a period of time?

Mr. JONES. That's correct.

Colonel MANSFIELD. That is the plan, sir.

Mr. DAVIS of Illinois. Do we have any idea how many of these individuals might have reached retirement—or age, I mean—and actually will be phasing out of their own volition in terms of just having reached the time to go, as opposed to individuals who will have to go out into the marketplace and seek other opportunities?

Colonel MANSFIELD. Mr. Davis, that's a very large concern, not only professionally but personally with me. What happens to these truly dedicated people, a small number, who handle billions and billions of dollars of surplus? Part of the design of the timeline is to give our employees the opportunity to make the changes in their personal lives and see what's happening and make those personal decisions.

Our work force is relatively old. It averages about 47 years old and 16 years' service. We have quite a number of people that are eligible to retire. We intend to provide as much as the law allows, all of the VSIP, VERA's, early retirements we can.

We have placed in our budget money for retraining that we can offer the employees in these locations the opportunities for training and jobs that would target or—professions or skills that would target them for jobs in their local communities. We're fortunate that, while we have over 150 locations, most of our sites are relatively small, average somewhere between 12 to 15 people. We have large ones at the depots of 100 or so, but that's only about 24 out of the entire system. It is the smaller ones that we need to reduce as they—we have 66 DRMS's just to give you an idea of the 138 within the continental United States that only do 15 percent of the work now as the military is restructured.

So we phase this in and offer all we can to make sure people are all taken care of. As we hear that we may be diverted from our plan, on the personnel side of it, it causes us a little bit of concern, because we have spent a lot of time explaining this to our employees. I will say that, for the most part, in my travels to the DRMO's around the world, that they understand what we're doing. They may not like it individually, but they understand that we have excess capacity and we have to become more efficient.

Mr. JONES. Let me add something to that, because you, Mr. Davis, asked that question earlier. It reminded me of a problem that we have also in our distribution business, because we also in DLA run 23 warehouses in the United States, warehouse complexes in the United States with a total employment of 15,000, and we have to essentially cut that in half over the same period, a much more dramatic impact.

What we found is—and again an aging work force, 47 to 49—what we found is that, if the private sector actually competes for the work, an efficient company is efficient because it doesn't have

armies of people standing around in the wings waiting to take over a business, they're going to hire our people.

We found that, for example, right now, in San Antonio Air logistics center, we're in the process of contracting out our distribution depot there. And that appears to be the case. We have been able to place a third of the people already on priority placement, and we've had quite a few that are getting indications of job offers, because a company that will be doing that work simply doesn't have anybody else that knows the system.

As Mr. Lieberman, I believe it was, said, or it may have been Dave Warren, there will be reductions. There's no question that a private operation will save money, because it can operate with fewer people. Because of the structure, it doesn't have to follow some of the governmental ways.

Mr. DAVIS of Illinois. Well, I mean, let me just say that I'm pleased to know that this kind of reengineering, this kind of thinking, this kind of awareness of the impact and is actually taking place where we are considering what may happen.

I just happen to be looking at, I guess, a little script that one of the labor groups sent around that shows a young fellow coming home, talking to his wife and three children; and he says, Well, you know, I'm out of a job again. She says, What? This is the third or fourth time.

He says, well, you know, they had to downsize. And they're outsourcing, and they're privatizing, he says, but at least I've got you and the kids for comfort. She said, well, you know, we've decided that we're going to downsize also. And we're going to reduce the household by one.

And he says, what? She says, yeah, we're sorry, but we've got to do it.

And so, I appreciate the consideration of what happens to the employees who will, in fact, be affected.

Mr. JONES. It's much easier to build a business than it is to take it down, much easier.

Colonel MANSFIELD. I would just like to add, too, if I could, sir, just one, maybe, footnote to that.

I believe that, given the opportunity to continue our reengineering efforts, that while there will be fewer government employees, that they will have the capabilities to compete, and we will be able to see very clearly whether or not the Government employee or the private sector provides the best business case or the best value to the taxpayer and to the Department of Defense in the disposal issues, and that we continue to improve our control of DEMIL and AEDA and those other type activities. I think that will happen.

Mr. DAVIS of Illinois. And I certainly agree with that. I have no difficulty—as a matter of fact, I am probably one of the most frugal persons that I've ever encountered. I mean, people kind of chatter about the fact that I walk every day to work, that I—you know, my wife and I go through these things.

I just think it's unfortunate that, in some instances, we allow systems to develop and approaches to take place that now put people at a level of risk that we hope they would not have to experience. And I just hope that we can work our way out of this to the

extent that we don't cause any more difficulty than is absolutely necessary.

Mr. JONES. Absolutely. I couldn't agree more. And just as a note, we've, you know, in all of our outsourcing initiatives, require that any contractor who comes in to do work, our employees have a right of first refusal for employment. So that's not an option. Our contracts know that when they come in. So we do everything we can to make sure that there's as small as possible impact.

Mr. DAVIS of Illinois. Thank you very much, Mr. Chairman. And I have no other questions.

Mr. HORN. Well, we thank you for that interesting line of questioning.

Let me mention a couple of things here. They'll come up later in the hearing, but this particular issue is rather intriguing.

It appears the Navy Public Works Center and the Navy prepositioned war readiness materiel stock are selling vehicles, some of which have never been used, without reporting them for further Federal reuse. In fact, a sale is scheduled for tomorrow. The Navy is claiming that the sales of such property have been accomplished pursuant to the exchange sale authority of the Federal Property Act, in other words, use it as a trade-in.

There are two problems with this. The Navy does not have an exchange sale authority, as I understand it, under the Department of Defense regulations. Apparently, the Navy has not purchased replacement equipment with the funds, which is the ostensible purpose of the exchange sale proceeds.

This, to me, is a very troubling case which we would like to pursue with the Department of Defense and the Navy. Do either of you gentlemen have any information on this?

Mr. JONES. Mr. Chairman, as you may have discovered in looking through the paperwork, my name appears on a lot of paperwork associated with this case. And I have to say that, unfortunately, we do not have a good answer. The case rests with the Office of the Secretary of Defense at the moment to try to resolve it. And I think it's simply going to have to be the lawyers getting together to resolve this.

I certainly understand your concern. I share the concern. I can't answer the question on the merits, because I really don't understand at this point the legal issues in the kind of detail that I would need to give you a definitive answer. All I can say is that we are taking it seriously, and will come to a resolution of it.

Mr. HORN. Well, has anybody ordered the sale canceled?

Mr. JONES. Well, we can't do that. But I will check with the Office of the Secretary of Defense and see whether or not they have entertained that.

Mr. HORN. It seems to me that ought to resolve the policy issues involved, but they let that sale go forward.

Mr. JONES. I——

Mr. HORN. And if they had known about it a long time, how long does it take to say yes or no?

Mr. JONES. In this case, I'm not sure, Mr. Chairman, if that particular sale was well known in advance by anybody in the Pentagon. But I will check to see what they do know and what their intentions are.

Mr. HORN. I appreciate it.

Colonel, do you have any comments on it?

Colonel MANSFIELD. No, sir. I only became aware of that several weeks ago. No further details.

Mr. HORN. Let me ask you on that very point. I realize able officers have various career experiences as they go up the ladder. What has generally been the number of years in your particular position? Is it about a 2-year term of service?

Colonel MANSFIELD. It's a 3-year tour, sir. I assumed command on July 8 of last year. I have a little experience, I think, of where we're going. I was the chief of depot reengineering at Warner Robbins Air Logistics Center 2 years prior to taking this job. I have some knowledge of the process redesign and how to downsize, I think, humanely and smartly, and to build an organization to compete and let the chips fall where they may.

Mr. HORN. Well, I got that view from your testimony. You sound like a person that has compassion as well as a desire for efficiency, and I think that's important.

A later witness, General McInerney notes in his testimony that in 1993 the Defense Logistics Agency supported the outsourcing of the Defense Reutilization and Marketing Service function. Can you explain, Mr. Jones, why the change of heart, and how important a part of the Defense Logistics Agency is your agency's revenue stream?

Mr. JONES. Yes. I'd be happy to comment on that.

As I mentioned earlier, General McInerney and I were actually at the same meeting where this discussion occurred in 1993. The recommendation that went forward to the National Performance Review was that the DRMS be a candidate. Now, there's a difference between a candidate where you nominate an organization for being an outsourcing candidate and then the plan that actually gets you there.

What we found was, as we began to look at the functions of DRMS and—and let me say that, at the time, I was in the Office of the Secretary of Defense—we took the position that, to the extent that any part of the logistics system is on the margin of military readiness, disposal is on the margin.

Now, it turns out that disposal travels with the troops when they go out to war as well. So there is a piece of it that is directly readiness-related. But we agreed from the Secretary of Defense's point of view back then that this is a good place to start. We really needed to look at this hard to see what we can do.

Well, then these steps up here [on the chart] are the ones that we went through from that time. You can see 1993 is the beginning of the process. Those are the steps that we went through to actually put words into practice. What we found was that every time we thought we had a solution, we only had a partial solution. We could contract out this particular function. We couldn't contract out the regulatory aspect. Things were——

Mr. HORN. On that very point, was that a problem of the Congress not giving you the authority, or how did you lack authority in some of these areas that you wanted to do that?

Mr. JONES. Well, no, it was not, Mr. Chairman. Congress is not at fault at all here. I think what we're saying is that our intention

was to put DRMS under the microscope and look at outsourcing, as much of it as we could. And as we looked at the process, as we developed the enterprise management model, that was the first real analytical insight we had that said, you know, some of the things you do in this organization are different from the private sector. We knew that, of course. But it was a matter of having a good model to use that says, you cannot necessarily apply the same logic to this part of the business, the reutilization part of the business, the transfer and disposal part, as you can to the sales part.

And it's at that point that we began to develop the strategy that said, here's how we're going to outsource sales. We're going to try auctioneering. We're going to try optimal marketing. We're going to try joint venture. And eventually we will work our way through all of the options that the business consultants that have helped us have told us will make market sense for the sales portion.

Mr. HORN. On that point, in the role of auctioning—one of your options—does the agency leadership have a feeling as to what is the most helpful to raise the return of the revenue? Is it auctioning? Is it turning it over to the private sector? What is it? How do you look at that?

Mr. JONES. What we found from the experience so far is that auctioning is not the answer, that we're actually as good or better at conducting auctions than those we've been able to hire to do it.

What we think is the best answer is the optimal marketing initiative, which, as we talked earlier, is the case where experts in the commodity areas themselves, who know the business, work with us in market—and market that property, if it involves bringing up the condition of it from used to like-new condition and so forth. We know that that's going to produce more revenue.

We have results already that show our income return from those kinds of processes under optimal marketing are far better than they would have been if we had just gone out and sold the materiel used. We don't have the——

Mr. HORN. Is that partly splitting the profits?

Mr. JONES. That's correct.

Mr. HORN. Would it pay to have people develop that expertise on your own staff——

Mr. JONES. No, we did not.

Mr. HORN [continuing]. And keep all the profits? I mean, do we know what type of services—and I grant you, knowing the market, knowing the people, having the experience and all of that, let's face it, that might take years, and it's worth doing exactly as you're saying. But I'm just curious about what you've looked at to see who gets the most out of it.

In other words, here's this organization, 3,000-plus people, tremendous experience behind it in the disposal decision. Hopefully, they'll take into account some of the purchase decisions at the same time that the disposal is going on, and I realize there's a problem in flooding the market with things at a point in time—but what I'm interested in is where can we get the most for the Federal Government and the Defense treasury, however we arrange the law in that, that's down the line.

Mr. JONES. Well, let me answer that question first, because I think the answer was given by Mr. Lieberman as well, and that is the best value for the taxpayers is to reuse the equipment.

Mr. HORN. Right.

Mr. JONES. So to the——

Mr. HORN. We agree.

Mr. JONES. So to the extent we can reuse it, we get best value. And that trend shows up in the actual figures of what's going on.

The second best is that we can get materiel that is not in serviceable condition marketed as serviceable property, which requires the investment of someone to make that happen. Rather than develop that in-house capability as we're trying to downsize, we've looked at the private sector to do that for us; and that's where we think things like joint venture and optimal marketing will add the most value, because they will increase the value of the property, by definition, and make it worth more to the markets that are willing to pay for it.

So those two right there, I think, are the best answers I can give you as to how to make the most money out of the property that survives the demilitarization and other screening processes, donation and so forth.

Bob, you may want to add to that.

Colonel MANSFIELD. Just from the standpoint of part of our process of determining which route to go, take a look, does the expertise exist in the private sector? If it does, it seems best to us not to try to duplicate it because of the training costs and the competition that we might be saying, we're having the Government compete with the private sector.

What we really wanted to do was to take a look where Government does things the best, where private sector has a proven capability, and then write contracts, in this case sales contracts, with them, and then let them do the aftermarketing. It might be traditional buyers buying directly from us or rehabilitation, as Mr. Jones says, and selling in a different market. So we don't have to build a large sales and marketing infrastructure. That's been an approach, sir.

Mr. HORN. To what extent is taking a percentage of the private sector sale to either the private sector, or other people that might have an interest in that; and be eligible? Do you feel a percent of that ultimate figure that the private sector is trying to sell for you is the best way to get the highest return for the taxpayer?

Colonel MANSFIELD. Well, we think there's probably some fairly good competition at that point, because the way we set up our first one to test this is that we have years of history in medical-dental-vet equipment, for instance, that say we receive this rate of return. We put out to the marketplace and say we would like to get, up front of that sales contract, 75 percent of that based on the acquisition value, and then negotiate individually with folks who came back to us the best deal we could get as far as a share of the net proceeds.

We think that 27 or 33 percent of the net is probably better than we would ever do when we have only been in medical-dental-vet, traditionally making a little over 3 percent. So it looks to us—and

then we take a look at our cost if sales, the cost if had we sold it ourselves, the revenue stream; and at this point, it's a net benefit.

Mr. HORN. Can you give us an idea of how many vendors have bid on this particular type of concept?

Colonel MANSFIELD. Not many. We had three. We divided the country into six regions and we got bids on four. So we continue to do two, which we're using as a sample of comparison of performance. Two of the contractors have asked to get out of the contract. They have bit off a little more than they can chew. We said, all right. This is a pilot. We're running it for 6 months to look and see how it worked.

The final one, who took two regions, is doing very, very well and is producing famously. And we're looking at them very carefully, asking: what about this pilot worked for them and didn't work these other two.

Mr. HORN. Does it mean that you're more likely, based on this limited experience, to focus on the region as the unit of sale rather than trying to get somebody to take on the whole Nation?

Colonel MANSFIELD. We wanted to look at it regionally from the standpoint of getting as much competition as we could. There are some variations because of the location of installations of hospitals and what have you. It may work out that there's one private company that does the whole country. We wanted to see what kind of competition we got.

I'll add that, even though there are only four or three successful bidders for four of the regions, our initial one, over 160 folks showed up at our initial industry meeting. There was a fair amount of interest.

Mr. HORN. Yeah?

Colonel MANSFIELD. I also chose specifically this medical-dental-vet, because I felt it might have less impact on the overall surplus system that we're drawing down our hospitals. There's less and less. Most of the materiel that is withdrawn is not in tiptop shape because it's taken in other areas early. And as we change our logistics business for medical with more leasing of materiel and equipment and more direct vendor delivery, we're just going to have less and less. So it seemed like a fairly safe one to try as its impact on the overall system.

Mr. HORN. I had mentioned for the record a little while ago the 1 percent on foreign military sales. Do we know, based on just maybe observing or hearsay—I suspect you don't require a report on it—the number of your equipment, and a lot of which has nothing to do with backing up a military force. You can have a lot of civilian uses. How much ultimately goes from the people that pay you for it to meet your cost structure? How much ultimately goes overseas? Do we have any sort of idea of that?

Colonel MANSFIELD. I have none.

Mr. HORN. And are they getting into areas—I go to foreign countries, and some of their hospitals; they're where we were in the thirties, forties, and fifties, for example, in terms of equipment. And I just wonder if some of that is then resold for overseas markets. I don't say necessarily military markets, but just to whoever is running the hospitals in the country.

Colonel MANSFIELD. I do not know, sir.

Mr. HORN. OK. Do you have any thoughts on that, Mr. Jones?

Mr. JONES. No, Mr. Chairman, I really don't. I don't know how we'd find that outright, offhand.

Mr. HORN. I'm not asking you to do a survey or anything. I'm just curious. Obviously, the point is, are we missing a market? And maybe the private sector is the best way to do it.

Mr. JONES. I think—sorry.

Mr. HORN. On the other hand, maybe you could do it.

Mr. JONES. I think the advantage of using the specialized market mediator in the middle is that they're very familiar with the international demand. If there's an international dimension to the demand, it will be used. That's why we have to also be careful what we put into that stream.

Mr. HORN. Very good. There will probably be some questions we will be sending to you, but I have only three left, and I'll work through them.

As I understand it, one of the most valuable functions of the Defense Reutilization and Marketing Service is not the sales function but, as you said in your recent comment, it's to get that property reused by government agencies, both Federal and State, and saving us taxpayer dollars. Now, what incentive is there for you to promote that type of reutilization transfer and donation as opposed to moving to the sales side? Are you under great pressure by your own guideline to really get that out for sale and the heck with donations to other governmental bodies? What's your read on the grounds of that?

Mr. JONES. Absolutely. We have, first of all—and let me just comment on the individual who is so widely quoted as saying, "your first three priorities are profits and your next three priorities are profits." That gentleman has long since departed, and so has the person to whom he reported. That problem has been corrected.

Colonel Mansfield developed an annual business plan, and it's based on an anticipated volume of business in each of the areas that he's responsible for: hazardous materials, reutilization, sales, and so forth. His incentive is primarily to remain within his business plan, and to the extent that he can't, we work with him to try to adjust that.

As far as reutilization goes, there are several things that are going on to try to improve that. One of them, as Mr. Lieberman mentioned, is total asset visibility. There is a rehosting of the main system that DRMS uses at Battle Creek, which is going to have much better interfaces with the standard supply system than has been the case in the past. That will cause much more materiel to be visible to the buyers at the time they're making the buy decisions.

Right now something like 50,000 requisitions per day are passed to DRMS from our own DLA buyers before anything goes into the buying practice. And that's something fairly new. So a lot of that is being done. DRMS has been extremely aggressive.

As a matter of fact, they've won awards for their World Wide Web marketing. The advantage with the Web marketing is that it gets to everybody. Anybody with a computer and Web access can see what's there; and that includes our own military people who do

not have some of the direct links and can go to the Internet to find things. And we do make Internet sales to our own units.

I think the main transition that Battle Creek is trying to go through is to move toward information management. And the better they move toward information, the more likely it is the more people will have access to the material they need when they need it. And that's our primary emphasis.

Mr. HORN. Well, as I understand it here, your managers who sold more property, got better performance ratings and better performance bonuses. Now, if we're trying to get donations first to government at all levels, is that the reward system we ought to have; or do we put equal emphasis on those that are pushing the donation to various governmental levels?

Mr. JONES. Absolutely not, Mr. Chairman. That's been corrected. And Colonel Mansfield will speak to what's been done.

Mr. HORN. OK.

Colonel MANSFIELD. Sir, that, I stopped almost immediately upon assuming command. That was the wrong incentive.

Mr. HORN. So it's a dead duck as of 1 year ago?

Colonel MANSFIELD. Yes, sir.

Mr. HORN. OK.

Colonel MANSFIELD. The incentive is to have a business plan, to set the target as we see them, as we see the disposal for the year and the year in advance, to build our budget against those, and then track to it. Those managers that are successful will get better ratings, and those that are not, you know, will not get the highest ratings.

We sat in with the GPRA targets for this so there's oversight, so we aren't doing this blind, and so managers of DOD can look and see we have set these targets. And what I demand is that the managers know why they're off target or why they're over it.

Now, if we're off, we're off. Let's understand that. But recognize that my first mission as a uniformed officer and supply officer in the Air Force first and foremost is that. It used to break my heart to go over to the DRMO and see F–4 or, you know, F–15 parts going out to the DRMO when it looked like we could use them.

So we are aggressively moving forward with the information technology to make it easier for every camp, post and station, to take a look at what's in the DRMO, not just their DRMO—what's in their backyard—but around the world, what inventory we have. And I hope within the next 2 years, we'll be extremely successful in doing that, and we'll see the rates of reutilization go up very much in the Department.

Mr. HORN. How many different computer systems do we have that tell the potential user, or reuser, both within the services and within various levels of government, as to what's available?

Colonel MANSFIELD. I have no idea how many there are. We have four, and we're integrating those into the World Wide Web. We have a program which is an information modernization program, or information technology. We're in the second year, and its a 4-year program to get us into one. And by using the one, we think we will have one front end where anybody can look at this and then feed us their requirements.

As Mr. Jones said, we've done that in the DLA depots, and it's paying off.

Mr. HORN. Now, the General Services Administration is also in a similar type of business. Is there any thought of combining both of these? Or do you feel the markets are so different that it wouldn't make much sense?

Colonel MANSFIELD. We have held discussions with the GSA about this and how to integrate the data exchange and to come to—particularly as far as the donees are concerned, the State agencies that GSA has some allocation authority over—to come to a single system so there's visibility for everybody at the right time as it moves through the cycle. Once it's to the donees' cycle, then that would come up, and it greatly simplifies things for donees, GSA, and for us.

We're actively pursuing that. As a matter of fact, sir, on the 16th of this month, GSA representatives will be at my headquarters in Battle Creek to discuss that very thing.

Mr. HORN. Well, that's good. If you don't mind, if it isn't too much trouble, just since you brought up the Internet, which I'm a strong supporter of, that approach, if you could file for the record the costs of the full-time equivalent personnel that's devoted to the web site and on-line screening system and what the costs are, I think that could be a model for a lot of other agencies in somewhat related adventures.

There will be questions that both the majority staff and the minority staff might get together and send you gentlemen and other witnesses. And if you wouldn't mind answering them, we'll just put them at this point in the record.

[The information referred to follows:]

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IN REPLY
REFER TO CAAR

DEC 0 5 1997

Andrea Miller
House of Representatives
Committee on Government Reform and Oversight
Subcommittee on Government Management,
Information, and Technology
Washington, DC 20515

Dear Ms. Miller:

This is in further response to your November 6, 1997, memorandum requesting us to review the transcript of the testimony presented at the subcommittee's 12 September 1997, hearing, "Oversight of Defense Surplus Equipment and the Activities of the Defense Reutilization and Marketing Service." As per your request, Mr. Jeff Jones, Principal Executive Director for Materiel Management, Defense Logistics Agency, and Colonel Robert Mansfield, USAF, Commander, Defense Reutilization and Marketing Service (DRMS), have reviewed the transcript of their testimony. An annotated copy of that transcript was forwarded to you last month.

In response to Chairman Horn's question (transcript lines 2467-2474) regarding personnel costs associated with on-line screening of property, DRMS provides the following.

Costs of full-time personnel devoted to the Web site and the On-Line Screening system located on the Web:

2 full-time Government personnel (GS-12)	*$101,896 (total per annum)*
2 full-time contractor personnel	*$188,114 (total per annum)*
Total Web Cost for DRMS	*$290,010 (per annum)*

We trust this information satisfies Chairman Horn's request. Please do not hesitate to contact Mr. Thomas Gelli of my staff at (703) 767-6175 if you need additional information.

Sincerely,

DANIEL W. MCGINTY
STAFF DIRECTOR
CONGRESSIONAL/PUBLIC AFFAIRS

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Mr. HORN. But I think we've hit a lot of the high points, and I realize that we can't hit everything. But we thank you for coming.

Does Mr. Davis have any more questions in this area?

Mr. DAVIS of Illinois. No.

Mr. HORN. OK. Thank you very much for coming. It's been very helpful to educate us on this matter. We're just sort of moving into it slowly.

Colonel MANSFIELD. Our pleasure.

Mr. HORN. Thank you.

Mr. JONES. Thank you, Mr. Chairman.

Mr. HORN. We now have the last panel, panel IV. And that is the general, Thomas McInerney, U.S. Air Force, Ret., who is now president and chief executive officer, Business Executives for National Security, otherwise known as BENS, a very fine organization I've found, that provides the Congress and the public with a lot of worthwhile information to get a better understanding of our national security operations.

And we also have on this panel Randy Frost, president of the National Association of State Agencies for Surplus Property. And he's accompanied by Jack Liuzza, director for Louisiana State Agency for Surplus Property.

In addition, we have James Hundle, president of Users and Screeners Association, who is accompanied by Frank Sodek, the past president of Users and Screeners Association.

So, gentlemen, if you would rise and take the oath.

[Witnesses sworn.]

Mr. HORN. All five witnesses have affirmed.

We'll go down, General McInerney, from the beginning; we'll start with you and just move down the list.

Again, he's president and chief executive officer, Business Executives for National Security.

STATEMENTS OF LT. GEN. THOMAS McINERNEY (USAF-RETIRED), PRESIDENT AND CHIEF EXECUTIVE OFFICER, BUSINESS EXECUTIVES FOR NATIONAL SECURITY; RANDY FROST, PRESIDENT, NATIONAL ASSOCIATION OF STATE AGENCIES FOR SURPLUS PROPERTY, ACCOMPANIED BY JACK LIUZZA, DIRECTOR, LOUISIANA STATE AGENCY FOR SURPLUS PROPERTY; AND JAMES HUNDLE, PRESIDENT, USERS AND SCREENERS ASSOCIATION, ACCOMPANIED BY FRANK SODEK, PAST PRESIDENT, USERS AND SCREENERS ASSOCIATION

General MCINERNEY. Thank you, Mr. Chairman, Mr. Davis, for letting me appear before you today.

During my tenure as the director of the Defense Performance Review, I was personally involved with the efforts to outsource DRMS. DRMS and DLA, as Mr. Jones pointed out, nominated DRMS to be outsourced as low hanging fruit.

I think all of us can understand that from a war fighting point of view, the 3,000-plus people there have nothing to do with war fighting. There are no trigger-pullers. They're nothing in terms of war fighting. It's a business function. People can have different views on whether it's unique business or not, but the fact is it's a

business function, and it has nothing to do with the war fighting portion.

That's what gets us into the problem; and why we at BENS are so aggressively pursuing its outsourcing is because, as you know today, 70 percent of the defense dollars are going into its support. Only 30 percent are going into the war fighting portion.

And we have to free up $20 billion. This is an area that we think is the lowest portion, most vulnerable that should be privatized.

Mr. HORN. Let me just ask a question at this point——

General MCINERNEY. Yes.

Mr. HORN [continuing]. Because I was really intrigued by that 30/70, and glad to have an update.

I remember 40 years ago, I was told that, in the Second World War, we had essentially nine people behind the line, one on. The Soviet Union had one person behind the line and nine on. And I take it we've made some improvements then in our own ratio of support in relation to the war fighting function.

General MCINERNEY. Well, actually, during the cold war and the history since the end of World War II, we sat at about 50/50. We got up to almost 60 percent war fighters, 40 percent support under Reagan, but that's because he increased the force structure significantly. I was part of the group that brought defense down to 30 percent. I'll just be frank with you—when I was the chairman of the Air Force Council Net—I could see no way to take down Warner Robbins, Tinker, or Kelly, but I could take another fighter wing to meet my cost, bogie, and it was $100 million, and I take it out.

The political process to get through to take down this infrastructure has been much too difficult. And what I would like to provide for you, Mr. Chairman, is we have a prospectus on a BENS Tail to Tooth Commission that is cochaired by Senator Warren Rudman and Mr. Josh Weston, the chairman of ADP, Senator Sam Nunn is a member of it, in which we're trying to do this using best business practices, how we can still have a better defense, yet cost less money. If I could introduce that to the record.

Mr. HORN. It is introduced in the record at this point. And if you'll give me a few copies, I'll spread them around.

[The information referred to follows:]

BENS TAIL-TO-TOOTH COMMISSION

MILITARY ADVISORY BOARD

ADM STANLEY ARTHUR, *USN (Ret.)*
former Vice Chief of Naval Operations

GEN AL GRAY, *USMC (Ret.)*
former Commandant,
United States Marine Corps

ADM WESLEY MACDONALD, *USN (Ret.)*
former Commander in Chief
Atlantic, Atlantic Fleet, and Supreme
Allied Commander Atlantic

GEN MERRILL MCPEAK, *USAF (Ret.)*
former Chief of Staff,
United States Air Force

GEN THOMAS MOORMAN, *USAF (Ret.)*
former Vice Chief of Staff,
United States Air Force

ADM WILLIAM D. SMITH, *USN (Ret.)*
former US Representative to
NATO Military Committee

GEN GORDON SULLIVAN, *USA (Ret.),*
former Chief of Staff, United States Army

GEN JOHN VESSEY, *USA (Ret.)*
former Chairman of the
Joint Chiefs of Staff

THE COMMISSION

Commissioners*

WARREN B. RUDMAN
Chairman, BENS Tail-to-Tooth Commission; former U.S. Senator

JOSH S. WESTON
Commission Co-Chairman; Chairman, Automatic Data Processing, Inc.

RAPHAEL BENAROYA
Chairman & CEO, United Retail Group, Inc.

DENIS BOVIN
Vice Chairman, Bear Stearns, Inc.

HOWARD "BO" CALLAWAY
former U.S. Representative, former Secretary of the Army

MICHAEL S. FIELDS
President, The Fields Group

SIDNEY HARMAN
Chairman & CEO, Harman International Industries, Inc.

JAMES R. JONES
former U.S. Representative, former Ambassador to Mexico

JAMES V. KIMSEY
Chairman Emeritus, America Online, Inc.

ALEX MANDL
Chairman & CEO, Teligent, Inc.

BERNARD MARCUS
Chairman, Home Depot

JOHN P. MORGRIDGE
Chairman, Cisco Systems, Inc.

WILLIAM MURDY
President & CEO, General Investment & Development Company

SAM NUNN
former U.S. Senator

ADMIRAL WILLIAM OWENS
USN (Ret.), President and COO, SAIC

FREDERICK SMITH
Chairman & CEO, Federal Express Corporation

VIN WEBER
former U.S. Representative

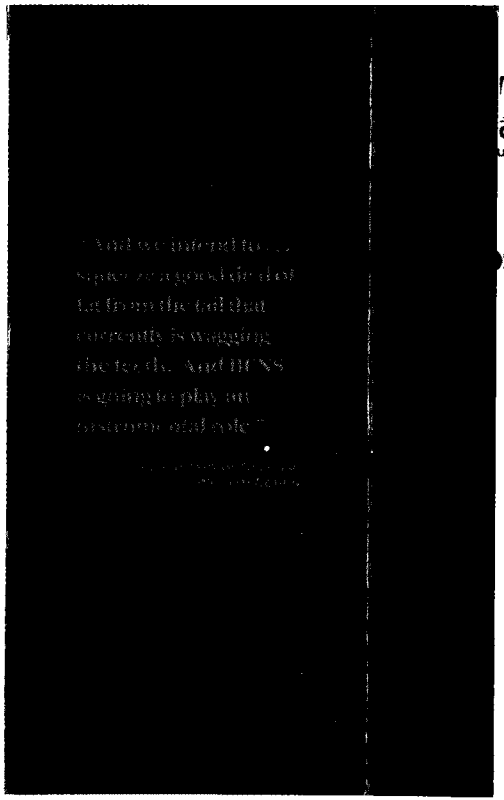
Senior Advisors

FRANK CARLUCCI
former Secretary of Defense

WILLIAM PERRY
former Secretary of Defense

These business leaders and policy makers will be joined by a Military Advisory Group of retired senior officers, with direct experience in implementing the reforms needed at DoD.

** as of August 18, 1997*



TAIL TO TOOTH
COMMISSION
UTIVES FOR NATIONAL SECURITY

SPECTUS

"Our nation can have a strong military, without increasing defense spending, by cutting the cost of the Department of Defense's support structure (or *'tail'* in military jargon) and reinvesting the savings in modernization of our fighting forces (or *'teeth'*)."

Since the end of the Cold War, the all-important ratio of warfighting to support activities ("tooth-to-tail" in military jargon or "operations to overhead" in business terms) has become "tail-to-tooth", with some 70 percent of defense dollars spent on support functions and archaic business practices and only 30 percent on combat forces and modern weapons.

The trend of DoD's tail absorbing more and more of the Department's budget is dangerous, because it erodes the ability of our fighting forces to respond successfully when the nation is challenged.

Congress and the President could correct this imbalance by throwing money at it. According to some analysts, it could cost as much as $40 billion per year to give our fighting forces the new weapons and technology they need. Another option is to downsize our security commitments to fit our reduced teeth. There is a third alternative: Run the Department of Defense like a business.

THE CHALLENGE

The Pentagon should follow the lead of American business which began, in the 1980s, to take full advantage of the revolution in information technology and the possibilities of total quality control. It consolidated, restructured, downsized, outsourced and eliminated excess overhead, and re-established its dominance in the world.

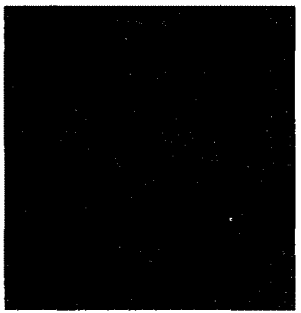
By cutting the cost of DoD's support structure and reinvesting the savings in the modernization of our fighting forces, our nation can have a strong military without increasing defense spending.

To meet this challenge, BENS has established the BENS Tail-to-Tooth Commission to promote major changes in DoD's business practices by educating those who must act in the Congress, the Pentagon and the White House.

HOW THE BENS TAIL TO TOOTH COMMISSION WORKS

The usual pattern for a commission is to study a problem, issue a report, and consider its work done. The Commission will begin where most end; it will promote actual changes to the Congress, the Administration and the DoD. The work of the Commission will not be complete until the needed changes are put into practice.

The BENS Tail-to-Tooth Commission will focus on identifying and promoting best business practices in six areas:



Task Forces in each of the six issue areas will be composed of professionals whose lives have been spent wrestling with large-scale tail-to-tooth problems in the private sector, Congress, and DoD. They will recommend specific reforms that DoD must implement to reinvest in combat capabilities.

THE IMPLEMENTATION

The hardest and most important part of the Commission's work will begin once it makes its recommendations: to identify those decision-makers in Congress, the Administration and DoD, especially those who can say no, and to find ways to achieve real reform.

All this must be translated into an integrated campaign. This would include an Outside Strategy for public promotion of the Commission's recommendations and an Inside Strategy for targeted persuasion in the Congress, DoD and the Administration. The Commission's clout would be mobilized to complement BENS' policy delivery operation, which has a record of results in educating policy makers.

WHY BENS?

BENS has the standing to establish the BENS Tail-to-Tooth Commission. A national, nonpartisan organization of business executives and professionals, BENS has a 15-year record of achievements, including its central role in conceptualizing, promoting, protecting, and overseeing the successful Base Realignment and Closure Commission (BRAC).

THE BUDGET

The BENS Tail-to-Tooth Commission will be a wholly-owned subsidiary of BENS. Its budget for 24 months will be $1.5 million, including staff costs (the Executive Director and staff, short-term professionals for each of the Task Forces), Commission and Task Force expenses, and the development and implementation of a professional promotional plan. Funding will be raised and accounted for separately.

General MCINERNEY. Yes, sir. I have those, and the reason we're strong supporters of aggressive outsourcing, we were not alone, the Defense Performance Review, the Corps, and the Commission on Roles Missions was there. Roles and Missions also supported it, but if we can't outsource DRMS, what can we do to save these dollars to move them over into acquisition with the $20 billion shortfall? So we think this is an important target.

We also think—and I enjoyed the conversation with Mr. Davis that you had with them—it is extremely important how we handle the people shifting. It is very important how we do that and to use it as a role model. We would rather see those numbers come down quicker and those people move into the private sector.

Our conversations with private sector companies that are interested in this business says they'll take these people. And the important way we retrain them is very critical in this process. So we strongly endorse that. We feel that the private sector can do it because, right now, they're doing it for the U.S. Customs Service. And they're very successful in the U.S. Customs Service; it has been one of the major success stories. You should certainly look at that.

Energy and IRS——

Mr. HORN. I might add, we're trying to hold a hearing on their resources in the October break. So we're going to get into that.

General MCINERNEY. I commend you to benchmark right there on what they have done.

Mr. HORN. Right.

General MCINERNEY. Now, I don't want to get caught up on dollars, but the fact is, when I was the Assistant Vice Chief of Staff of the Air Force, I was spending about $50 million to give to DRMS and, it turned out, so were the other services. So it's about $150 million a year for the services that they're paying to DRMS to do this. That money could easily go into the warfighting side if, in fact, we had very good management. And if you look at the Customs Service and see how they're recovering dollars, I think that's the kind of ideas we're talking about, shifting dollars from the tail into the warfighter.

Now, I think that I would like to say that for those that don't think a Fortune 500 company can do this, they haven't seen the tremendous revolution that has gone on in the private sector. We have been sitting for quite some time at an unemployment rate of 5 percent, plus or minus. We are short people in the private sector. And if we do this properly, we can move these people into the private sector, protect their jobs, and still make them contributing; and we, the Federal Government, get a much more efficient organization.

So I would like to stop there, sir, and give the other members an opportunity to discuss the issues.

Mr. HORN. Well, we thank you for that opening.

[The prepared statement of Lt. General McInerney follows:]

Mr. Chairman, Members of the Subcommittee, thank you for inviting me to appear before you today. I am Thomas G. McInerney, President and CEO of Business Executives for National Security, BENS.

BENS is a national, non-partisan organization of business and professional leaders dedicated to the idea that national security is everyone's business. BENS members apply their experience and commitment to help our nation's policy-makers build a strong, effective, affordable defense, and to find practical ways to prevent the use of even one nuclear, chemical, or biological weapon. We work with the Congress, the Pentagon and the White House to ensure the changes we recommend are put into practice. That is why I am here today.

Before joining BENS, I was Vice President of Command and Control for Loral Defense Systems-Eagan. Before that, I spent 35 years as a pilot, commander, and strategic planner in the U.S. Air Force. In my last assignment on active military duty, I was the Assistant Vice Chief of Staff of the Air Force, and for most of that tour of duty, I served as Director of the Defense Performance Review, the Pentagon's counterpart to Vice President Gore's National Performance Review. I led the Defense Department's "Reinventing Government" effort, visiting more than 100 leading-edge commercial companies to learn how they re-engineered their operations to become better and more efficient.

During my time with the Defense Performance Review, I was personally involved in efforts to outsource the Defense Reutilization and Marketing Service (DRMS). At that time, I felt it was important for DoD to focus on privatizing and outsourcing functions least linked to war-fighting needs. By picking the "low-hanging fruit," we could build on our outsourcing successes one step at a time.

I considered DRMS to be the lowest of the low-hanging fruit. The work of DRMS has little to do with DoD's core business, and there are many private contractors who could do DRMS' job cheaper and better. Nonetheless, we were unable to effect major change in the organization. As a result, I am appearing before you four years later, and we're still talking about how to fix DRMS. I remain hopeful that the Subcommittee's work will finally break this logjam and help foster major reforms in DRMS' operations.

The Defense Tail-to-Tooth Problem

DRMS represents a small part of a larger problem—the imbalance between spending on war-fighting capabilities (or "tooth") and the administrative capacity needed to support the war-fighter (or "tail"). Eight years after the end of the Cold War, the proportion of our defense budget devoted to administration and support functions is approaching 70 percent, while only 30 percent goes toward military readiness and force modernization.

When the Cold War ended, the U.S. military downsized, cutting troops and weapons to achieve a force structure appropriate for the post-Cold War era. However, similar cuts did not occur in the support side of the Pentagon.

We must begin to rationalize our defense support structure. The only way to undertake the needed modernization of our fighting forces without increasing the defense budget is to cut administrative and support costs and reinvest the savings in procurement.

As we move down this path, we are not covering new ground. The Pentagon simply needs to follow the lead of American business, which began in the late 1980s to take full advantage of the revolution in information technologies and the possibilities of total quality control. American companies consolidated, restructured, downsized, outsourced, and eliminated excess overhead, and re-established their dominance in the world.

The Pentagon can achieve similar reforms through outsourcing, privatization, and re-engineering. This effort can yield up to $30 billion in annual savings. We at BENS feel so strongly about this issue that we have organized the BENS Tail-to-Tooth Commission, chaired by former Senator Warren Rudman and Josh Weston, Chairman of ADP, Inc. The BENS Tail-to-Tooth Commission will assist the Congress, the Pentagon, and the White House by highlighting how best business practices can be applied to the world's largest enterprise: the Department of Defense. With your permission, I would like to submit the Commission's prospectus for the record.

The Operations of DRMS

Mr. Chairman, I am strong supporter of aggressive outsourcing and privatization at the Department of Defense. While I recognize that there are legitimate questions about this process and the nature of functions to be privatized, these differences do not apply to DRMS. Nearly everyone who examines its operations agrees that DRMS ought to be outsourced. In 1993, we

reached this conclusion in the Defense Performance Review, but we were not alone. The National Performance Review and the Commission on Roles and Missions also called for outsourcing of DRMS. Even the Defense Logistics Agency itself has supported outsourcing of this work and originally presented DRMS as an outsourcing candidate in 1993. In addition, nearly every government audit of DRMS has soundly criticized the service's operations.

DRMS has been subject to a host of criticisms that will be covered by other witnesses in this hearing. These problem areas include poor inventory controls, unreliable sales reporting, poor marketing efforts, and shoddy financial management. DRMS has lost money in 23 of the 25 years it has been in existence. Think about that: It costs this bureaucracy more money to process the sale of merchandise than it receives from the sale itself. This type of work ought to generate revenue for the taxpayer, not require additional outlays.

In fiscal year 1996, DRMS property sales yielded only 1.9 percent of the original acquisition costs for sold items. By comparison, the General Services Administration obtains about 6% of the original cost for items sold from civilian government agencies.

The General Accounting Office (GAO), the Pentagon's Inspector General, and other investigators have made a convincing case for poor management at DRMS. Moreover, DRMS' customers, including the National Association of State Agencies for Surplus Property (NASASP) are among the service's harshest critics.

Nevertheless, poor management doesn't necessarily mean that a government function should be outsourced. The primary rationale for outsourcing is the nature of DRMS' mission. Excess property disposal is not a core government function, let alone a core defense function. Even if DRMS worked well, the Defense Department should not be in this business.

The core mission of the Defense Department is to deter potential adversaries and to prepare to fight and win wars if deterrence fails. As you move farther away from this core function, the case for outsourcing becomes stronger. While we should not outsource combat operations, many of DoD's business operations could be performed by private contractors. Just as America's leading private corporations have outsourced non-core operations to world-class suppliers to receive better services for less money, so too should the Pentagon outsource functions that are not part of its core competency.

At the beginning of the Cold War, DoD was often forced to do work in-house because there were no private contractors capable of performing many

tasks. For instance, there were no private companies that performed specialized aircraft maintenance or delivery of spare parts. Today, there are hundreds of contractors who are ready, willing, and able to bid on defense support contracts. Several large contractors are fully capable of competing for the work of DRMS.

In the case of DRMS, we know that the private sector can do this job better. DRMS consistently loses money, requiring reimbursement from the military services' operations and maintenance (O&M) accounts. O&M funds should support training and readiness, not surplus property disposal.

My claim that the private sector can do it better is not hypothetical. It's based on real life experience of the Treasury Department, which outsourced the disposal of property seized by the U.S. Customs Service. Since 1990, sales of excess property have generated more than $218 million for the government, providing one of the major sources of income for the Treasury Department's Forfeiture Fund.

Options

As you know, a host of options have been presented for fixing DRMS. These proposals include enterprise management, public-private competition, and complete outsourcing. Let me address each of these in turn.

Enterprise Management

Enterprise management is the Defense Logistics Agency's plan to reinvent and re-engineer DRMS. Under this proposal, DRMS would introduce commercial practices in an attempt to improve customer service and reduce costs.

While we applaud this initiative from DRMS (as we support any reform that reduces costs and improves services), even a fully reinvented DRMS will remain in a monopoly position. Because of this monopoly power, incentives to reduce costs and improve service will be minimal. Political pressure, not market competition, explains DRMS' current interest in re-engineering. When these political pressures subside, the commitment to change may also erode.

Enterprise Management simply represents another approach that avoids real change. When a process is considered to be a core government function, reengineering makes sense. When a process is non-core and can be performed

cheaper and better by private contractors, outsourcing, not re-engineering, ought to be the preferred option.

Public Private Competition

A second proposal for DRMS suggests that the Pentagon undertake a study under the authority of OMB Circular A-76 to determine whether public or private sources can best perform this activity. As you know, the A-76 process prescribes a process by which government employees compete with outside firms to perform work that has been done in-house but could be outsourced. We believe that this suggestion will simply delay needed reforms.

The average A-76 analysis takes several years. At the end of this period, the Pentagon will still need to make a fundamental decision about the status of DRMS. In the meantime, we will have expended significant amounts of O&M funding for a function that remains outside the core business of defense.

DoD has already determined that DRMS is a non-core function. The Defense Performance Review, the National Performance Review, and the Commission on Roles and Missions all called for immediate outsourcing of DRMS. In addition, this year's defense authorization includes provisions for the immediate outsourcing of this work. We have studied this problem for years: further study is recipe for doing nothing.

Immediate Outsourcing

My recommendation for DRMS is a simple one. Let's do what we recommended four years ago. We should stop studying the problem and act now to outsource this function.

Immediate outsourcing offers many benefits. We expect that this step can save up to $150 million per year for DoD. These funds can then be used for other purposes such as investing in new equipment or supporting training and readiness.

Second, outsourcing should significantly expand the amount of personal property transferred from DoD. This increase brings benefits to DoD by increasing revenues from property sales. At the same time, it also helps ensure that more excess property is provided to people and organizations that need it. After all, one of DRMS' primary jobs is to ensure that excess items are put to good use. An outsourced DRMS will provide better service to both DoD and its customers.

Opponents of outsourcing will claim that no contractor can undertake DRMS' mission. This contention is simply untrue. Other federal agencies, such as the Internal Revenue Service, the Customs Services, and the Department of Energy, have moved to outsource excess property disposal.

DRMS officials also claim that their operation is simply too large to permit outsourcing to a single contractor. I believe that a number of contractors are capable of assuming all of DRMS' responsibilities. The GAO reached a similar conclusion when it investigated this issue in 1995. Fortune 500 companies with complex operations around the globe should certainly be able to manage a business with that operates approximately 150 disposal yards and brokers a handful of commodities. However, if concerns about the scope of these tasks persist, we should consider outsourcing to a team of contractors who jointly undertake this mission.

Conclusion

Mr. Chairman, let me conclude by returning to a more general point. Congress, the White House, and the Defense Department have talked about privatization and outsourcing for many years. Nearly everyone agrees that this concept makes sense, and DoD already outsources many of its activities. However, while we continue to talk about privatization, very little actual privatization has occurred. Now is the time to take definitive action.

I can think of no organization that serves as a better candidate for outsourcing than DRMS. In the case of DRMS, we have an organization that:

- Has suffered from years of poor performance and management,
- Supports a function far removed from the core business of defense,
- Performs a job that can be undertaken by a number of private contractors.

DRMS is a prime example of how the support tail of the Department of Defense has grown since the end of the Cold War to consume a disproportionate share of scarce defense dollars. As we face an impending $20 billion procurement shortfall by 2002, we cannot continue to waste money subsidizing an inefficient government monopoly. Outsourcing the resale of surplus defense equipment will increase efficiency, generating some of the savings needed to afford the advanced military systems of tomorrow required to ensure American military pre-eminence. I look forward to working with Subcommittee as you undertake this important work.

Business Executives for National Security (BENS) has not received any federal grants or contracts in the current fiscal year or either of the two previous fiscal years. As a matter of organizational policy, BENS does not accept government funding.

Mr. HORN. Mr. Frost, Randy Frost, is president of the National Association of State Agencies for Surplus Property.

And I was fascinated to learn a lot about your group last year when you all testified. You might want to give us an opening for the others as to how that works and how it developed.

Mr. FROST. How the——

Mr. HORN. I think none of us realized last year until you all came in that we had one of these surplus disposal agencies in every State in the Union and quite an active group. So I learn a lot at these hearings. And you might just want to tell us briefly about your organization and what it does.

Mr. FROST. OK. We are, again, the National Association of State Agencies for Surplus Property. The Federal Government operates what is called a Federal donation program whereby property, once it has gone through reutilization and transfer, it is made available to the States. The national association is made up of agents within each State, who redistributes that property to the needy organizations. And that's basically what our function is.

Mr. Chairman, on behalf of those over 66,000 agencies nationwide, which participate in the Federal donation program, we wish to thank you for your continuing support of the program and for this opportunity to speak today.

For over 50 years, the NASASP has worked in full partnership with General Services Administration and the Department of Defense to facilitate the transfer of Federal surplus property to eligible agencies across America. As I'm sure this committee is aware of the many benefits of the donation program, I'll be addressing my comments to the interaction the program has with the defense utilization and marketing service and more specifically with proposed changes within DRMS.

Over the past years, we've seen great change in DRMS. Some of these changes resulted in increased customer service. However, since DRMS was designated a Defense Business Operating Fund, or DBOF, it appears to us, the customer, that DRMS focus has shifted from maximizing reutilization of the taxpayer dollar to maximizing revenues.

DRMS, in an effort to reduce costs, has recently come out with proposals to move information, not property, which translates to electronic screening. This idea, on the surface, may appear sound; however, upon reflection, we, the customers, have some concerns.

The wholesale recycling control point, RCP, process currently in operation is a case in point. This concept, by which property no longer needed by DOD is retained in a defense depot and electronically selected, prevents the customer, both redistribution and sales, from physically inspecting the property.

Unlike the average American consumer who would not buy a used car, sight unseen, the DRMS customer is forced to expend resources to select, transport, and warehouse a virtual pig-in-a-poke. This inability to visually verify a description and condition of new and used depot property causes some concern.

Both GSA and DRMS have created systems that allow a customer to check property availability. Both of these systems have limitations and advantages, and neither is comprehensive or complete.

First is the DRMS Internet web site. This Windows-driven site provides basic information concerning property availability in an easy-to-use format. This tool is useful when determining if a particular item or items are available. It does not, in our estimation, provide enough data to make informed screening decisions.

The second method involves using the General Services Administration's FEDS Systems. This system receives data from DRMS and presents it in a searchable data base. It also allows for the generation of automatic freezes or requests and automatically generates the request documents.

Unfortunately, it appears that the DRMS system and FEDS system have a number of communications problems. We're working with both GSA and DRMS to resolve these.

From our perspective, the major issue with FEDS is that it uses older style mainframe-driven commands and screens. It is very cumbersome and time consuming for the average customer to use. GSA has made a number of improvements to the system; however, resource restraints appear to prevent them from establishing a more modern Windows-driven system. The FEDS system offers more options for searching and selecting property than the DRMS system. However, in its present configuration, user acceptance is very low.

It is our recommendation that one system be established for electronically reviewing property availability. It is our hope that this system would provide the necessary search options in an easy-to-use format.

Where this system would reside and who would control it, we feel is outside of our area of expertise to recommend. However, since GSA provides services to all agencies within the Federal Government, it may be prudent to see it reside with GSA. However, GSA's current funding level for support of FEDS would be, in our estimation, woefully inadequate.

DRMS has informed the association that in an effort to reduce its operating costs, a significant number of DRMO's within the continental United States, are scheduled for closure. In their place, DRMS is suggesting a number of alternatives led by the next generation of RCP. This version, touted as retail RCP, goes beyond RCP's current scope, encompassing all property in DOD custody.

In our perception, it will be impossible to prudently determine the description and condition of used furniture, vehicles, machinery, and the like, based on disposal condition codes and generic descriptions; therefore, physical access to the property will still have to be provided.

Logistically, we believe this concept will prove very cumbersome, as all customers will be forced to poke around in every corner of a military reservation to screen and remove property. We can envision hundreds of folks rambling around a military base attempting to review property held at dozens of individual sites within the installation.

DRMS's ongoing responsibility for the management and oversight of DOD's hazardous waste disposal program at an estimated cost of $60 million per year, coupled with DRMS's resolve to cut its budget by some $100 million per year, in our estimation, has a serious and negative impact on its ability to maximize the redistribu-

tion of property. In its effort to achieve the cut, we believe DRMS will attempt to use private contractors in a number of areas. The use of privatization to obtain cost savings should be tied to both sales performance and RTD goals. We believe that contracting opportunities should be performance based with measurable RTD goals. Without these goals, a contractor will have no motivation to maximize the RTD efforts.

It is our belief that DRMS has been presented with an impossible task of maximizing profits in order to be self-sufficient and maximizing RTD; they are in direct conflict. The steps DRMS has taken toward electronically screening will, I believe, bear this out.

In summation, the National Association of State Agencies for Surplus Property supports a single system for electronically reviewing property and does not support any effort to restrict access or physical inspection of property.

We support revisiting the impact of establishing DRMS as a DBOF system and its associated funding mechanisms. We further support measurable RTD performance goals to be included and any contracting for service attempts by DRMS.

And, Mr. Chairman, I also would like to add that, in the area of demilitarization, which has been talked about today as well, there are maybe some organizations out there that the committee might want to speak to in the future, such as the National Association of Aircraft Suppliers and others, and that we also be allowed to submit testimony later on, as well.

But again I wish to thank the members of the committee for the continued support of the Federal surplus property donation program. This concludes our prepared remarks, and myself and Mr. Liuzza from Louisiana will be happy to answer any questions the committee may have. Thank you.

[The prepared statement of Mr. Frost follows:]

NATIONAL ASSOCIATION OF STATE AGENCIES FOR SURPLUS PROPERTY

Statement to the Subcommittee on Government Management,
Information and Technology

September 12, 1997

Mr. Chairman, Members of the Subcommittee, my name is Randy Frost and I am the President of the National Association of State Agencies for Surplus Property. I have with me today a member of our legislative committee, Mr. Jack Liuzza of Louisiana. On behalf of the over 66,000 agencies nationwide which participate in the Federal Donation Program, we wish to thank you for your continued support of the program and for this opportunity to speak with you today.

My comments have been broken down into general areas of interest and concern. The first area addresses a general discussion of our relationship with the interested parties. The second discusses RCP electronic screening. The third addresses electronic review of property availability. The fourth addresses DRMS' cost cutting measures and funding mechanisms. The fifth provides a brief summation.

General Discussion

For over 50 years NASASP has worked in full partnership with the General Services Administration (GSA) and the Department of Defense (DOD) to facilitate the transfer of Federal surplus property to eligible agencies across America. As I am sure that this committee is aware of the many benefits the donation program provides to the nation, I will be addressing my comments to the interaction the program has with the Defense Reutilization Marketing Service (DRMS) and more specifically with the proposed changes within DRMS.

Over the past few years we have seen great change in DRMS. Some of these changes have resulted in increased customer service, however since DRMS was designated a Defense Business Operating Fund (DEBOF) it appears to us, the customer, that DRMS' focus has shifted from maximizing reutilization of the taxpayers dollar to maximizing "profits".

RCP Electronic Screening

DRMS in an effort to reduce costs has recently come out with proposals to "move information not property" which translates to electronic screening. This idea on the surface may appear sound. However upon reflection, we as DRMS customers, have concerns.

The Wholesale Recycling Control Point (RCP) process currently in operation is a case in point. This concept by which property no longer needed by the DOD is retained at a Defense Depot and electronically selected prevents the customer both redistribution and sales from physically inspecting the property. Unlike the average American consumer who would not buy a used car sight unseen, the DRMS customer, is forced to expend resources to select, transport, and warehouse a virtual "pig in a poke". The inability of customers to visually verify description and condition of new and used depot property causes a great deal of concern.

We recognize that the DOD is downsizing and shifting away from major depot storage of parts and end items, instead utilizing commercial "just in time" inventory practices. Further, DLA is exploring utilizing industry standards for common items and the packaging of said items rather that military specifications or "Mil Specs". This trend will lead to more local purchases which will make identification of these items via electronic means, down the road, even more difficult.

Electronic Review of Property Availability

Currently there are two methods of electronically checking what DOD has declared excess. Both GSA and DRMS have created systems from which a customer can review property availability. Both of these systems have limitations and advantages, neither is comprehensive or complete.

First is the DRMS Internet Web site. This windows driven site provides basic information concerning what is theoretically available at a particular DRMO or DRMS system wide by stock number in an easy to use format. This tool is useful when determining if a particular item or items are available. It enables an agency to plan screening trips and is a useful reference tool. It does not provide enough data to make informed screening decisions. Our screeners report the information presented is marginally accurate, that items will have been issued and not removed from inventory in a timely manner.

The second method involves using the General Services Administration's FEDS system. This system receives data from DRMS and presents it in a searchable data base. It also allows for the generation of automatic "freezes" or requests and automatically generates the request documents. Unfortunately, it appears that the DRMS system and the FEDS system have a number of communications problems, which we are working with both GSA and DRMS to resolve. From our perspective, the major issue with FEDS is that it utilizes older style main frame driven commands and screens. It is very cumbersome and time consuming for the average customer to utilize. GSA has made a number of improvements to the system, however resource restraints appear to prevent them from establishing a more modern windows driven system. The FEDS system offers more options for searching and selecting property than the DRMS system, however in its present configuration, user acceptance appears to be very low.

It is our recommendation that one system be established for electronically reviewing property availability. It is our hope that this system would provide the necessary search options in a easy to use format. Where this system would reside and who would control it we feel is outside our area of expertise to recommend, however since GSA provides services to all federal agencies it may be prudent to see it reside with GSA. However, GSA's current funding level for the support of FEDS would then be, in our estimation, woefully inadequate.

DRMS Cost Cutting Measures

In an effort to further reduce costs, DRMS has informed the association that a significant number of DRMO's within the continental United States are scheduled for closure. In their place DRMS is suggesting a number of alternatives led by the next generation of RCP. This version touted as "Retail RCP" goes beyond RCP's current scope, encompassing all property in DOD custody. In our perception it will be impossible to prudently determine the description and condition of used furniture, vehicles, machinery and the like, based only on disposal condition codes and generic descriptions. Therefore, physical access will have to be provided.

Logistically this concept will prove very cumbersome as all customers will be forced to poke into every corner of a military reservation to screen and remove property. We can envision hundreds of folks rambling around a military base attempting to review property, held at dozens of individual sites within the installation.

This is not good public policy. It forces us back in time to the "bad old days" prior to the McClellan report in 1972 and the subsequent action by Congress which created the current disposal structure. Prior to DRMS each service was responsible for the disposal of its no longer needed items. The current trend proposed by DRMS takes us back down that dark path to an era in which duplication of effort was common and the potential for waste, fraud and abuse was heightened.

DRMS' ongoing responsibility for the management and oversight of DOD's Hazardous Waste disposal program at a estimated cost of 60 Million dollars per year, coupled with DRMS' resolve to cut its budget by some 100 million dollars per year, will in our estimation have a serious negative impact on its ability to maximize the redistribution of DOD property. It is interesting to note that the utilization and donation functions within GSA are funded through an appropriations mechanism while GSA's sales function is funded through a revolving fund. We would support a similar mechanism for DOD's redistribution and sales functions.

In its efforts to achieve the 100 million dollar cut, we believe DRMS will attempt to utilize private contractors in a number of areas. The use of privatization to attain cost savings should be tied to both sales performance and RTD goals. We believe that contracting opportunities should be performance based, with measurable RTD goals. Without these goals a contractor will not have any motivation, to maximize RTD efforts.

It is our belief that DRMS has been presented with an impossible task. Maximizing profits in order to be self sufficient via DBOF and maximizing reutilization are in direct conflict. The steps DRMS has taken towards electronically screening we believe will bear this out.

Summation

In summation the national association of state agencies for surplus property supports a single system for electronically reviewing of property and does not support any effort to restrict access and physical inspection of said property. We support revisiting the impact of establishing DRMS as a DBOF system and its associated funding mechanisms. We further support measurable RTD performance goals to be included in any contracting for service attempts by DRMS.

BIOGRAPHY

John "Randy" Frost

President - National Association of State Agencies for Surplus Property

Director – Arizona State Agency for Surplus Property

Randy was born in Washington DC on April 28, 1961. He graduated in 1979 from high school in Glendale Arizona where he was member of the football and track teams and was active in the Future Farmers of America where he served as Chapter Secretary. After high school he attended Glendale Community College and the University of Arizona where his major course of study was Agri-Business.

Randy first came to work at the Arizona State Agency for Surplus Property in 1987 and became its Director in January 1991. His previous government experience includes 4 years with the Arizona Department of Administration as an Intern, Printing Estimator, Printing Production Coordinator and Customer Services Manager. His experience in the private sector includes working on family owned farms and mining properties.

Randy has been an active participant in the NASASP, having served as Area President, Secretary/ Treasurer, and Vice President and chaired several committees. At the Age of 36, Randy is the youngest person to be elected to President of the NASASP.

He has been married 16 years to Deborah Anne Hewitt and has a 16-year-old son, Justin and a 12-year-old daughter, Carrie. Randy is very active in his sons Boy Scout Troop and his daughters Junior Olympic Softball Team.

BIOGRAPHY

Jack V. Liuzza

Director - Louisiana Federal Property

State Coordinator - 1033 Program

Jack was born on June 28, 1938 in Amite City, Louisiana. He graduated from Amite High School in 1956 and attended Southeastern Louisiana University until 1958. He worked in a family-owned business until beginning his employment with Louisiana Federal Property in 1972 as a screener. In 1977 he was promoted to Assistant Director and in 1995 was appointed Acting Director.

Jack is now the Director of the Louisiana Federal Property Agency and has been very active in the National Association of State Agencies for Surplus Property (NASASP) activities. In 1996, Jack was elected Area Vice-President of NASASP and in 1997, he was elected Area President. He has also served on the NASASP Legislative Committee for the past two years.

Mr. HORN. Well, thank you very much. I was going to ask Mr. Liuzza, if you want to comment on anything, in addition, right now, feel free to do so.

Mr. LIUZZA. Mr. Chairman, the only thing I would have to say is to clear up some things that the Honorable Congressman from Michigan made in his opening statements. He was talking about the people closest to the depots and all having an unfair advantage. Public Law 94–519 passed by Congress addresses that, and no one has proprietary right to property regardless of geographical location.

That responsibility lies with GSA. They're to assure Congress of fair and equitable distribution among the States. The States are to report to Congress a fair and equitable distribution within the States. And he is talking about the laws passed by Pennsylvania has nothing to do with the donation program. That's a DOD function. It has nothing to do with the donation program. That's all. Thank you, sir.

Mr. HORN. OK. Mr. James Hundle, president of the Users and Screeners Association, accompanied today with Frank Sodek, past president of the Users and Screeners Association.

Mr. Hundle, tell us how that works and proceed.

Mr. HUNDLE. Thank you, Mr. Chairman and members of the committee. We appreciate the opportunity to appear here today and present our testimony.

The Users and Screeners Association for Federal Excess Personal Property is an organization of individuals that currently represents over 40 Federal agencies and over 75 universities, including the 1862 land grants, the 1890 historically black universities and colleges, and the 1994 Hispanic colleges and universities, and all the native American Indians, as well as Federal contractors and other Federal cooperatives who advocate and practice the use of Federal excess personal property as the first source of supply.

This organization endorses the fair and equitable distribution of both excess and surplus Federal property to maximize the use of the property acquired through U.S. tax dollars. Thank you for making these programs possible. If it were not for these programs, these excess property programs at various participating universities throughout the country, important educational research and outreach programs could not be as effective, supported through programs such as the U.S. Department of Agriculture, the Department of Energy, the National Science Foundation, and the list goes on.

In addition to these programs, the U.S. Forest Service supports rural fire districts with Federal excess property. In an increasingly urban society, rural fire districts are the first and sometimes only line of defense. The U.S. Forest Service and U.S. Department of Agriculture are the two largest customers of DRMS, respectively, for transfer.

I cannot stress enough how important these programs are and how beneficial to us.

Today I come before you to share our concerns and views of the operations of DRMS. We, as an organization, have seen many changes take place over the years, such as the implementation of the single-cycle processing system as it was demonstrated earlier, which has proven to work well for our fellow screeners. We have

seen increased use of technology, allowing quicker processing of items. We have also seen property tracked more efficiently, thus allowing for better distribution, more equitably and fairly amongst the many programs and users.

We do, however, have concerns regarding the operations and future processes that may affect our abilities to accurately and efficiently secure property. The Users and Screeners Association for Federal Excess Personal Property recognizes the outstanding efforts of DRMS in the past to facilitate the reutilization, transfer and donation of both Federal excess and surplus property to DOD activities, other Federal agencies, and to the States.

Federal property, passing through RTD to sales, provides exponentially less return to the U.S. taxpayer. Yet, sales proceeds seem to be the standard by which the DRMO's performance is appraised. However, as Mr. Jones indicated, this is changing.

Users and Screeners Association for Federal Excess Personal Property recommends the incentives from RTD be considered above sales in evaluating the performance and efficiency of the DRMO activities.

Based on information that we have seen, we, the Users and Screeners Association for Federal Excess Personal Property, oppose the privatization, outsourcing, of the DRMO–RTD operations. We feel that the DRMO's are doing the best they can with the resources currently available to them.

We recognize and support the DRMS initiatives to reorganize to better serve their customers, and with the use of the savings from reorganization to build an even more efficient operation, providing additional resources to those efficiently operated DRMO's would enhance the customer service tremendously as well as allow more adequately and technically trained personnel.

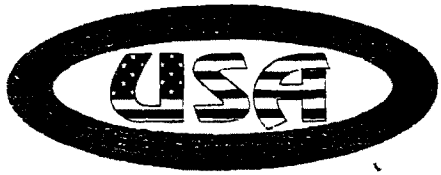
We support the DRMS initiative for on-line screening and requisitioning of property, but oppose the elimination of onsite screening. As Mr. Frost previously indicated, there are problems of such actions.

Regardless of the description, some property should be visually evaluated to ensure economically feasible acquisition. In closing, we the Users and Screeners Association for Federal Excess Personal Property, feel DRMS is doing the best with what is available to it and with the potential to do even better if given the proper resources.

Mr. Chairman, members of the committee, thank you again. I'll be available for further questions.

Mr. HORN. Well, we thank you, Mr. Hundle for your help on this.

[The prepared statement of Mr. Hundle follows:]



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Testimony Presented to the
Subcommittee on Government
Management, Information and Technology
of the House Committee
on
Government Reform and Oversight

September 12, 1997

The Users and Screeners Association-Federal Excess Personal Property is a consortium consisting of members from over 40 Federal Agencies and over 75 Universities, including the 1862 Land Grant, the 1890 Historically Black Colleges and Universities, the 1994 Hispanic Colleges and Universities and the Native American Indians, Federal contractors and other Federal cooperatives who advocate and practice the use of Federal excess personal property as the first source of supply. This organization endorses the fair and equitable distribution of both excess and surplus Federal property to maximize the use of the property acquired through U.S tax dollars.

If it were not for excess property programs at various participating universities throughout the country, important educational, research and extension programs could not exist.

Programs participating under the U.S. Department of Agriculture and the U.S. Forest Service are the two largest customers DRMS has for the transfer of Federal excess personal property.

The following are the past years transfer totals:

	Forest Service	Land Grant Universities
FY95	$112 million	$28 million
FY96	$146 million	$37 million
FY97	$200 million*	$29 million

* current estimate - exact figure not available

Users and Screeners Association - Federal Excess Personal Property recognizes the outstanding efforts of DRMS in the past to facilitate the reutilization, transfer, and donation of both Federal excess and surplus property to DoD activities, to other Federal agencies and to the states.

Users and Screeners Association - Federal Excess Personal Property proposes the following recommendations and observations:

- Supports the DRMS initiative to on-line screening and requisitioning of property at base depots with consideration being given to expansion of the Federal Stock Classification codes currently existing to include a broader spectrum of property. However, to completely eliminate on-site screening should never occur. Regardless of the scope of the property description, some property should be visually evaluated to ensure economically feasible acquisition.

- Recommends that incentives from RTD be considered in addition to sales in evaluating the performance and efficiency of the DRMO activities.

- Recognizes and supports the DRMS initiative to close those DRMO's which have historically proven to be a liability to the operating costs of DRMS with a corresponding need to down-size the personnel to meet this initiative.

- Recommends that DRMS reallocate some the savings realized from closing inefficient DRMO's to providing more efficient service to those DRMO's that have demonstrated the capability and ability to provide services required by their customers. This would insure that the hours of operation for the remaining DRMO's would be, for example, commensurate with the decrease in time to 14 days now allocated for the removal of property approved for RTD as outlined in DoD 4160.21M,Defense Materiel Disposition Manual. In addition, these installations could be open five days per week for both screening and removal of property instead of the one or two day which currently exists at some locations. Providing additional resources to those efficiently-operated DRMO's would also allow more adequately and technically trained personnel to assist in implementing these initiatives.

- Opposes the privatization of the DRMO operations, based on current information available. The DRMO's do an outstanding job of RTD and sales. A shift from sales to RTD incentives by DRMS, the reallocation of a portion of the dollars saved through closing inefficient DRMO's and time to implement new procedures and operations, the "business aspect" of the DRMO operation could become a very profitable facet of DRMS.

Mr. HORN. Mr. Sodek, Frank Sodek is past president of the Users and Screeners Association. Is there anything you would like to add to what you've heard?

Mr. SODEK. Mr. Chairman, I would just like to say that the Users and Screeners Association was basically developed or inspired by a need to have a unified voice for the Federal community.

As Mr. Hundle pointed out, we represent many different Federal agencies, we feel that we can speak to these concerns where others in the Federal community maybe cannot speak to those concerns. That's basically what I wanted to reiterate here. This organization is here representing the Federal community and is expressing our concerns, but also supporting the DRMS initiatives.

We think they're doing an outstanding job. They're one, of course, of only 17 disposal agencies within the Federal community, and just recently, of course, they've assumed responsibility for the disposal of NASA property, the Department of Energy property, and also the Corps of Engineers. So they have assumed a role here and taken the initiative in trying to be very efficient in the disposal process, and we would just like to say that we appreciate those initiatives.

Thank you.

Mr. HORN. Well, thank you. Let's start with your association. I notice in your presentation you mentioned the 75 universities, including the 1862 land grants and the 1890 historically black colleges, and then in 1994 the Hispanic colleges and universities and the native American Indians.

Now, there are 375 public universities I can think of, that include maybe all of the historically black colleges, most of the Hispanic colleges, and the native American Indian colleges, and that is the membership of the American Association of State Colleges and Universities, AASCU.

Are they not eligible for Federal materiel, or do the land grants have some historic monopoly on it?

Mr. HUNDLE. These figures that we have represent the current people that we have participating in our organization, in our association. These groups, as well as the Federal agencies, they are——

Mr. HORN. To what extent do you know, we will get it for the record, that universities are eligible for this?

Mr. SODEK. Mr. Chairman, if I might answer that, or attempt to. Public Law 94–519 and Public Law 97–98 basically stipulate that those universities, those land-grant universities only that are associated with USDA-approved research projects and extension programs are eligible for this excess property program. But not all public universities are eligible for the excess property program.

Mr. HORN. Mr. Liuzza.

Mr. LIUZZA. He is speaking of access. All of the universities that you listed are eligible for the surplus property program.

Mr. HORN. In other words, at the State level, public universities are subsidized by the State?

Mr. LIUZZA. It has nothing to do with USDA grants and all that. They are an educational institution in their own State, so they would have an avenue to acquire Federal properties through their local State agencies.

Mr. HORN. Now, in Pennsylvania you have a unique concept, not only a series of public universities but also largely or partially public-supported universities, such as Pittsburgh, and I believe——

Mr. LIUZZA. The same in Louisiana, Mr. Chairman, like Tulane University, Xavier, which is a predominantly black Catholic university, and a couple more.

Mr. HORN. So they have access.

Mr. LIUZZA. They have access. As long as they will sign the civil rights compliance of 1964 and follow all Federal guidelines, they can acquire property through us, not through the FEDS, system, through us.

Mr. HORN. Well, I wanted to clarify the record on that and I appreciate your response there.

Let me ask you now, this came up in Mr. Frost's testimony: in committee record of the State agencies' technology committee in August, I believe, on the inadequacies of GSA's FEDS system, and also on the Defense Reutilization and Marketing Service web site for electronic disposal. I want to include in the record at this point, without objection, this document shared with the two agencies, which we will, if they haven't already seen it, and ask them to develop a workable system that is customer friendly.

As I gathered from your testimony, Mr. Frost, what you would like to see through the modern means of communication is a really very good perhaps photo of all parts—or tape running, a video—of all parts of the particular piece of equipment so you know what you are in for, or do you feel that personal inspection is the only way to solve this problem?

Mr. FROST. I think that having pictures or video on the Internet helps and will reduce some of that need, but I still think there are items that still require physical inspection to see if there are engines in vehicles or what have you, because obviously it is very difficult to get all of that, all sides of different things and the working components and such. So I think there will still be some need for physical inspection.

Mr. HORN. Right. Any other comments any of you have on that issue of how GSA and how the Defense Reutilization and Marketing Service ought to communicate with modern technology, to at least let the outside world that is eligible know of availability? And then you have to check it out after that. Mr. Sodek.

Mr. SODEK. Mr. Chairman, I would like to speak to that issue. We, the Users and Screeners Association, also support the need for a unified computer system that would allow a particular search, rather than having to go to two or three or four different systems to find out about this property.

In terms of providing visual images, that helps but certainly does not solve the problems that we are faced with. You may have a line item that consists of 15 widgets and we see a picture of the best widget in the lot, and that is what you have to go on. So you may acquire these based on this one individual photograph, where in fact that is the only one in the whole batch that really looks that way. When you go, you finally realize what you have. Like Mr. Frost pointed out, you have a pig in a poke sometimes. So having a visual image helps, but it does not answer the entire problem that we face.

Much more descriptive, accurate information given regarding the condition of that property would certainly help. Also, a more accurate condition code that is applied to that property would certainly assist. But I think the key here is to have one system and not three or four or five.

Mr. HORN. General, how would that work a privatization, outsourcing basis?

General MCINERNEY. I would probably say, Mr. Chairman, that privatized operations could do it as quickly and as effectively as anybody. None of the issues they bring up would be impacted by outsourcing DRMS.

Mr. HORN. Any other comments? Mr. Liuzza.

Mr. LIUZZA. Mr. Chairman, let me address this just a little bit. Contrary to what DRMS has indicated in the past, here and elsewhere, these States, the majority, do not want to screen for sales. It costs us to haul stuff to Louisiana, it cost us to inventory it, it costs us to move it, and it costs us to report it back to the Government, because it does not belong to the State of Louisiana. It is Federal property until such time as all the restrictions are met.

So in order for us to try not to haul stuff in that we can use, we need a real description and in a lot of cases we need to really look at it, kick the tires and look at it, because we don't want to call it in just to call GSA 6 months, a year later and say we can't donate this, we want to sell it. This is not our program. We are not a sales program.

Mr. HORN. General, you mentioned when you were Director of the Defense Performances Review, you recommended outsourcing Defense Reutilization and Marketing Service. What do you see as the primary factor explaining why we still haven't outsourced that agency 4 years after your original proposal?

General MCINERNEY. Well, I think, Mr. Chairman, what happened was that when they looked at it closely, they never told me, but I was—they were getting, as I say, about $150 million, and it may be even higher, I don't want to speculate, but there is clear evidence that it could be higher. If DLA was getting at least $150 million from the services and in the DBOF account, and in over 10 years that is over $1 billion, that is $1.5 billion, and that is not small cash. It certainly appears that it was a good source of revenue for DLA, and otherwise I am not sure, because I say they are the ones that nominated it to us. And then I think when they really looked at it and saw, this is just around the time that we are switching to the DBOF account, they all of a sudden saw the dollars available. In the past DLA used to take that out of their O&M account, and now with the DBOF account, they were getting paid to do it. So it was in this switchover period that I think they then became aware that it was a significant revenue stream.

Mr. HORN. Do you think it had something to do with the loss of jobs in various parts of the country?

General MCINERNEY. I think there was certainly the political factor of the loss of jobs, but clearly, a number of the contractors were looking at it, Mr. Chairman, and they said that they would take the people over one-for-one and then retrain them and do other things. They had a broader marketplace that DRMS was looking at, and by tying their customs operations and this together, and

the other 17 operations going on in the Federal Government, a private contractor could see a growth industry there, and use these people.

Mr. HORN. Your testimony seems to criticize what we are calling enterprise management. Do you feel there is a problem in introducing commercial practices in the agency?

General MCINERNEY. Well, I think enterprise management has been a way to delay. We are talking 4 years later.

Mr. HORN. Right.

General MCINERNEY. This is the way that skilled bureaucracies delay change.

Mr. HORN. In other words, they agree in principle?

General MCINERNEY. They agree in principle and if you look at what they are going to do, they in fact are going to do it, but it will take 10 years to do it.

Mr. HORN. We will all be on Medicare by that time.

General MCINERNEY. That is correct, and we will have spent probably about $1 billion over a 10-year period and we could have gotten at it a lot quicker. If, in fact, they are using those terms, if they are going to enterprise management to run it like a business, why don't you let a business do it?

Mr. HORN. That's a good point.

Earlier panels, Mr. Frost, discussed the incentive to sell property. Have your organizations also looked at this problem as to what the incentives ought to be to sell property? As a receiver, do you see any effect on the people you deal with in the Defense Reutilization and Marketing Service?

In other words, should their emphasis be on profits? Should their emphasis be on getting released materiel from the Department of Defense over to people that can use it so they don't have to use the taxpayers' money to buy related materiel? How do you look at that agency? You might not be as outspoken as you might be privately.

Mr. FROST. Are you referring to exchange sale?

Mr. HORN. I am referring to all relations with the agency. In particular, I cited that bit earlier where an officer was quoted as saying profits, profits, profits are what we are after. Well, that sounds good to some of the business-oriented types.

On the other hand, we felt the major thrust, and I think that was agreed by the previous panel, ought to be that we have saved both Federal, State, and local public agencies having to buy this materiel. And hopefully we would have enough initiative so that somebody in the Pentagon, and that is the broad term for the Department of Defense, might say: "Hey, wait a minute, we still have a flow of spare parts coming in here. What are we doing surplusing these spare parts?"

So I am just curious what you see from your perspective, at the grassroots level.

Mr. FROST. Well, we believe, and hopefully, this will answer your question—if not, stop me—but we believe that obviously the first source of supply for the Federal agencies should be reutilization and transfer. Those should take place, and then donation going on is a further benefit to the taxpayers, because it is the taxpayers that bought this, that paid for this property, and it is for their benefit.

Over the past few years it has been our experience that RT&D—those operations have not been given very much credit, and that all the credit has gone toward the sale of property. All the focus has been to get the property out for sale and no credit back as far as reutilization, transfer, and donation. It was almost at a point in time, in particular in the donation program, that it seems that we didn't exist. We addressed this on a number of occasions.

We used to have a relationship with the DRMO folks in that when there was property available, that they would help us out, they would let us know, and they worked with us. Then, this emphasis came on sales. At that point we were like the Huns—I mean they hated to see us come, because now we were taking away the property that they were going to sell.

They took the most experienced people in the reutilization transfer and donation side of it and put them in sales, and then these people were given grand and glorious awards and things of that sort for doing that and nothing for the reutilization and transfer and donation portion of it. That was the way we saw it.

Mr. HORN. Well, do you feel that Colonel Mansfield was correct when he said he turned that around practically the first month in office?

Mr. FROST. I wouldn't say it has been totally turned around, but I see an effort in that area. I think there is still a lot of pressure on sales, but I do believe that Colonel Mansfield is making an effort in the other arena.

Jack, I don't know if you wanted to add anything.

Mr. LIUZZA. Mr. Chairman, I think they are moving in the right direction, although I consider it very, very, very slow. I have some real doubts as to whether he did that the first year, he was in there a year ago, but I think they are moving in that direction.

General MCINERNEY. Mr. Chairman, may I? Because this is an issue that will be more contentious. When we were 7 percent of the GDP of this country, the Defense Department had an excess of dollars. Today, we are at 3.2 percent and we are going down. The question is, does it benefit the taxpayer? Clearly, the defense dollars being cranked back into defense is benefiting the tax dollars, whether you sell it and the dollars come back, whether they come back to the Treasury, or you give it to the universities. I mean taxpayers are benefiting.

The real question is going to become, because with a $20 billion shortfall in defense and acquisition, and we are talking about a hollow force very quickly in which the Nation will come to you and say add $20 billion more a year soon. I mean, it is a lot sooner than we thought, which is sad. But the fact is, the taxpayer benefits if this is done efficiently. The question is, do universities and do the States benefit as much as the taxpayer in general?

I think as more scrutiny is put on this, that is one of the issues, Mr. Chairman, that you and other Members will have to look at. But with total asset visibility coming in, there are clearly going to be less resources available to access.

To give you an example: At the height of the cold war we had $102 billion in inventory. Today we have $72 billion. We probably need $32 billion. So this is going to come, and it is going to come over the next 5 to 8 years as we move from an industrial age sup-

port structure, infrastructure, if you will, into the information age, just like the Wal-Marts and everybody else has done. So this will become a greater issue for you all to be concerned with.

Mr. HORN. Well, those are very helpful figures. The $102 billion cold war and now $72 billion, and you think we ought to maybe get down to $32 billion.

Now, part of getting down to that, it seems to me, and part of privatization would be to what degree do we have the warehouse capacity now. If it's privatized, fine, let them worry about it. But obviously the States also have warehouse capacity, and I guess if Mr. Frost and anyone else wants to answer, I would ask you: The State agencies have that warehouse capacity, and as that infrastructure costs within the Defense Reutilization Marketing Service are reduced, would anything prevent them from contracting with State agencies for disposal, the storage functions? We all know about the Japanese inventory system that increasingly American industry finally woke up and adopted, that you get that flow moving into your factory line and you don't have to sit around with hundreds of acres of storage on your own overhead.

So Mr. Frost, is that State capacity in warehousing available?

Mr. FROST. I think you would have to look at it on a State-by-State basis, and it definitely could be beneficial in some cases. I think as an overall program, it could be a portion of that. There are some States who have a number of DRMO facilities, and as well they may not have the warehouse space to handle all of that, but on a case-by-case basis, and maybe within particular DRMO locations and things of that sort, I think it could be.

Mr. HORN. It seems to me you have prison industries at the Federal level, you have it at the State level as well, that a lot of that equipment would be good to be worked on and brought up to speed by people that are trying to learn a trade and get an education while they are in prison.

Mr. LIUZZA. Mr. Chairman, we are doing a certain amount of this with outside Federal agencies at this time. If they are pressed to move out of an office, or they need to move property, we haul it to our warehouse and hold it for them.

Mr. HORN. Mr. Frost, I don't know if you are familiar with this, but the Defense Reutilization Marketing Service office in El Toro apparently has had a unique working relationship with the State agencies.

Do you want to describe it for the record?

Mr. FROST. In the past, El Toro has been a big bone of contention for us, particularly in the State of Arizona, and also for the State of California. When the push came to get the property out to, you know, for sales for the profitability, El Toro went into a number of unique things that they were trying to do. But the bottom line, what it boiled down to, is that property was being hidden. We would find property that was supposed to have gone through the RTD process that would end up in the sales process, and there would be property put aside that we weren't allowed to look at.

There are a number of things, I don't have all of the particular instances, but they have been brought up in the past. I know that the California State agency as well as the GSA regional office met with the DRMO chief, they have met with others in DRMS. The

situations were supposed to have been resolved, and they continued. That was under the previous commander, before Colonel Mansfield.

Since then, I am not aware of any real particular major problems at El Toro. From my situation in the State, we have had some change of personnel screeners and stuff, so we haven't screened there as much, so I don't know if it is still a major problem, but I am not hearing the problems that I heard before, so I am assuming that some of that is changing. But it has been a real big problem in the past.

Mr. HORN. Well, do we know why they were hiding some of the choice items? Did they have a few private deals going? Was this "Kelly's heroes," if you have ever seen the movie? I happened to see it last week and I am up on free enterprise in the military.

Mr. FROST. I don't know if they had any private deals going on or not, but they have had a lot of different things going on. They would have sales where they would have all kinds of people out there with bands and they put in a new system and they had clowns and all kinds of stuff going on to bring people out to get more people in to sell the property, obviously. But it just was a—during that period of time, we found it very difficult. We had a hard time getting in there. There were just a lot of different things going on.

I might add, it was pointed out many times, even in open forums with DRMS at the time, and basically one time I was told, I got into a confrontation with the previous commander, and was basically told that he was tired of hearing about El Toro and that I should get off of it and forget about it and move on. So that is kind of—and there are instances at other bases where things of that sort took place.

Mr. HORN. Thank you. Staff will follow up with that with Colonel Mansfield to see just where we are and does the inspector general need to get into it.

My last question, and then Mr. Davis has all the rest of the time, is can you elaborate on the concern in your testimony about the limited hours of the Defense Reutilization and Marketing Service? I am not quite clear on what you mean, Mr. Hundle.

Mr. HUNDLE. Mr. Chairman, my comment on that was that not all DRMO's operate on the same hour basis. Some shut down at certain times, and we understand the need for training and various other things, as well as the days that you are able to pick up and screeners are limited in some areas. These are at various DRMO's, select ones, that they are not all even. We have screeners that travel in a circuit through different DRMO's and they work to try to accommodate those schedules, but sometimes they wind up having to stay over, incur extra expenses and stuff because of the hours and such does not—you know, were not consistent. The pickup days may be limited. That is a problem.

Mr. HORN. So it wasn't just a time zone problem that you have run into?

Mr. HUNDLE. No, not a time zone.

Mr. HORN. It is just simply there are other business training problems?

Mr. HUNDLE. They choose to set the hours differently.

Mr. HORN. I see. Has that been brought up with Colonel Mansfield?

Mr. HUNDLE. Those are some concerns that we intend to address, but not from our organization.

Mr. HORN. I just wondered, with your organizations here, is there a regular relationship with the commanding officer of the agency? It seems to me it would be good if everybody was talking to each other and some of these things don't have to percolate for 4 years.

Mr. HUNDLE. Sure. And we are moving toward that. We were happy to have them represented at our meeting, at our annual meeting just this past August, and that was our first—so we are working together closely.

Mr. HORN. Good.

Mr. FROST. I would also like to add from the national association standpoint, we also as well hold an annual meeting in which DRMS is invited and they do speak and we do address these concerns with them.

Mr. HORN. But I assume you pick up the phone when you hear something screwy going on and deal with it, I would hope.

Mr. FROST. Right. We do.

Mr. HORN. Mr. Davis will have the rest of the time for questioning. Don't go beyond midnight.

Mr. DAVIS of Illinois. I assure you on my solemn oath.

General McInerney, it goes without saying that you make a strong case for outsourcing and privatizing. In your position, it is a little different than that of the DOD authorization bill that we just passed. It requires competition between DRMS and other Federal agencies, as well as the private sector.

Could you share the differences in that approach and perhaps your approach and why?

General MCINERNEY. Mr. Davis, it is an issue that has clearly different viewpoints by reasonable people. What we are pushing for, based on the experience in the private sector, what U.S. industry has done, is to take these functions that are noncore and to quickly move them into the private sector.

Now, the reason we have a problem with public competing against private is, I assure you, the private can never beat the public. If, not—and the way it works because you can't track the public sector costs, and that is what we are seeing. Let's say the public sector wins, it looks like it is a level playing field, but in fact, if they are not able to deliver, who ends up paying? The public sector, the taxpayer pays, if there are cost overruns, if they are not managing it right.

And as recently as the latest decision on the C5's at Kelly Field, when I talked to the leadership, I said, fine, it was an innovative proposal, but say they don't make it, then what is going to happen is what has happened this year in which a service, and I won't mention it, but it is occurring in all services, because the DBOF account overruns, and they are then taxed with $1 billion per service. Nobody asks why, where the money came from, because the taxpayer, quote, ends up paying for it, and what you do is you have a reduced military effectiveness such as is going to be—it is moving to where it is a crucial stage.

That is my problem with private and public competition, because if the private sector doesn't do it, it is not an accounting problem or anything, you know what you are paying that contractor. There are no ifs, ands, or buts, and if he doesn't make it, then his profits go down and it shows in how they are running it. So it is a much easier way to handle it.

We are very concerned about how we handle the people, and that is one of the things that BENS has been looking at. As we move this number of people—you know, we have taken almost 1 million people out of uniform since the Berlin Wall came down, since 1985, the height of the Reagan buildup when we were up to 7-plus percent of GDP. We have taken almost 1 million, 900,000-plus out of uniform. We have taken 1.3 million people out of defense industries. We have taken about 200,000 government civilians out of defense, and the issue is how we move these people quicker, these 800,000 we now have, into the private sector being creative, because we have a job shortage in this Nation. We are sitting at 5 percent, 4.8 to 5.1 percent unemployment, and people wonder how we have been able to keep it so low.

What has happened, a lot of students are working, a lot of people have come out of retirement, but the fact is, we have created a lot of jobs. That is a great success to this Nation; it is a great success to the Congress. But we need to move these people that are not nearly as efficiently employed.

So, getting back to your question, my perception, eventually in 10 years they will have done what we wanted to do 5 years or 4 years ago. And so the private sector does it quicker. You have a much better handle on the accountability.

Mr. DAVIS of Illinois. The bottom line, you are really saying that trying to put, or talking about being able to compete private versus public, that it is like trying to put, I guess, a round ball into a square peg.

General MCINERNEY. Yes, sir.

Mr. DAVIS of Illinois. We can forget that, because that is likely not to happen.

Thank you very much.

Mr. Hundle, your organization obviously is interested in fair, equitable distribution. Representative Smith suggested that there was favoritism. Of course, Mr. Liuzza has already given us his position or his feeling relative to that.

What is your position relative to the notion of unfairness in the process that Representative Smith talked about?

Mr. HUNDLE. We have seen problems of the same sort, but because of the different types of technological advances we feel that some of that stuff can get straightened out. We feel that there are some areas that are improving, and that we try to advocate for that.

We pulled our membership together on a yearly basis for a conference and we discussed some of these issues and how they are affecting members. We have implemented regional directors in each of the GSA regions that coincide with the GSA regions and we want to know those types of inequities and keeping an eye out for them. That is how we are trying to serve this area for fair and equitable distribution.

Mr. DAVIS of Illinois. So you think that if they are there, they are there, but they can be overcome, they can be worked out?

Mr. HUNDLE. Yes, I feel that they can be.

Mr. DAVIS of Illinois. And my last question, Mr. Frost, is you indicate that there seemed to be a shift from maximizing reutilization to trying to make as much of a profit as we can. Would you again maybe share with us the importance of the donation program to the American public?

Mr. FROST. We deal in the donation program with a number of organizations, obviously. We deal with the State agencies, we deal with colleges and universities. The donation program also encompasses things like the Boy Scouts, Girl Scouts, the historic black colleges, Hispanic universities, and such. We deal with many homeless organizations. We deal with fire districts, as well as does the USA group. We deal with a number of organizations like that, small organizations in rural areas that would not be able to function and provide the services if it were not for that property, of which they get for a fraction of what its worth. I mean, basically they handle the transportation of it.

Like I said, there are a number of those organizations that would not be able to function. We get blankets for the homeless, we get tents, we get food, all of those sorts of things. So yes, it is very important to the American taxpayer that those services, those types of services, like law enforcement, like fire and so on and so forth, carry out those functions, and many times they would not be able to if it weren't for this.

Mr. DAVIS. Let me just thank all of you very much. In response to your last comment, I visited just 2 weeks ago one of the landgrant colleges, as well as a number of places in rural America, and I left with the feeling that the need in many of those instances is so great that there is no way that those individuals and institutions would be able to generate the resources that the program benefits them by any other way, and so I think that there is a strong need to continue along that line, and that we get far more value in terms of the bottom line than we would get with resale or any other approach. So I thank you very much and I really appreciate your taking all of your day to be here with us as well.

Mr. HUNDLE. Thank you.

Mr. FROST. Thank you, Mr. Davis.

Mr. HORN. I want to thank the gentleman from Illinois for his interest in this subject and the fine job he has done. He is a devoted member of this subcommittee, and I appreciate his work, and he is not enjoying the wonderful weather of Chicago by staying here in Washington to look at some of these hotter issues.

I am going to put in the record at this point without objection what we are calling the hybrid contracting history of the Defense Reutilization and Marketing Service, and we will give them the chance to respond to some of these contract situations where they go out and there is a difficulty in just not seeming to ever close some of them. We are just going to ask them at the staff level to respond to that and put it in the record at this point.

[The information referred to follows:]

Hybrid Contracting History

SOLICITATION	No. SP4410-	ISSUE	CLOSE	AWARD
(A-76) Operation of DRMO Knox	Unknown	mid-1980s	1985	No
(A-76) Operation of DRMOs: McClellan, Alameda, Mare Island, Moffett Field, and Sierra	Unknown	mid-1980s	late-1980s	No
(A-76) Operation of 9 DRMOs: San Antonio, Hood, Corpus Christi, Carswell, Dyess,...	Unknown	mid-1980s	late-1980s	No
(A-76) Operation of 9 DRMOs: Philadelphia, Groton, Mechanicsburg, Lakehurst,...	Unknown	mid-1980s	late-1980s	No
(A-76) Operation of DRMOs: Unknown	Unknown	Unknown	Unknown	Canceled
Marketing/Sales Strategy Study	94-R-1001	12/15/93	2/2/94	Canceled
Processing Scrap (WA and VA)	94-R-1007	12/22/93	Indefinite	Canceled
Disassembling Computers (VA[2]/MD/WA/GA/OH/CA[2])	94-R-1006	12/17/93	Indefinite	Canceled
On-line Computer Catalog	94-R-1005	12/1/93	1/20/94	Canceled
Salvaging B-52 Aircraft	94-R-1004	12/23/93	1/25/94	Canceled
Demilitarization (CA and AL)	94-R-1008	2/23/94	8/2/94	Canceled
Market Combat Vessels for Scrap	94-R-1003	1/14/94	Indefinite	Canceled
High Density Storage Study (CA/VA/PA)	94-R-1002	2/11/94	Indefinite	Canceled
(A-76) Operation of Picatinny DRMO	94-R-1009	4/13/94	7/15/94	Canceled

Hybrid Contracting History (continued)

SOLICITATION	No. SP4410-	ISSUE	CLOSE	AWARD
(A-76) Operation of Nellis DRMO	94-R-1010	4/13/94	7/15/94	Canceled
(A-76) Operation of Offutt DRMO	94-R-1011	4/13/94	7/15/94	Canceled
Warehousing at 22 Depot/Log Cntr DRMOs	TBD	Hold	TBD	TBD
Financial Mgmt Consulting & Advisory Services	94-R-1019	6/28/94	7/29/94	Canceled
Training Course in Cost Accounting	94-R-1012	6/23/94	7/22/94	Canceled
High Density Storage Consulting Services (AZ/WA/TN/IL/FL/VA)	94-R-1021	Hold	Indefinite	Canceled
Marketing and Auctioneering Services (one or more: AZ/WA/TN/IL/FL/VA)	94-R-1016	Hold	Indefinite	TBD
Misc. Aircraft Piece Parts Services/Consignment	95-R-1003	Hold	Indefinite	TBD
Salvage/Marketing/Consignment of B-52 Aircraft	94-R-1022	Hold	Indefinite	TBD
Merchand./Marketing Svcs. for Indust. Plant Equip.	94-R-1024	No	Canceled	Canceled
Plan for Privatization of Specific Product Lines	95-R-1002	12/14/94	1/13/95	TBD
Auctioneering and Marketing Services	95-R-1006	1/12/95	2/22/95	TBD
Catalog Sales and Property Distribution	95-R-1008	1/12/95	2/24/95	TBD

Mr. HORN. If any of you have some good thoughts when you are driving the freeways or in the plane, feel free to write us a letter and we will put it in the record at this point. You are all still under oath as long as you answer those questions.

The staff, both majority and minority, might have some additional questions for all of the panels and we will keep the record open on that for a week or so.

So we thank you very much for taking the time to come up here. I think you have all had an interesting perspective that is very good to educate us about, and we will keep on this subject and get into the broader subject of the nonmilitary surplus and how that is handled, the European experience and so forth. So we would welcome any of your thoughts, privately or publicly. Just let us know.

Now, let me thank the people that prepared this hearing. They did a marvelous job. Our staff director and chief counsel, J. Russell George, for the Subcommittee on Government Management. On my immediate left, your right, the person principally responsible for the hearing, Mark Brasher, senior policy director, and John Hynes, professional staff member has also helped on the majority side. Andrea Miller, the able clerk, and we are going to unfortunately be losing her services shortly. But we thank you, Andrea, for all you have done for us, and a young man who is one of our interns who has done an excellent job, James Hall, and we thank him.

On the minority side, we have their faithful, well-organized battalions over there to take on any regiment we have on this side. Mark Stephenson, professional staff member, and of course Jean Gosa, clerk of the minority. Jean, thank you very much.

And our two reporters, who are Julie Bryan and Vicky Stallsworth. We thank you all. We know it is tough, the way we run these things. Only 4 hours, no rest. Thank you very much, all of you. We are adjourned.

[Whereupon, at 1:05 p.m., the subcommittee was adjourned.]

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